FINANCIAL STATEMENTS 2019

TANZANIA

BANK OF AFRICA
BMCE GROUP

Contents

Opening date: October 2007

Created in 1995: EURAFRICAN BANK - TANZANIA Ltd (EBT).
Integrated into BOA network in 2007.

Capital as at 31/12/2019

Tanzanian Shillings (TZS) 50.500 billion

Board of Directors as at 31/12/2019

Mwanaidi SINARE MAAJAR, Chairman

Amine BOUABID

Abdelkabir BENNANI

Henri LALOUX

Moremi MARWA

Ghali LAHLOU

Joseph IHA WANJE

Auditors

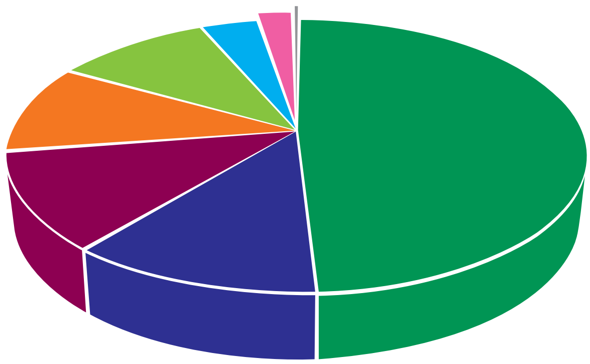
Pricewaterhousecoopers

Registered office

NDC Development House - Ohio Street / Kivukoni Front P.O. Box 3054
Dar Es Salaam - TANZANIA
Tel.: (255) 222 214 000/221 4001
Fax: (255) 22 211 37 40
SWIFT: EUAFTZTZ

info@boatanzania.com
www.boatanzania.co.tz

Principal Shareholders as at 31/12/2019



BOA GROUP S.A.	49.05%
BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES S.A. (BIO)	11.93%
BANK OF AFRICA - KENYA	11.51%
BOA WEST AFRICA	10.66%
AFH - OCEAN INDIEN	10.52%
TANZANIA DEVELOPMENT FINANCE COMPANY LTD	3.83%
AGORA	2.38%
BANQUE DE CRÉDIT DE BUJUMBURA	0.12%

Financial analysis

BANK OF AFRICA - TANZANIA (BOA-TANZANIA) recorded a pre-tax loss of TZS 16 billion (2018: Loss of TZS 8.4 billion) during the year ended 31 December 2019. The loss is attributed to decrease interest income as a result of declining yields on loan and advances to customers. In line with its strategy, 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.

Impairment charges on loans and advances declined from TZS 15.5 billion in 2018 to TZS 14.0 billion - equivalent to 10% decline. This follows an improved quality of the loan portfolio as evidenced by the decline of Non-Performing Assets Ratio from 16% at the end of 2018 to 9.2% at the end of 2019. This was a result of management's exercise of more stringent credit appraisal processes coupled with strengthening of the Recovery & Risk Prevention functions.

TANZANIA

Key figures 2019

(in TZS million)

Activity	2018	2019	Variation
Deposits	333,238	389,422	16.9%
Loans	265,339	274,951	3.6%
Number of branches	26	25	
Structure			
Total Assets	459,307	564,532	22.9%
Shareholders' equity	63,008	73,934	17.3%
Number of employees	376	334	-11.2%
Income			
Operating income	47,643	41,932	-12.0%
Operating expenses (including depreciation and amortization)	(40,453)	(44,008)	8.8%
Net Operating Profit	7,190	(2,076)	128.9%
Cost of risk in value (*)	(15,586)	(14,012)	-10.1%
Profit after tax	(6,107)	(11,936)	95.4%
Operating ratio (%)	84.91%	104.95%	
Cost of risk (%)	16.0%	9.2%	
Return on Assets (ROA %)	-1.3%	-2.0%	
Return on Equity (ROE %)	-9.7%	-16.0%	
Capital Adequacy Ratio			
Tier 1	47,295	59,284	
Tier 2	49,751	59,284	
Risk Weighted Asset (RWA)	343,121	348,938	
Tier 1 + Tier 2 / RWA (%)	14.5%	16.9%	

(*) Including general provision

+ 22.9%
Total assets

Deposits

2018
333,238 TZS million

2019
389,422 TZS million

Loans
+ 3.6%

Operating income
- 12,0%

The Bank's net loan book grew by 4% from TZS 265 billion at the end of 2018 to TZS 274 billion at the end of 2019. The growth was mainly in the retail segment of the Bank's loan portfolio consistent with the industry dynamics over the past one year.

During the year, the shareholders of the Bank injected a total of TZS 22.9 billion as additional capital with the aim of supporting the Bank's digital transformation strategy and expanding its services to the Retail and SME segments.

As a result of capital injection, the Bank's tier capital ratio improved from 13.8% at the end of 2018 to 16.9% at the end of 2019. Similarly, Tier II ratio improved from 14.5% at the end of 2018 to 16.9% at the end of 2019. Both of these ratios are well within the regulatory limits of 12.5% for Tier I ratio and 14.5% for Tier II ratio.

Customers deposits for the Bank stood at TZS 389 billion as at the end of 2019 (2018: TZS 333 billion), being a growth of 17% over the previous year. The Bank intends to continue its focus on retail and SME segments in line with its growth strategy outlined in its Tri-annual Development Plan.

During the year, the Bank adopted, for the first time, a new lease accounting standard (IFRS 16). As a result of this adoption, the Bank recognized liabilities (TZS 10.9 billion) in relation to leases which had previously been classified as operating leases under the principles of the abandoned lease accounting standard (IAS 17). Similarly, the Bank also recognized rights-of-use assets (TZS 11.4 billion) in line with the new standard.

Significant performances (in TZS billions)

Deposits

389.4 +16.9%

2019	
2018	333.2

Solvency ratio

16.9 %

2019	
2018	14.5 %

Stock information (in TZS)

	2017	2018	2019	AAGR*
Net earnings per share	86.40	-164.97	-322.42	NS
Equity per share	1,961.6	1,702.2	1,997.1	141.5%
Dividend per share				

(*) Average annual growth rate

Staff monthly meeting

Highlights

April

- Cocktail Party to welcome our New Managing Director and CEO, Joseph IHA.

Management of BOA with AMA Executives

June

- Organization of "Iftar" banquets for the customers which was graced by the presence of the Second Vice president of the Revolutionary Government of Zanzibar and the Chairperson of the Bank.

September

- Participation in the trading event organized by the Construction Registration Board (CRB) in which President Hon. John Joseph Pombe Magufuli was the guest of honor. The president also visited the Bank's booth and was informed of our products and services.
- Participation in the 2019 BANK OF AFRICA Director's Meetings, in Madrid, Spain.

The President of Zanzibar Hon Ali Mohamed Shein, greeting BANK OF AFRICA staff the Zanzibar Kariakoo Festival

October

- The Bank Celebrated the Customer Service Week by providing exceptional service to its clients while living the banks values.

November

- The bank conducted an SME activation at Ilala with the aim carrying out the 2019- 2020 TDP of supporting Retail and SME clients.

International women's day

December

- The Bank in collaboration with ZSSF (Zanzibar Social Security Fund) sponsored the Zanzibar Kariakoo Festival with the aim of supporting SME businesses in Zanzibar.
- The Bank was invited to the state house for the 6th Zanzibar Diaspora Conference.

Corporate Information

Directors	Nationality	Position	Academic Qualification	Remarks
Ambassador Mwanaidi Sinare Maajar	Tanzanian	Chairperson	LLB, LLM	
Vincent De Brouwer	Belgian	Member	BSc. Engineering	
Georgia Mutagahywa	Tanzanian	Member	Masters in Journalism Studies	Resigned on 15 April 2019
Amine Bouabid	Moroccan	Member	MBA-Finance	
Henri Laloux	Belgian	Member	Bachelor, Business Engineering	
Abdelkabir Bennani	Moroccan	Member	BSc. Agriculture	
Joseph Iha Wanje	Kenyan	Managing Director	B. Ed (Accounting & Mathematics)	
Moremi Marwa	Tanzanian	Member	B.Com, MBA	
Ghali Lahlou	Morrocan	Member	Masters in Management Sciences	

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

Directors' Report

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 2019, which disclose the state of financial affairs of the Bank.

2. INCORPORATION

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

3. 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.

4. 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 2019, BANK OF AFRICA - TANZANIA Limited recorded a pre-tax loss of TZS 16 billion (2018: TZS 8.4 billion).

Total operating income decreased by 13% to TZS 27.9 billion (2018: TZS 32 billion). The drop was significantly contributed by decreased interest income as a result of declining yields on loan and advances to customers. Impairment charges on loans and advances declined from TZS 15.5 billion in 2018 to TZS 14.0 billion. The Bank's net loan book grew by 3.6% to TZS 275 billion (2018: TZS 265 billion) while the total balance sheet size grew by 22.9% to TZS 565 billion (2018: TZS 459 billion). Customers' deposits for the Bank stood at TZS 389 billion as at 31 December 2019 (2018: TZS 333 billion), being a growth of 16.9% 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	2019	2018
RETURN ON EQUITY	NET PROFIT/TOTAL EQUITY	(16.1%)	(9.7%)
RETURN ON ASSETS	NET PROFIT/TOTAL ASSETS	(2.1%)	(1.3%)
COST TO INCOME RATIO	TOTAL COSTS/NET INCOME	105.0%	84.9%
INTEREST MARGIN ON EARNING ASSETS	TOTAL INTEREST INCOME/(INVESTMENT IN GOVERNMENT SECURITIES + BALANCES WITH OTHER FINANCIAL LOAN RECEIVABLES + INSTITUTIONS + INTERBANK INVESTMENTS IN OTHER SECURITIES + NET LOANS, ADVANCES AND OVERDRAFT	9.8%	14.7%
NON - INTEREST INCOME TO GROSS INCOME	NON - INTEREST INCOME/TOTAL INCOME	34.3%	27.9%
GROSS LOANS TO CUSTOMERS TO CUSTOMER DEPOSITS	TOTAL LOANS TO CUSTOMERS/TOTAL DEPOSITS FROM CUSTOMERS	76.7%	87.8%
NON - PERFORMING LOANS TO GROSS LOANS	NON - PERFORMING LOANS/GROSS LOANS AND ADVANCES	9.2%	16.0%
EARNING ASSETS TO TOTAL ASSETS	EARNING ASSETS/TOTAL ASSETS	77.3%	70.4%
GROWTH ON TOTAL ASSETS	TREND (2019 TOTAL ASSETS – 2018 TOTAL ASSETS/ 2018 TOTAL ASSETS)*%	22.9%	(17.6%)
GROWTH ON LOANS AND ADVANCES TO CUSTOMERS	TREND (2019 LOANS AND ADVANCES – 2018)/2018 LOANS AND ADVANCES)*%	3.6%	(11.8%)
GROWTH ON CUSTOMER DEPOSITS	TREND (2019 DEPOSITS – 2018 DEPOSITS/2018 DEPOSITS)*%	16.9%	(9.8%)
CAPITAL ADEQUACY			
TIER 1 CAPITAL	CORE CAPITAL/RISK WEIGHTED ASSETS INCLUDING OFF BALANCE SHEET ITEMS	16.9%	13.8%
TIER 1+TIER 2 CAPITAL	TOTAL CAPITAL/RISK WEIGHTED ASSETS INCLUDING OFF-BALANCE SHEET ITEMS	16.9%	14.5%

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 decreased from 16% at the end of prior year to 9.1% at the end of the reporting period. This ratio is lower than the industry average ratio of 10% (based on third quarter publication 2019). 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.

4. DIVIDEND

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

5. DIRECTORS

The Directors of the Bank at the date of this report and who have been in office since 1 January 2019 unless otherwise stated are set out on page 1.

6. 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	Moroccan
Henri Laloux	Member	Belgian
Georgia Mutagahywa	Member	Tanzanian

The committee met four times during the year.

iv) Board Nomination, Remuneration and HR Committee

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

The committee met four times during the year.

7. CAPITAL STRUCTURE

The Bank's capital structure as at 31 December 2019 is disclosed in notes 3.4 and 31 of these financial statements.

8. SHAREHOLDERS OF THE BANK

The total number of shareholders during the year was 8 (2018: 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.

9. 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

10. FUTURE DEVELOPMENT PLANS

After successfully completing the previous 3-year development plan (2016-2018), the Bank has embarked 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.

11. 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.

12. 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.

13. 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 2019 and is of the opinion that they met accepted criteria.

14. 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 2019. 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 2020, the Bank has allocated a sum of TZS 230 million for staff training in order to improve employee's technical skills hence effectiveness (2019: TZS 210 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).

15. GENDER PARITY

As at 31 December 2019, the Bank had 334 employees, out of whom 154 were female and 180 were male. (2018: 376 employees, 174 were female and 202 were male).

16. RELATED PARTY TRANSACTIONS

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

17. 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.

18. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political or charitable donations during the year 2019 (2018: Nil).

19. 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.

20. AUDITORS

The Bank's auditor, PricewaterhouseCoopers, was appointed to serve as external auditor for the year 2019. The auditors have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors of the Bank for the year ending 31 December 2020 will be put to the Annual General Meeting.

By order of the board

Ambassador Mwanaidi Sinare Maajar
Chairman

26/03/2020

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, Veronica Pascal Magongo, being the Chief Financial Officer of Bank of Africa Tanzania Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2019 have been prepared in compliance with applicable accounting standards and statutory requirements. I thus confirm that the financial statements 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: Veronica Pascal Magongo

Position: Chief Financial Officer

NBAA Membership No.: ACPA 2026

Date: 26/03/2020

Statement of Directors' Responsibilities

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 loss in accordance with International Financial Reporting Standards (IFRS). The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal 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	Moremi Marwa
Board Chairperson	**Director**
26/03/2020	**26/03/2020**

Independent auditors' report

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 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002.

What we have audited

The financial statements of BANK OF AFRICA - TANZANIA Limited as set out on pages 17 to 97 comprise:

- statement of financial position as at 31 December 2019;
- 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.

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 300,804 million) and impairment provision (TZS 23,873 million) make this a key audit matter.

Further details on loans and advances have been disclosed in the Note 2(f), Note 3.1 and Note 18 of the financial statements.

How our audit addressed in the key audit matter

- 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.

Zainab Msimbe, ACPA-PP
For and on behalf of PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam
Date: 27 March 2020

Statement of profit or loss and other comprehensive income

	NOTES	2019 TZS '000	2018 TZS '000
INTEREST AND SIMILAR INCOME	5	42,928,899	47,546,637
INTEREST EXPENSE AND SIMILAR CHARGES	6	(15,394,433)	(13,187,518)
NET INTEREST INCOME		27,534,466	34,359,119
IMPAIRMENT CHARGE ON LOANS AND ADVANCES	7	(14,012,087)	(15,585,535)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT		13,522,379	18,773,584
FEES, COMMISSIONS AND OTHER INCOME	8	13,493,789	12,974,688
FEES AND COMMISSION EXPENSE	9	(3,393,433)	(2,978,155)
NET FEE AND COMMISSION INCOME		10,100,356	9,996,533
FOREIGN EXCHANGE INCOME	10	4,297,337	3,163,057
OTHER OPERATING INCOME		-	124,710
TOTAL OPERATING INCOME		27,920,072	32,057,884
OPERATING EXPENSES	11	(42,504,601)	(40,453,208)
LOSS ON REVALUATION OF INVESTMENT PROPERTY	22	(1,503,589)	
LOSS BEFORE INCOME TAX		(16,088,118)	(8,395,324)
INCOME TAX CREDIT	13(A)	4,151,792	2,288,127
LOSS FOR THE YEAR		(11,936,326)	(6,107,197)
OTHER COMPREHENSIVE INCOME		-	-
NET GAINS ON REVALUATION OF FINANCIAL ASSETS HELD AT FVOCI		(112,211)	1,823,316
INCOME TAX THEREON		33,663	(546,995)
TOTAL OTHER COMPREHENSIVE INCOME		(78,548)	1,276,321
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(12,014,874)	(4,830,876)

Statement of financial position

ASSETS	NOTES	2019 TZS '000	2018 TZS '000
CASH AND BALANCES WITH BANK OF TANZANIA	15	71,198,946	46,085,201
BALANCES DUE FROM OTHER BANKS	16	83,938,830	58,173,243
GOVERNMENT SECURITIES: HELD AT FVOCI	17	77,688,735	46,235,929
LOANS AND ADVANCES TO CUSTOMERS	18	274,950,944	265,339,181
EQUITY INVESTMENT	20	1,200,200	1,200,200
OTHER ASSETS	19	6,330,384	6,945,833
PROPERTY AND EQUIPMENT	21	17,803,641	18,844,350
RIGHT OF USE ASSET	23	11,407,529	-
INVESTMENT PROPERTY	22	2,903,589	4,407,178
INTANGIBLE ASSETS	24	1,423,559	1,414,320
CURRENT TAX ASSET	13(C)	3,427,972	2,598,552
DEFERRED TAX ASSET	30	12,257,864	8,063,432
TOTAL ASSETS		564,532,193	459,307,419
LIABILITIES AND EQUITY			
LIABILITIES			
BALANCES DUE TO OTHER BANKS	25	61,903,690	31,307,474
DEPOSITS FROM CUSTOMERS	26	389,422,247	333,237,771
DERIVATIVE FINANCIAL INSTRUMENTS	29	16,468	448,841
LONG TERM BORROWINGS	27	17,769,528	21,097,583
LEASE LIABILITIES	23	10,947,185	-
OTHER LIABILITIES	28	10,538,861	10,207,662
TOTAL LIABILITIES		490,597,979	396,299,331
EQUITY			
S SHARE CAPITAL	31	50,500,000	37,021,000
SHARE PREMIUM		22,242,383	12,780,383
RETAINED EARNINGS		(5,942)	9,473,571
REVALUATION RESERVE		1,197,773	1,276,321
REGULATORY RESERVE - GENERAL		-	2,456,813
TOTAL EQUITY		73,934,214	63,008,088
TOTAL LIABILITIES AND EQUITY		564,532,193	459,307,419

The financial statements on pages 22 to 90 were approved and authorised for issue by the Board of Directors on 26 March 2020 and signed on its behalf by:

Ambassador Mwanaidi Sinare Maajar
Board Chairperson

Moremi Marwa
Director

Statement of Changes in Equity

	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 EQUITY TZS'000
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)
OTHER COMPREHENSIVE INCOME:							
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
AT 1 JANUARY 2019	37,021,000	12,780,383	9,473,571	1,276,321		2,456,813	63,008,088
COMPREHENSIVE INCOME							
LOSS FOR THE YEAR			(11,936,326)				(11,936,326)
OTHER COMPREHENSIVE INCOME:							
FAIR VALUE CHANGES OF INVESTMENTS – NET OF TAX				(78,548)			(78,548)
TRANSACTIONS WITH OWNERS:							
ISSUED SHARE CAPITAL	13,479,000	9,462,000					22,941,000
TRANSFER TO REGULATORY RESERVE - GENERAL			2,456,813			(2,456,813)	
AT 31 DECEMBER 2019	50,500,000	22,242,383	(5,942)	1,197,773			73,934,214

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.

During the year the Bank of Tanzania scrapped off the requirement for Banks & Financial Institutions to hold a General Reserve computed at 1% of unclassified loans.

Statement of Cash Flows

	NOTES	2019 TZS'000	2018 TZS'000
CASH FLOW FROM OPERATING ACTIVITIES			
LOSS BEFORE TAX		(16,088,118)	(8,395,323)
ADJUSTMENT FOR:			
DEPRECIATION OF PROPERTY AND EQUIPMENT	11	3,254,328	3,184,954
AMORTIZATION OF INTANGIBLE ASSETS	11	452,195	352,351
DEPRECIATION OF RIGHT OF USE ASSETS	11	3,485,467	
INTEREST EXPENSE ON LEASE LIABILITIES	6	467,841	
IMPAIRMENT CHARGE OF INVESTMENT PROPERTY	22	1,503,589	
PROVISION FOR BAD DEBTS	7	14,653,398	15,964,368
TRANSLATION FOREIGN EXCHANGE LOSSES/(GAIN) ON LONG-TERM BORROWINGS		20,030	88,774
INTEREST EXPENSE ON LONG-TERM BORROWINGS	27	1,425,216	435,241
DERIVATIVE FINANCIAL INSTRUMENTS	29	(432,373)	454,964
		8,741,573	12,085,329
CHANGES IN OPERATING ASSETS			
STATUTORY MINIMUM RESERVE	15	(1,457,705)	2,963,588
GOVERNMENT SECURITIES		(31,565,019)	(12,083,371)
LOANS AND ADVANCES TO CUSTOMERS		(24,265,160)	12,576,690
OTHER ASSETS		615,449	1,095,047
CHANGES IN OPERATING LIABILITIES			
BALANCES DUE TO OTHER BANKS		30,596,216	(48,480,010)
DEPOSIT FROM CUSTOMERS		56,184,476	(36,130,150)
OTHER LIABILITIES		331,199	(1,061,877)
NET **CASH** FROM /(USED IN) OPERATING ACTIVITIES BEFORE INCOME TAX		39,181,029	(69,034,754)
INCOME TAX PAID	13(C)	(838,396)	(1,835,516)
NET CASH FROM /(USED IN) OPERATING ACTIVITIES		38,342,633	(70,870,270)
CASH FLOW USED IN INVESTING ACTIVITIES			
PURCHASE OF INTANGIBLE ASSETS	24	(461,433)	(1,224,001)
PURCHASE OF TANGIBLE ASSETS	21	(2,213,619)	(3,597,444)
NET CASH **USED** IN INVESTING ACTIVITIES		(2,675,052)	(4,821,445)
CASH FLOW FROM/ (USED IN) FINANCING ACTIVITIES			
PROCEEDS FROM ISSUE OF SHARE CAPITAL		22,941,000	
LEASE PAYMENTS		(4,413,653)	
REPAYMENT ON LONG TERM BORROWINGS	27	(4,773,301)	(4,062,772)
NET CASH FROM /(USED IN) FINANCING ACTIVITIES		13,754,046	(4,062,772)
NET DECREASE IN CASH AND CASH EQUIVALENTS		49,421,627	(79,754,487)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		80,859,725	160,614,212
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	32	130,281,352	80,859,725

Notes

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 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 2019:

• IFRS 16 Leases

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

In accordance with the transition provisions in IFRS 16 the new rules have been adopted simplified approach with the impact of applying the new standard is nil on 1 January 2019. Comparatives for the 2018 financial year have not been restated.

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7.5% for TZS leases and 4.5% for USD leases.

i. Practical expedients applied

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

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

The bank has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

ii. Measurement of lease liabilities

	2019 TZS'000
OPERATING LEASE COMMITMENTS DISCLOSED AS AT 31 DECEMBER 2018	13,642,750
DISCOUNTED USING THE BANK'S INCREMENTAL BORROWING RATE OF 7.5%	13,208,630
(LESS): LOW-VALUE LEASES RECOGNISED ON A STRAIGHT-LINE BASIS AS EXPENSE	(64,149)
LEASE LIABILITY RECOGNISED AS AT 1 JANUARY 2019	13,144,481
OF WHICH:	
CURRENT LEASE LIABILITY	2,166,737
NON CURRENT LEASE LIABILITY	10,977,744
	13,144,481

iii. Measurement of right of use assets

The right-of use assets were measured at an amount equal to lease liabilities at 1 January 2019 calculated using a discount rate based on lessee's incremental borrowing rate and adjusted for accruals and prepayments.

iv. Adjustments recognised in the balance sheet on 1 January 2019

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

- Right of use increased by TZS13.6 billion.
- Prepayments reduced by TZS 1.4 billion
- Lease liability TZS 13.1 billion
- There was no impact on opening retained earnings on 1 January 2019 as the lease liability and the right of use asset were the same.

Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial liabilities. Effective annual periods beginning on or after 1 January 2019.

The narrow-scope amendment covers two issues:

- The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.
- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

Annual improvements cycle 2015-2017 - Annual periods beginning on or after 1 January 2019 (published December 2017).

These amendments include minor changes to:

- IFRS 3, 'Business combination' - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11,'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12,' Income taxes' - The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

IAS 23,' Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

IFRIC 23, 'Uncertainty over income tax treatments' Annual periods beginning on or after 1 January 2019. Published 7 June 2017).

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

ii) International Financial Reporting Standards, interpretations and amendments issued but not effective for December 2019 year-end

Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material. Annual periods beginning on or after 1 January 2020.

These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:

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

IFRS 17, 'Insurance contracts' - Annual periods beginning on or after 1 January 2021 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17.(published May 2017).

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

Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

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

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

Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosure – Interest rate benchmark reform. Annual periods beginning on or after 1 January 2020 (early adoption is permitted) (Published September 2019).

These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

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

(a) 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.

(b) 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:

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

(b) 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.

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 loss ('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.

(g) 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).

(h) 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.

(i) 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.

(j) 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

(k) 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.

(l) Non-financial assets and liabilities

Leases

1. Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2019	2018
RIGHT OF USE ASSETS	TZS'000	TZS'000
BUILDINGS	11,407,529	
LEASE LIABILITIES		
CURRENT	2,703,331	
NON-CURRENT	8,243,854	
	10,947,185	

Additions to the right-of-use assets during the 2019 financial year were TZS 332 million.

2. Amounts recognised in profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019 TZS'000	2018 TZS'000
DEPRECIATION CHARGE OF RIGHT OF USE ASSETS	(3,485,467)	
INTEREST EXPENSE (INCLUDED IN FINANCE COST)	(467,841)	
EXPENSE RELATED TO LEASES OF LOW VALUE ASSETS		
	(3,953,309)	

The total cash outflow for leases in 2019 was Tshs 4,414 million.

3. The Bank's leasing activities and how these are accounted for:

As explained in note 2 (a) (i) above, the bank has changed its accounting policy for leases where the bank is the lessee. The new policy is described in 2 (a) (i) and the impact of the change in note 2 (l).

The Bank leases office space in various parts of the region. Rental contracts are typically made for fixed periods of 4 to 5 years but may have extension options as described in (4) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

None of the rental contracts for lease of office buildings contain non-lease components

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases (note 2(a) (i)). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Other leases i.e. where the bank had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

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

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

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

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

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

To determine the incremental borrowing rate, the Bank:

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

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

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

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

3. Extension and termination options

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

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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

(r) 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.

(s) Cash and cash equivalents

Cash and cash equivalents include 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 exclude the cash reserve requirement held with the Bank of Tanzania.

(t) 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.

(u) 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.

(v) Acceptances and letters of credit

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

(w) 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.

(x) 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 2019 and 31 December 2018 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 2019:				
SUBSTANDARD	4,500,757	3,249,060	1,251,697	4,273,875
DOUBTFUL	9,722,609	2,861,080	6,861,529	10,589,081
LOSS	13,299,949	9,916,115	3,383,834	15,392,187
TOTAL	27,523,315	16,026,255	11,497,060	30,255,143
31 DECEMBER 2018:				
SUBSTANDARD	10,265,813	3,769,739	6,496,074	9,332,000
DOUBTFUL	25,648,889	9,310,548	16,338,341	37,236,889
LOSS	10,890,138	7,266,222	3,623,916	17,715,000
TOTAL	46,804,840	20,346,509	26,458,331	64,283,889

(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.

3.1.3.4 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 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used:

	CHANGE IN MARKET VALUE OF COLLATERALS	
	INCREASE BY 5% TZS'000	DECREASE BY 5% TZS'000
INCREASE/(DECREASE) IN ECL ALLOWANCE	(112,130)	115,503

	CHANGE IN REALISATION PERIOD	
	INCREASE BY 1 YEAR TZS'000	DECREASE BY 1 YEAR TZS'000
INCREASE/(DECREASE) IN ECL ALLOWANCE	463,996	(411,013)

	CHANGE IN PROBABILITY OF DEFAULTS (PDS)	
	INCREASE BY 5% TZS'000	DECREASE BY 5% TZS'000
INCREASE/(DECREASE) IN ECL ALLOWANCE	(253,113)	253,113

	CHANGE IN RECOVERY RATE FOR UNSECURED FACILITIES	
	INCREASE FROM 15% TO 20% TZS'000	DECREASE FROM 15% TO 10% TZS'000
INCREASE/(DECREASE) IN ECL ALLOWANCE	(244,145)	275,312

3.1.4 Write-off policy

The Bank writes off financial assets 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 must 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.

ECL ALLOWANCE RECONCILIATION	STAGE I 12 - MONTH ECL TZS'000	STAGE II LIFETIME ECL TZS'000	STAGE III LIFETIME ECL TZS'000	TOTAL TZS'000
BALANCE AS AT 1 JANUARY	6,092,517	707,886	20,346,509	27,146,912
TRANSFERS:				
- TRANSFER FROM STAGE 1 TO STAGE 2	(75,293)	383,453		308,160
- TRANSFER FROM STAGE 1 TO STAGE 3	(116,215)		1,438,114	1,321,899
- TRANSFER FROM STAGE 2 TO STAGE 1	48,715	(328,918)		(280,203)
- TRANSFER FROM STAGE 2 TO STAGE 3		(65,134)	244,951	179,817
TRANSFER FROM STAGE 3 TO STAGE 1	32,503		(798,583)	(766,080)
TRANSFER FROM STAGE 3 TO STAGE 2		21,726	(132,935)	(111,209)
CHANGES IN MODEL ASSUMPTIONS	(1,918,851)	327,155	6,304,861	4,713,165
NEW FINANCIAL ASSETS ORIGINATED	2,725,071	107,700	89,494	2,922,265
WRITE-OFFS		(95,511)	(11,466,156)	(11,561,667)
BALANCE AS AT 31 DECEMBER	6,788,447	1,058,357	16,026,255	23,873,059

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:

	2019		2018	
	TZS'000	%	TZS'000	%
CASH AND BALANCES WITH BANK OF TANZANIA	42,094,627	8.7%	25,358,242	6.3%
BALANCES DUE FROM OTHER BANKS	83,938,830	17.4%	58,173,243	14.6%
GOVERNMENT SECURITIES	77,688,735	16.1%	46,235,929	11.6%
LOANS AND ADVANCES TO CUSTOMERS	274,950,944	56.8%	265,339,181	66.4%
OTHER ASSETS	5,013,528	1.0%	4,347,580	1.1%
	483,686,664	100.0%	399,454,175	100%

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

	2019			
	STAGE I 12 - MONTH ECL TZS'000	STAGE II LIFETIME ECL TZS'000	STAGE III LIFETIME ECL TZS'000	TOTAL TZS'000
CURRENT	261,500,178			261,500,178
ESPECIALLY MENTIONED		9,800,511		9,800,511
SUBSTANDARD			4,500,757	4,500,757
DOUBTFUL			9,722,608	9,722,608
LOSS			13,299,949	13,299,949
GROSS CARRYING AMOUNT	261,500,178	9,800,511	27,523,314	298,824,003
ECL ALLOWANCE	(6,788,448)	(1,058,357)	(16,026,254)	(23,873,059)
NET LOANS & ADVANCES	254,711,730	8,742,154	11,497,060	274,950,944

	2018			
	STAGE I 12 - MONTH ECL TZS'000	STAGE II LIFETIME ECL TZS'000	STAGE III 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

	2019 (%)		2018 (%)	
	GROSS LOANS & ADVANCES	IMPAIRMENT PROVISIONS	GROSS LOANS & ADVANCES	IMPAIRMENT PROVISIONS
STAGE I	87.5%	28.4%	80.0%	24%
STAGE II	3.3%	4.4%	4.0%	3%
STAGE III	9.2%	67.2%	15.90%	73%
	100.0%	100.0%	100%	100%

3.1.7 Profile of financial assets subject to credit risk

	2019 (TZS'000)		2018 (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	261,500,178	208,735,720	232,903,684	110,307,757
STAGE II	9,800,511		12,777,570	
STAGE III	27,523,314		46,804,840	23,807,237
GROSS	298,824,003	208,735,720	292,486,094	134,114,994
LESS IMPAIRMENT ALLOWANCES:	(23,873,059)		(27,146,913)	
	274,950,944	208,735,720	265,339,181	134,114,994

Analysis of all other financial assets subject to credit risk:

	STAGE I	STAGE II	STAGE II	SPECIFIC IMPAIRMENT	NET
2019 (TZS'000)					
CASH AND BALANCES WITH BANK OF TANZANIA	42,094,627				42,094,627
BALANCES DUE FROM OTHER BANKS	83,938,830				83,938,830
GOVERNMENT SECURITIES HELD AT FVOCI	77,688,735				77,688,735
OTHER ASSETS (EXCLUDING PREPAYMENTS & STATIONERIES)	5,013,528				5,013,528
	208,735,720				208,735,720

	STAGE I	STAGE II	STAGE II	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 AMORTIZED COST	46,235,929				46,235,929
OTHER ASSETS (EXCLUDING PREPAYMENTS & STATIONERIES)	4,347,580				4,347,580
	110,307,757		23,807,237		134,114,994

At the end of the reporting period, the total impairment provision for loans and advances was TZS 23,873 million (2018: TZS 27,147 million). Further information of the impairment allowance for loans and advances to customers is provided in note 18.

At 31 December 2019, the Bank's total loans and advances to customers grew by 4.4% (2018: -11.3%). 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 2019 and 2018 can be analyzed as follows: (Amounts are in TZS'000).

	INDIVIDUAL (RETAIL)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SME	TOTAL
31 DECEMBER 2019					
STAGE I	1,187,643	110,556,464	118,209,200	31,546,871	261,500,178
31 DECEMBER 2018					
STAGE I	1,060,012	83,504,567	121,510,106	26,828,999	232,903,684

(b) Stage II

Loans and advances that were classified as stage II in 2019 and 2018 is analyzed as follows:(Amounts are in TZS'000).

	INDIVIDUAL (RETAIL)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SME	TOTAL
31 DECEMBER 2019					
STAGE II		1,320,691	6,888,567	1,591,253	9,800,511
31 DECEMBER 2018					
STAGE II	9,081	2,632,295	8,623,960	1,512,234	12,777,570

(c) Other financial assets stage I

	2019 TZS'000	2018 TZS'000
GOVERNMENT SECURITIES	77,688,735	46,235,929
CASH AND BALANCES WITH BANK OF TANZANIA	42,094,627	25,358,242
PLACEMENTS WITH OTHER BANKS	83,938,830	34,366,006
OTHER ASSETS (EXCLUDING PREPAYMENTS & STATIONERIES)	5,013,528	4,347,580
TOTAL	208,735,720	110,307,757

Other financial assets stage III

	2019 TZS'000	2018 TZS'000
PLACEMENTS WITH OTHER BANKS		23,807,237
TOTAL		23,807,237

(d) Stage III

(i) Loans and advances

The breakdown of the gross amount of loans and advances in stage III in 2019 and 2018 are as follows: (Amounts are in TZS'000).

	INDIVIDUAL (RETAIL CUSTOMER)			CORPORATE ENTITIES	
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
31 DECEMBER 2019					
STAGE III	51,812	4,596,233	20,176,128	2,699,142	27,523,314
31 DECEMBER 2018					
STAGE III	1,056,190	9,496,552	30,498,054	5,754,044	46,804,840

As stated in note 2(f) 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 2019 was NIL (2018: 23,807 Million).

3.1.8 Repossessed collateral

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

	CARRYING AMOUNTS	
NATURE OF ASSETS	2019 TZS'000	2018 TZS'000
RESIDENTIAL PROPERTY	512,100	1,005,000
MOTOR VEHICLES		103,500
	512,100	1,108,500

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 32,962 million (2018: TZS 20,530 million).

NATURE OF ASSETS	2019 TZS'000	2018 TZS'000
STAGE I	14,387,451	5,434,061
STAGE II	81,203	48,179
STAGE III	18,494,132	15,047,532
	32,962,786	20,529,772

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 2019. 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	42,094,627				42,094,627
BALANCE DUE FROM OTHER BANKS	49,995,746	30,434,854	3,497,426	10,804	83,938,830
GOVERNMENT SECURITIES	77,688,735				77,688,735
LOANS AND ADVANCES TO CUSTOMERS					
TO INDIVIDUALS:					
- OVERDRAFT	1,187,07				1,187,079
- TERM LOANS	108,185,481				108,185,481
TO CORPORATE ENTITIES:					
- CORPORATE CUSTOMERS	132,088,393				132,088,393
- SMES	33,489,990				33,489,990
OTHER ASSETS (EXCLUDING PREPAYMENTS & INVENTORIES)	5,013,528				5,013,528
AS 31 DECEMBER 2019	449,743,579	30,434,854	3,497,426	10,804	483,686,663
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS ARE AS FOLLOWS:					
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	8,967,002				8,967,002
OUTSTANDING GUARANTEES AND INDEMNITIES	50,757,389				50,757,389
LETTERS OF CREDIT	8,863,332				8,863,332
AS 31 DECEMBER 2019	68,587,723				68,587,723

	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

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):

	FINANCIAL INSTITUTIONS	AGRICULTURE	MANUFACTURING	BUILDING & CONSTRUCTION	GOVERNMENT	TRANSPORTATION	WHOLESALE AND RETAIL TRADE	INDIVIDUALS	OTHER	TOTAL
CASH AND BALANCES WITH BOT	42,094,627									42,094,627
BALANCE DUE FROM OTHER BANKS	83,938,830									83,938,830
GOVERNMENT SECURITIES					77,688,735					77,688,735
LOANS AND ADVANCES TO CUSTOMERS										
TO INDIVIDUAL:										
- OVERDRAFT		723	28,692	1,158		49,238	10	1,057,505	49,753	1,187,079
- TERM LOANS		787,170	694,318	71,726.01		588,879	188,476	100,431,232	5,423,680	108,185,481
TO CORPORATE ENTITIES:										
- CORPORATE CUSTOMERS	8,304,865	5,854,975	11,260,263	2,144,068	3,110,550	29,625,676	9,942,133	5,466,620	56,379,244	132,088,394
- SMES	77,216	217,272	1,794,474	1,108,932		9,596,002	4,233,399	12,333,401	4,129,294	33,489,990
OTHER ASSETS									5,013,528	5,013,528
AT 31 DECEMBER 2019	134,415,538	6,860,140	13,777,747	3,325,884	80,799,285	39,859,795	14,364,018	119,288,758	70,995,499	483,686,664
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS ARE AS FOLLOWS:										
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND		395,943	2,253,334	859,090		1,484,607	297,979	2,879,166	796,882	8,967,002
OUTSTANDING GUARANTEES AND INDEMNITIES			421,757	38,985,455		54,387	2,858,525		8,437,265	50,757,389
LETTERS OF CREDIT			2,265,465			51,153	3,908,898		2,637,816	8,863,332
AT 31 DECEMBER 2019		395,943	4,940,556	39,844,545		1,590,148	7,065,402	2,879,166	11,871,963	68,587,723

	FINANCIAL INSTITUTIONS	AGRICULTURE	MANUFACTURING	BUILDING & CONSTRUCTION	GOVERNMENT	TRANSPORTATION	WHOLESALE AND RETAIL TRADE	INDIVIDUALS	OTHER	TOTAL
CASH AND BALANCES FROM 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	108,53		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 A ND 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

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 2019, 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 1,468 million (2018: TZS 704 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 2019, 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 13 million (2018: 0.9 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 2019, 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 1,480 million (2018: 873 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 2019 and 2018 Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

AT 31 DECEMBER 2019 (AMOUNTS IN TZS'000)	TZS	USD	EURO	GBP	ZAR	KES	UGX	TOTAL
ASSETS								
CASH AND BALANCE WITH BANK OF TANZANIA	53,520,660	15,912,028	1,458,740	264,500		42,553	466	71,198,946
BALANCE DUE FROM OTHER BANKS	33,206,881	20,424,446	30,194,898	101,301	7,067	314	3,923	83,938,830
GOVERNMENT SECURITIES	77,688,735							77,688,735
EQUITY INVESTMENT	1,200,200							1,200,200
LOANS AND ADVANCES TO CUSTOMERS	162,107,743	112,759,955	83,246					274,950,944
OTHER ASSETS (EXCLUDING PREPAYMENT & INVENTORIES)	5,013,528							5,013,528
TOTAL FINANCIAL ASSETS	332,737,747	149,096,429	31,736,883	365,801	7,067	42,867	4,389	513,991,182
LIABILITIES								
BALANCE DUE TO OTHER BANKS	19,036	61,833,045	51,608					61,903,690
DEPOSITS FROM CUSTOMERS	252,519,980	107,013,299	29,783,344	105,624				389,422,247
DERIVATIVE FINANCIAL INSTRUMENTS		16,468						16,468
LONG TERM BORROWINGS	10,773,630	6,733,728	262,169					17,769,528
LEASE LIABILITIES	9,578,336	1,368,848						10,947,185
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	2,292,382	1,523,905	1,609,369					5,425,656
TOTAL FINANCIAL LIABILITIES	275,183,365	178,489,293	31,706,490	105,624				485,484,772
NET ON BALANCE SHEET FINANCIAL POSITION	57,554,382	(29,392,864)	30,393	260,177	7,067	42,867	4,389	28,506,410
CREDIT COMMITMENTS	4,515,188	4,451,814						8,967,002

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 HELD AT AMORTIZED COST	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
OTHERS ASSETS (EXCLUDING PREPAYMENT AND 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
SUBORDINATED DEBTS			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

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 2019	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						71,198,946	71,198,946
BALANCES DUE FROM OTHER BANKS	8,084,400		17,086,000			58,768,430	83,938,830
GOVERNMENT SECURITIES		10,823,097	4,956,528	26,231,473	35,677,637		77,688,735
EQUITY INVESTMENT						1,200,200	1,200,200
LOANS AND ADVANCES TO CUSTOMERS	64,154,741	21,975,251	5,984,206	100,067,814	82,768,932		274,950,944
OTHER ASSETS (EXCLUDING PREPAYMENTS & INVENTORIES)						5,013,528	5,013,528
TOTAL FINANCIAL ASSETS	72,239,141	32,798,348	28,026,734	126,299,287	118,446,569	136,181,104	513,991,183
LIABILITIES							
BALANCE DUE TO OTHER BANKS	12,496,690		20,682,000	28,725,000			61,903,690
DEPOSITS FROM CUSTOMERS	63,644,576	27,359,700	27,765,420	70,428,895		200,223,656	389,422,247
DERIVATIVE FINANCIAL INSTRUMENTS						16,468	16,468
LONG TERM BORROWINGS			6,991,205	8,028,323	2,750,000		17,769,528
LEASE LIABILITIES						10,947,185	10,947,185
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)						5,425,656	5,425,656
TOTAL FINANCIAL LIABILITIES	76,141,266	27,359,700	55,438,625	107,182,218	2,750,000	216,612,965	485,484,774
TOTAL INTEREST SENSITIVITY GAP	(3,902,125)	5,438,648	(27,411,891)	19,117,069	115,696,569		

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		

The table below summarises a range of effective interest rates by major currencies for monetary financial instruments for the year ended 31 December 2019 and 2018:

	2019		2018	
	TZS	USD	TZS	USD
ASSETS				
LOANS AND ADVANCES TO CUSTOMERS	9%-28%	6.0%-13%	11.5%-28%	6.0%-13%
LOANS AND ADVANCES TO BANKS	3.5%-4.8%	2.5%-6%	3.5%-4.8%	2.5%-6%
LIABILITIES				
DEPOSITS FROM CUSTOMERS	4%-12%	0.8%-3%	4%-12%	0.8%-3%
BALANCES DUE FROM OTHER BANKS	6%-11.5%	2%-4.2%	6%-11.5%	2%-4.2%
LONG TERM BORROWINGS	10%	2.50%	10%	2.50%

At 31 December 2019, 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 378 million (2018: TZS 284million) lower/higher, mainly as a result of fluctuations in interest income and interest expense.

At 31 December 2019, 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 165 million (2018: TZS 78 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 2019, 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 120 million higher/lower (2018 : 84 million)

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.

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.

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 TZS'000	1 - 3 MONTHS TZS'000	3 - 12 MONTHS TZS'000	1 - 5 YEARS TZS'000	OVER 5 YEARS TZS'000	TOTAL TZS'000
AT 31 DECEMBER 2019						
LIABILITIES						
BALANCES DUE TO OTHER BANKS	21,741,818	32,703,939	18,652,090			73,097,848
DEPOSITS FROM CUSTOMERS	263,848,853	27,447,514	28,549,615	77,370,588		397,216,571
LONG TERM BORROWINGS	146,053	1,347,179	13,683,966	4,351,757		19,528,955
LEASE LIABILITIES	381,437	578,785	1,743,109	6,663,907	3,535,783	12,903,020
OTHER LIABILITIES	5,425,656					5,425,656
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	291,543,817	62,077,417	62,628,780	88,386,252	3,535,783	508,172,049
TOTAL ASSETS (EXPECTED MATURITY DATES)	148,796,708	23,163,873	59,432,991	216,234,556	193,710,370	641,338,498
LIQUIDITY GAP	**142,747,109**	**38,913,543**	**3,195,789**	**(127,848,304)**	**(190,174,587)**	**(133,166,449)**
AT 31 DECEMBER 2018						
LIABILITIES						
BALANCES DUE TO OTHER BANKS	270,974		11,495,000	19,541,500		31,307,474
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	68,733,021	40,880,524	3,329,799	405,128,132
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**	**44,411,521**	**(106,034,954)**	**(63,188,974)**	**(18,588,456)**

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 1-3 MONTHS TZS' 000	TOTAL TZS' 000
AT 31 DECEMBER 2019		
FOREIGN CURRENCY DERIVATIVES:		
PURCHASE	(19,220,366)	(19,220,366)
SALE	19,203,898	19,203,898
NET	(16,468)	(16,468)
AT 31 DECEMBER 2018		
FOREIGN CURRENCY DERIVATIVES:		
PURCHASE	(25,467,133)	(25,467,133)
SALE	25,018,293	25,018,293
NET	(448,840)	(448,840)

3.3.4 Fair values of financial assets and liabilities

The fair value 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 2019 and 2018:

	LEVEL 1 TZS'000	LEVEL 2 TZS'000	LEVEL 3 TZS'000	TOTAL FAIR VALUE TZS'000
31 DECEMBER 2019				
ASSETS				
GOVERNMENT SECURITIES		77,688,735		77,688,735
EQUITY INVESTMENT		1,200,200		1,200,200
		78,888,935		78,888,935
LIABILITIES				
DERIVATIVE FINANCIAL INSTRUMENTS		16,468		
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		448,840		-

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 2019.

	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		71,198,946		71,198,946	71,198,946
BALANCE DUE FROM OTHER BANKS		83,938,830		83,938,830	83,938,830
LOANS AND ADVANCES TO CUSTOMERS		274,950,944		274,950,944	274,950,944
OTHER ASSETS (EXCLUDING PREPAYMENT & INVENTORIES)		5,013,528		5,013,528	5,013,528
TOTAL		435,102,248		435,102,248	435,102,248
LIABILITIES					
BALANCE DUE TO OTHER BANKS		61,903,690		61,903,690	61,903,690
DEPOSITS FROM CUSTOMERS		389,422,247		389,422,247	389,422,247
LONG TERM BORROWINGS		17,769,528		17,769,528	17,769,528
LEASE LIABILITIES		10,947,185		10,947,185	10,947,185
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)		5,425,656		5,425,656	5,425,656
TOTAL		485,468,306		485,468,306	485,468,306

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					
BBALANCE 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

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 2019 and year ended 31 December 2018.

	2019 TZS'000	2018 TZS'000
TIER 1 CAPITAL		
SHARE CAPITAL	50,500,000	37,021,000
RETAINED EARNINGS	(5,945)	9,473,571
SHARE PREMIUM	22,242,383	12,780,383
LESS: DEFERRED TAX ASSET	(12,257,864)	(8,063,432)
LESS: INTANGIBLE ASSETS		(1,414,320)
LESS: PREPAID EXPENSES	(1,195,004)	(2,502,701)
TOTAL QUALIFYING TIER 1 CAPITAL	59,283,573	47,294,501
TIER 2 CAPITAL		
GENERAL PROVISION**		2,456,813
TOTAL REGULATORY CAPITAL	59,283,573	49,751,314
RISK-WEIGHTED ASSETS		
ON-BALANCE SHEET	283,252,697	251,787,266
OFF-BALANCE SHEET	24,631,236	28,856,918
MARKET RISK	745,307	1,172,787
OPERATIONAL RISK	40,308,749	61,304,292
TOTAL RISK-WEIGHTED ASSETS	348,937,989	343,121,263

The table below summarises the composition of regulatory ratios of the Bank for the year ended 31 December 2019 and year ended 31 December 2018.

	REQUIRED RATIO 2018 %	BANK'S RATIO 2019 %	BANK'S RATIO 2018 %
TIER 1 CAPITAL	12.5	17.0	13.8
TIER 1 + TIER 2 CAPITAL	14.5	17.0	14.5

**During the year the prudential requirement for Banks and Financial Institutions to make a provision of 1% of current portfolio was abolished.

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. One of the significant judgements is the deductibility of the TZS 17.9 billion (2018: TZS 8.8 billion) of loans written off during the year (Note 18).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) Leases

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

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

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

The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of TZS 1,101 million.

To determine the incremental borrowing rate, the bank where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture

d) 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.

e) Intangible assets

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

5. INTEREST AND SIMILAR INCOME

	2019 TZS'000	2018 TZS'000
LOANS AND ADVANCES TO CUSTOMERS	36,105,413	41,285,823
GOVERNMENT SECURITIES	5,837,401	3,291,477
LOANS AND ADVANCES TO BANKS	986,085	2,969,337
	42,928,899	47,546,637

6. INTEREST AND SIMILAR EXPENSES

DEPOSITS FROM OTHER BANKS	2,684,693	3,365,932
DEPOSITS FROM CUSTOMERS	9,897,380	8,633,114
LONG-TERM BORROWINGS (NOTE 27)	1,425,216	435,244
DISCOUNT ON DERIVATIVES	919,303	753,228
LEASE LIABILITIES	467,841	
	15,394,433	13,187,518

7. IMPAIRMENT CHARGE ON LOANS AND ADVANCES

IMPAIRMENT CHARGE FOR THE YEAR	14,653,398	15,964,368
BAD DEBT RECOVERIES	(641,311)	(378,833)
	14,012,087	15,585,535

8. FEES AND COMMISSION INCOME

COMMISSION AND FEES FROM BANKING OPERATIONS	4,559,547	5,217,264
COMMISSION ON TELEGRAPHIC TRANSFERS AND INTERNATIONAL TRADE		
FINANCE ACTIVITIES	1,181,106	1,059,165
FACILITY FEES FROM LOANS AND ADVANCES	3,826,768	3,088,758
COMMISSION ON LETTERS OF CREDIT AND GUARANTEES	1,742,022	1,466,632
OTHER FEES AND COMMISSIONS	2,184,346	2,142,869
	13,493,789	12,974,688

9. FEES AND COMMISSION EXPENSES

	2019 TZS'000	2018 TZS'000
GUARANTEE EXPENSES	1,032,201	671,990
BANK CHARGES	567,873	641,960
OTHER FEES AND COMMISSION EXPENSES	1,793,359	1,664,205
	3,393,433	2,978,155

10. FOREIGN EXCHANGE INCOME

TRADING INCOME	4,309,671	3,176,170
REVALUATION (LOSS) /GAIN	(12,334)	(13,113)
	4,297,337	3,163,057

11. OPERATING EXPENSES

EMPLOYEE BENEFITS (NOTE 12)	17,950,201	17,361,119
OCCUPANCY EXPENSES		3,703,244
REPAIRS AND MAINTENANCE	3,062,610	2,520,136
ADVERTISING AND BUSINESS PROMOTION	485,525	645,922
LEGAL AND PROFESSIONAL FEES	3,371,189	2,142,110
TRAVELLING EXPENSES	1,106,562	1,851,673
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 21)	3,254,328	3,184,954
AMORTIZATION OF RIGHT OF USE ASSETS	3,485,467	
AMORTIZATION OF INTANGIBLE ASSETS (NOTE 24)	452,195	352,351
DIRECTORS EMOLUMENTS - FEES	209,134	180,136
DIRECTORS EMOLUMENTS - OTHERS	257,129	471,254
AUDITORS' REMUNERATION	235,061	246,001
SECURITY EXPENSES	1,791,465	1,993,850
INSURANCE EXPENSES	1,121,869	1,005,550
PRINTING AND OFFICE SUPPLIES	1,163,469	1,552,677
CONNECTIVITY EXPENSES	814,730	767,534
TELEPHONE AND ELECTRICITY	609,035	627,779
LICENSES AND FEES	289,431	348,593
COURIER EXPENSES	176,548	312,680
OTHERS	2,668,653	1,185,645
	42,504,601	40,453,208

12. EMPLOYEE BENEFITS

	2019 TZS'000	2018 TZS'000
WAGES AND SALARIES	12,876,213	12,067,466
DEFINED BENEFIT CONTRIBUTIONS (NSSF AND PPF CONTRIBUTIONS)	1,259,426	1,154,831
SKILLS AND DEVELOPMENT LEVY	620,684	553,294
MEDICAL INSURANCE	796,452	761,165
TRAVEL ALLOWANCES	911,082	817,319
BONUSES AND AWARDS	4,012	37,314
STAFF TRAINING	209,742	482,528
OTHER EMPLOYMENT COSTS AND BENEFITS	1,272,590	1,487,202
	17,950,201	17,361,119

13. INCOME TAXS

(a) Income tax expense

CURRENT TAX - CURRENT YEAR		
- PRIOR YEARS OVER PROVISION	8,976	(1,452)
	8,976	(1,452)
DEFERRED TAX - CURRENT YEAR (NOTE 30)	(4,160,768)	(2,288,129)
- PRIOR YEARS UNDER PROVISION (NOTE 30)		1,454
	(4,160,768)	(2,286,675)
	(4,151,792)	(2,288,127)

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

	2019 TZS'000	2018 TZS'000
LOSS BEFORE TAX	(16,088,118)	(8,395,324)
TAX CALCULATED AT A TAX RATE OF 30%	(4,826,435)	(2,518,598)
TAX EFFECT OF EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	665,668	230,469
UNDER PROVISION OF CURRENT AND DEFERRED TAX IN PRIOR YEARS	8,976	2
	(4,151,792)	(2,288,127)

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

	2019 TZS'000	2018 TZS'000
AT 1 JANUARY	2,598,552	761,585
PAYMENT DURING THE YEAR	838,396	1,835,516
CURRENT TAX CHARGE	(8,976)	1,451
AT 31 DECEMBER	3,427,972	2,598,552

14. FINANCIAL INSTRUMENTS BY CATEGORY

	AT AMORTIZED COST TZS'000	AT FAIR VALUE THROUGH OCI TZS'000	AT FAIR VALUE THOUGH PROFIT OR LOSS TZS'000	TOTAL TZS'000
AT 31 DECEMBER 2019				
FINANCIAL ASSETS:				
CASH AND BALANCES WITH BOT	71,198,946			71,198,946
LOANS AND ADVANCES TO BANKS	83,938,830			83,938,830
GOVERNMENT SECURITIES		77,688,735		77,688,735
LOANS AND ADVANCES TO CUSTOMERS	274,950,944			274,950,944
EQUITY INVESTMENT		1,200,200		1,200,200
OTHER ASSETS	5,013,528			5,013,528
	435,102,248	78,888,935		513,991,183
FINANCIAL LIABILITIES:				
BALANCES DUE TO OTHER BANKS	61,903,690			61,903,690
DEPOSITS FROM CUSTOMERS	389,422,247			389,422,247
DERIVATIVE FINANCIAL INSTRUMENTS			16,468	16,468
LEASE LIABILITIES	10,947,185			10,947,185
LONG TERM BORROWINGS	17,769,528			17,769,528
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	5,425,656			5,425,656
	485,468,306		16,468	485,484,774
AT 31 DECEMBER 2018				
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
	373,945,205	47,436,129		421,381,334
FINANCIAL LIABILITIES:				**AT AMORTISED COST**
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
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	5,777,685			5,777,685
	391,420,513		448,841	391,869,354

15. CASH AND BALANCES WITH BANK OF TANZANIA

	2019 TZS'000	2018 TZS'000
CASH ON HAND	29,104,318	20,726,959
BALANCES WITH THE BANK OF TANZANIA:		
- STATUTORY MINIMUM RESERVE (SMR)	24,856,424	23,398,719
- CLEARING ACCOUNT	17,238,204	1,959,523
	71,198,946	46,085,201

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

	2019 TZS'000	2018 TZS'000
BALANCES WITH BANKS	33,943,086	24,099,410
ITEMS IN THE COURSE OF COLLECTION	24,475,975	6,145,869
PLACEMENTS WITH LOCAL BANKS	25,519,769	27,927,963
	83,938,830	58,173,243
CURRENT	83,938,830	58,173,243

17. GOVERNMENT SECURITIES

HELD AT FAIR VALUE THROUGH OCI		
TREASURY BILLS AND BONDS MATURING WITHIN 3 MONTHS	10,823,097	35,790,568
TREASURY BILLS AND BONDS MATURING AFTER 3 MONTHS	66,865,638	10,445,361
TOTAL	77,688,735	46,235,929

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

18. LOANS AND ADVANCES TO CUSTOMERS

	2019 TZS'000	2018 TZS'000
LOANS AND ADVANCES TO CORPORATE CUSTOMERS	181,111,161	194,352,180
LOANS AND ADVANCES TO INDIVIDUAL CUSTOMERS	117,712,842	98,133,914
GROSS LOANS AND ADVANCES	298,824,003	292,486,094
LESS: IMPAIRMENT PROVISION	(23,873,059)	(27,146,913)
NET LOANS AND ADVANCES	274,950,944	265,339,181

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

	RETAIL CUSTOMERS TZS'000	CORPORATE CUSTOMERS & SMES TZS'000	TOTAL TZS'000
AT 1 JANUARY 2019	**10,680,872**	**16,466,041**	**27,146,913**
INCREASE IN IMPAIRMENT	2,984,573	11,668,825	14,653,398
WRITE OFFS	(5,325,163)	(12,602,088)	(17,927,251)
	8,340,282	15,532,778	23,873,059
AT 31 DECEMBER 2019			
AT 1 JANUARY 2018	**7,453,782**	**5,663,986**	**13,117,768**
CHANGES ON INITIAL APPLICATION OF IFRS 9	3,120,994	3,711,702	6,832,697
RESTATED BALANCE AT 1 JANUARY 2018	10,574,776	9,375,688	19,950,465
INCREASE IN IMPAIRMENT	3,088,124	12,876,244	15,964,368
WRITE OFFS	(2,982,028)	(5,785,891)	(8,767,920)
AT 31 DECEMBER 2018	**10,680,872**	**16,466,041**	**27,146,913**

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery methods foreclosing on collateral and the value of the collateral is such that there is no reasonable expectations of recovering in full.

19. OTHER ASSETS

	2019 TZS'000	2018 TZS'000
PREPAID EXPENSES	1,195,004	2,502,701
OTHER DEBTORS	5,013,528	4,347,580
INVENTORIES	121,852	95,552
	6,330,384	6,945,833

20. EQUITY INVESTMENTS

UMOJA SWITCH COMPANY LIMITED - UNLISTED	102,443	102,443
TANZANIA MORTGAGE REFINANCE COMPANY LIMITED - UNLISTED	1,097,757	1,097,757
	1,200,200	1,200,200

BANK OF AFRICA - TANZANIA Limited owns 9% and 4% 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 2019	13,705,221	559,617	2,722,651	11,035,440	1,553,187	5,781,500	2,149,148	37,506,764
ADDITIONS	740,841		122,210	472,569	89,565		788,434	2,213,619
TRANSFER	65,270			92,807			(158,077)	-
AT 31 DECEMBER 2019	14,511,332	559,617	2,844,861	11,600,816	1,642,752	5,781,500	2,779,505	39,720,383
DEPRECIATION								
AT 1 JANUARY 2019	7,618,623	475,231	1,970,661	7,126,642	953,235	518,022		18,662,414
CHARGE FOR THE YEAR	1,383,630	40,255	312,737	1,217,454	189,247	111,005		3,254,328
AT 31 DECEMBER 2019	9,002,253	515,486	2,283,398	8,344,096	1,142,482	629,027		21,916,742
NET BOOK VALUE								
AT 31 DECEMBER 2019	5,509,079	44,131	561,463	3,256,720	500,270	5,152,473	2,779,505	17,803,641

	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

22. INVESTMENT PROPERTY

	2019 TZS'000	2018 TZS'000
AT 1 JANUARY	4,407,178	4,407,178
NET GAIN/(LOSS) FROM FAIR VALUE ADJUSTMENT	(1,503,589)	
AT 31 DECEMBER	2,903,589	4,407,178

The Bank had acquired properties worth TZS 4,407 million 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.An impairment assessment carried out at period end based on independent valuer's reports indicated an impairment loss of TZS 1,503 Million.

23. LEASES

	2019 TZS'000	2018 TZS'000
(I) AMOUNTS RECOGNIZED IN THE BALANCE SHEET		
THE BALANCE SHEET SHOWS THE FOLLOWING ACCOUNTS RELATING TO LEASES		
RIGHT OF USE ASSETS		
BUILDINGS	11,407,529	
LEASE LIABILITY		
CURRENT	2,703,331	
NON-CURRENT	8,243,854	
	10,947,185	

Additions to the right of use assets during the 2019 financial year were TZS 332 million.

(II) AMOUNTS RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS	2019 TZS'000	2018 TZS'000
THE STATEMENT OF PROFIT OR LOSS SHOWS THE FOLLOWING AMOUNTS RELATING TO LEASES		
DEPRECIATION CHARGE OF RIGHT OF USE ASSETS		
BUILDINGS	(3,485,467)	
INTEREST EXPENSE (INCLUDED IN INTEREST EXPENSE AND SIMILAR CHARGES)	(467,841)	
EXPENSE RELATING TO SHORT-TERM LEASES (INCLUDED IN OTHER OPERATING EXPENSES)	(64,149)	
	(531,990)	

The total cash outflow for leases in 2019 was TZS 4,414 million.

24. INTANGIBLE ASSETS

	2019 TZS'000	2018 TZS'000
AT 1 JANUARY	1,414,320	542,669
ADDITIONS	461,433	1,224,001
AMORTISATION CHARGE	(452,195)	(352,350)
AT 31 DECEMBER	1,423,558	1,414,320
COST	6,330,312	5,868,879
ACCUMULATED AMORTIZATION	(4,906,754)	(4,454,559)
NET BOOK VALUE	1,423,558	1,414,320

No intangible asset has been pledged as collateral.

25. BALANCES DUE TO OTHER BANKS

	2019 TZS'000	2018 TZS'000
BORROWINGS FROM FOREIGN BANKS	61,903,690	31,307,474
CURRENT	61,903,690	31,307,474

26. DEPOSITS FROM CUSTOMERS

	2019 TZS'000	2018 TZS'000
CURRENT ACCOUNTS	191,850,347	165,117,770
TIME DEPOSITS	136,845,588	107,051,967
SAVINGS DEPOSITS	52,353,003	45,054,024
OTHERS	8,373,309	16,014,010
	389,422,247	333,237,771
CURRENT	318,993,352	333,124,131
NON-CURRENT	70,428,895	113,640
	389,422,247	333,237,771

27. LONG TERM BORROWINGS

	2019 TZS'000	2018 TZS'000
TANZANIA MORTGAGE REFINANCE COMPANY LIMITED (I)	10,750,000	10,750,000
EUROPEAN INVESTMENT BANK (II)	2,395,205	5,668,613
AGENCE FRANCAIS DE DEVELOPMENT (III)	4,596,000	4,598,000
INTEREST ACCRUED	28,323	80,970
	17,769,528	21,097,583
CURRENT	15,031,145	7,690,141
NON-CURRENT	2,738,383	13,407,442
	17,769,528	21,097,583

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

	2019 TZS'000	2018 TZS'000
AT 1 JANUARY	21,097,583	24,636,340
INTEREST EXPENSE	1,425,216	435,241
FOREIGN EXCHANGE TRANSLATION LOSSES	20,030	88,774
REPAYMENTS	(4,773,301)	(4,062,772)
AT 31 DECEMBER	17,769,528	21,097,583

(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%.

As at 31 December 2019, BANK OF AFRICA was in breach of two covenants for the AFD loan that is the non-performing loan ratio and the cost to income ratio. The loan has been classified to current liability.

28. OTHER LIABILITIES

	2019 TZS'000	2018 TZS'000
BANK DRAFTS PAYABLE	12,000	10,510
STATUTORY LIABILITIES	1,257,028	1,035,767
DEFERRED FEES	3,855,971	3,394,210
ACCRUALS AND OTHER PROVISIONS	5,413,862	5,767,175
	10,538,861	10,207,662

29. 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.

	2019			2018		
	INFLOW TZS'000	OUTFLOW TZS'000	ASSET TZS'000	INFLOW TZS'000	OUTFLOW TZS'000	ASSET TZS'000
FORWARD EXCHANGE CONTRACTS	19,203,898	(19,220,366)	(16,468)	25,018,293	(25,467,134)	(448,841)

30. 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:

	2019 TZS'000	2018 TZS'000
AT 1 JANUARY	(8,063,432)	(4,273,943)
CREDITED TO EQUITY	(33,663)	(1,502,814)
CREDITED TO PROFIT OR LOSS (NOTE 13)	(4,160,768)	(2,286,675)
AT 31 DECEMBER	(12,257,863)	(8,063,432)

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 2019				
DEFERRED TAX ASSET:				
ACCELERATED TAX ALLOWANCES	263,545	67,270		330,815
REVALUATIONS	546,995		(33,663)	513,332
TAX LOSSES	(293,138)	(3,978,640)		(4,271,778)
OTHER TIMING DIFFERENCES	(8,580,834)	(249,398)		(8,830,232)
	(8,063,432)	(4,160,768)	(33,663)	(12,257,864)
31 DECEMBER 2018				
DEFERRED TAX ASSET:				
ACCELERATED TAX ALLOWANCES	64,239	199,306		263,545
REVALUATION			546,995	546,995
TAX LOSSES		(293,138)		(293,138)
OTHER TIMING DIFFERENCES	(4,338,182)	(2,192,843)	(2,049,809)	(8,580,834)
	(4,273,943)	(2,286,675)	(1,502,814)	(8,063,432)

31. SHARE CAPITAL

Authorised

	AUTHORISED NO. OF SHARES	NOMINAL VALUE PER SHARE TZS'000	TOTAL TZS'000
AS AT 31 DECEMBER 2019			
ORDINARY SHARE CAPITAL	70,000	1,000	70,000,000
AS AT 31 DECEMBER 2018			
ORDINARY SHARE CAPITAL	70,000	1,000	70,000,000

Issued, called up and fully paid

	2019 TZS'000	2018 TZS'000
ISSUED, CALLED UP AND FULLY PAID		
AT 1 JANUARY	**37,021,000**	**37,021,000**
ISSUED DURING THE YEAR	**13,479,000**	
AT 31 DECEMBER	**50,500,000**	**37,021,000**

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

	2019 %	2018 %
AT THE END OF THE REPORTING PERIOD, THE SHAREHOLDING OF THE BANK WAS AS FOLLOWS:		
BOA GROUP S.A	49.05	30.49
BIO-BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES	11.93	16.27
BANK OF AFRICA - KENYA	11.51	15.70
BOA WEST AFRICA	10.66	14.54
AFH-OCEAN INDIEN	10.52	14.35
TANZANIA DEVELOPMENT FINANCE LIMITED (TDFL)	3.83	5.22
AGORA	2.38	3.25
BANQUE DE CREDIT DE BUJUMBURA	0.12	0.18
	100	100

32. CASH AND CASH EQUIVALENTS

	2019 TZS'000	2018 TZS'000
CASH AND BALANCES WITH BANK OF TANZANIA (NOTE 15)	71,198,946	46,085,201
LESS: STATUTORY MINIMUM RESERVE (SMR)	(24,856,424)	(23,398,719)
	46,342,522	22,686,482
BALANCES DUE FROM OTHER BANKS	83,938,830	58,173,243
	130,281,352	80,859,725

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.

33. 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.

	2019 TZS'000	2018 TZS'000
CONTINGENT LIABILITIES		
OUTSTANDING LETTERS OF CREDIT (FOREIGN CURRENCY)	8,863,332	4,525,716
OUTSTANDING GUARANTEES AND INDEMNITIES:		
- FOREIGN CURRENCY	8,544,955	20,447,800
- LOCAL CURRENCY	42,212,433	44,550,119
	59,620,720	69,523,635

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.

OTHER COMMITMENTS	2019 TZS'000	2018 TZS'000
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMIT-MENTS TO LEND	8,967,002	7,293,833

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 2019, the Bank had capital commitments of TZS 84 million (2018: TZS 8,640 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.

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 2019, the Bank has on-going matters with Tanzania Revenue Authority (TRA) as at 31 December 2019. The matters are at Tax Revenue Appeal board. The exposure involved is to the tune of TZS 6 billion.

34. RELATED PARTY TRANSACTIONS AND BALANCES

The shareholders of the Bank are disclosed in note 31. 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

	2019 TZS'000	2018 TZS'000
AT 1 JANUARY	**2,247,533**	**1,697,397**
LOANS ISSUED DURING THE YEAR	849,537	1,212,660
LOAN REPAYMENTS DURING THE YEAR	(1,458,808)	(662,524)
AT 31 DECEMBER	1,638,262	2,247,533
INTEREST INCOME EARNED	132,631	138,073

(b) Deposits

	2019 TZS'000	2018 TZS'000
DEPOSITS HELD AT 31 DECEMBER	352,503	237,240
INTEREST EXPENSE	(10,321)	(7,071)

(c) Balances/transactions with Group banks

	2019 TZS'000	2018 TZS'000
BALANCES DUE FROM GROUP BANKS	30,230,899	2,705,353
DEPOSITS FROM GROUP BANKS	61,903,690	11,660,472
INTEREST EXPENSE INCURRED	(1,468,643)	(2,029,821)
OPERATING EXPENSES PAID TO GROUP BANKS	(2,590,544)	(1,798,607)
GUARANTEE FEES EXPENSE PAID TO GROUP BANKS	(263,048)	(471,941)

(d) Key management compensation

	2019 TZS'000	2018 TZS'000
SALARIES AND OTHER SHORT TERM EMPLOYEE BENEFITS	2,033,079	1,956,850

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

Fees and other emoluments paid to directors of the Bank during the year are as follows:

	2019 TZS'000	2018 TZS'000
EMOLUMENTS OF DIRECTORS IN RESPECTS OF SERVICES RENDERED (EXECUTIVE)	594,246	568,712
EMOLUMENTS OF DIRECTORS IN RESPECTS OF SERVICES RENDERED (NON-EXECUTIVE)	209,134	180,136
	803,380	748,848

35. EVENTS AFTER PERIOD END

Its is envisioned that the COVID-19 pandemic will most likely have an impact on the economy and as a result the ECL provisions relating to forward looking information will be impacted. The bank is however not able to produce a reliable estimate of this impact at this point.

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.

36. ASSETS PLEDGED AS SECURITY

As at 31 December 2019, the bank had pledged treasury bonds of TZS 22,537 million and treasury bill securities of TZS 4,963 million (31 December 2018: treasury bond of TZS 9,066 million and treasury bill of TZS 500 million).

37. 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.

38. COMPARATIVES

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