



**KCB**

**BANK**

KCB Bank Tanzania Limited

# INFORMATION MEMORANDUM

IN RESPECT OF UNRATED, UNSECURED, SUBORDINATED AND  
NON-CUMULATIVE MUDARABA SUKUK ("FURSA SUKUK") OF TANZANIAN  
SHILLINGS TEN BILLION (TZS 10,000,000,000) WITH A GREEN SHOE OPTION  
OF TANZANIAN SHILLINGS FIVE BILLION (TZS 5,000,000,000)

9<sup>TH</sup> OF NOVEMBER 2022

[www.kcbbank.co.tz](http://www.kcbbank.co.tz)





## CAUTION STATEMENT

This Information Memorandum has been prepared in compliance with the Capital Markets and Securities Act, Cap 79, Companies Act, Cap 212 (Act No.12 of 2002) of the Laws of United Republic of Tanzania, Capital Markets and Securities (Guideline for the issuance of Corporate Bonds, Municipal Bonds and Commercial Papers), 2019 and the Dar es Salaam Stock Exchange PLC. Rules, 2022.

A copy of this Information Memorandum has been delivered to the Capital Markets and Securities Authority (CMSA) for approval and to the Registrar of Companies for registration. Approval of this Information Memorandum by the CMSA should not be taken as an indication of the merits of KCB Bank Tanzania Limited or its application. The securities offered in this Information Memorandum have not been approved or disapproved by the CMSA.

Prospective investors should carefully consider the matters set forth under the caption “**Risk Factors**” under section 7 of this Information Memorandum. If you are in doubt about the contents of this Information Memorandum, you should consult your Investment Advisor, Stockbroker, Lawyer, Banker or any other Financial Consultant.

## ADVICE TO INVESTORS

INVESTORS ARE STRONGLY ADVISED IN THEIR OWN INTEREST TO CAREFULLY READ THE CONTENTS OF THIS INFORMATION MEMORANDUM, ESPECIALLY THE RISK FACTORS GIVEN IN SECTION 7 OF THIS INFORMATION MEMORANDUM BEFORE MAKING ANY INVESTMENT DECISION.

### KCB BANK TANZANIA LIMITED SUKUK INFORMATION MEMORANDUM

<b>DATE OF INCORPORATION KCB BANK TANZANIA LTD:</b> 17/09/2008	<b>TELEPHONE NO.:</b> +255 766 509 640
<b>PLACE OF INCORPORATION:</b> DAR ES SALAAM	<b>CONTACT PERSON:</b> AMOUR MURO, HEAD - SAHL BANKING
<b>REGISTRATION NO:</b> 31740	<b>WEBSITE:</b> <a href="https://tz.kcbgroup.com/kcb-sahl-tz/fursa-sukuk">https://tz.kcbgroup.com/kcb-sahl-tz/fursa-sukuk</a>
<b>REGISTERED OFFICE ADDRESS:</b> P.O. BOX 804, HARAMBEE PLAZA BUILDING, ALI HASSAN MWINYI ROAD AND KAUNDA DRIVE, DAR ES SALAAM, TANZANIA	<b>EMAIL ADDRESS:</b> Fursa.sukuk@tz.kcbbankgroup.com

THE ISSUE SIZE OF UNRATED, UNSECURED, SUBORDINATED AND NON-CUMULATIVE MUDARABA SUKUK ("FURSA SUKUK") IS TZS 10,000,000,000, OUT OF WHICH ALL -ONE HUNDRED PERCENT (100%)- ARE BEING OFFERED TO THE GENERAL PUBLIC BY WAY OF INITIAL PUBLIC OFFER (IPO) THROUGH THIS INFORMATION MEMORANDUM

**EXPECTED RATE OF RETURN:** 8.75% of the Principal Amount

**LISTING VENUE:** DAR ES SALAM STOCK EXCHANGE PLC

DATE OF PUBLIC SUBSCRIPTION: 09TH NOVEMBER 2022 TO 05TH DECEMBER 2022 DURING BANKING HOURS



For investor education, please visit <https://tz.kcbgroup.com/kcb-sahl-tz/fursa-sukuk> and read the IPO Investor Guide placed at web link <https://tz.kcbgroup.com/kcb-sahl-tz/fursa-sukuk>

Information Memorandum and Subscription Forms can be downloaded from the following websites

<https://tz.kcbgroup.com/kcb-sahl-tz/fursa-sukuk>, <https://www.fimco.co.tz>, <https://www.vertex.co.tz>

#### FOR FURTHER QUERIES YOU MAY CONTACT:

<b>Amour Muro</b> +255 766 509 640 E: amuro@tz.kcbbankgroup.com	<b>Ivan Tarimo</b> +255 767 211 690 E: ivan@fimco.co.tz	<b>Ahmed Nganya</b> +255 759 175 349 E: ahmed@vertex.co.tz
---	---	--

DATE OF PUBLICATION OF THIS INFORMATION MEMORANDUM: 09TH NOVEMBER 2022

## Important Notice

This Information Memorandum (together with any supplementary information memorandum and information incorporated herein by reference, "the Information Memorandum") contains summary information provided by KCB Bank Tanzania Limited (the "Issuer") in connection with an Unrated, Unsecured, Subordinated and Non-Cumulative Mudaraba Sukuk ("Fursa Sukuk") under which the Issuer may issue the Sukuk up to an amount of Tanzanian Shillings Ten Billion (TZS 10,000,000,000/-). In case of oversubscription the Issuer has an option to issue up to an additional Tanzanian Shillings Five Billion (TZS 5,000,000,000/-).

The Sukuk will be offered in denominations of Tanzanian Shillings One Hundred Thousand (TZS 100,000/-) or thereof to the investors subject to a minimum investment amount of Tanzanian Shillings Five Hundred Thousand (TZS 500,000/-).

The register of Sukuk holders will be maintained by CRDB Bank PLC who are the Registrar and Transfer Agent.

The Sukuk is issued in accordance with AAOIFI Shari'ah Standard No. 17: Investment Sukuk (3/6/2 Mudaraba Sukuk).

The sale or transfer of the Sukuk by Sukuk holders will be subject to the rules and regulations of the Dar es Salaam Stock Exchange PLC (DSE) and where applicable, the prevailing Central Securities Depository Rules and the Terms and Conditions of the Sukuk. There are currently no other restrictions on the sale or transfer of Sukuk under Tanzanian law. In particular, there are no restrictions on the sale or transfer of Sukuk by or to non-residents of Tanzania.

The Sukuk has not been and will not be registered under any other securities legislation in any other country other than Tanzania.

A copy of this Information Memorandum has been filed with the Registrar of Companies in Dar es Salaam, in accordance with the requirements of the Companies Act Cap 212 (R.E) of the Laws of Tanzania.

The Sukuk to be issued shall be placed with investors and thereafter be available for secondary trading on the Dar es Salaam Stock Exchange PLC.

The Sukuk may not be offered or sold, directly or indirectly and neither this document nor any other Information Memorandum, offering circular or any Information Memorandum, form of application, advertisement, other offering material or other information relating to the Issuer or the Sukuk may be issued, distributed or published in any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations of that country or jurisdiction.



## Disclaimer Statements

This Information Memorandum should be read in its entirety. If you are in doubt about the contents of this Information Memorandum or what action you should take, you should seek advice from your investment advisor, stockbroker, lawyer, banker or any other financial consultant.

The Issuer has confirmed to the Arranger that the information contained or incorporated by reference in this Information Memorandum is true and accurate in all material respects and not misleading and that there are no other facts the omission of which makes this Information Memorandum as a whole, or any such information contained or incorporated by reference herein, misleading.

Approval of the Capital Markets and Securities Authority (the "Authority" or the "CMSA") as required under Section 131 of the CMSA Act, 1994 (the "Act") has been obtained for the Issue, circulation and publication of this Information Memorandum.

It must be distinctly understood that in giving this approval, the CMSA does not take any responsibility for the financial soundness of the issuer and any of its schemes stated herein or for the correctness of any of the statements made or opinions expressed with regards to them by the issuer in this Information Memorandum.

CMSA has not rated quality of the issue and its approval for issue, circulation and publication of information memorandum should not be construed as any commitment of the same. The public/investors should conduct their own independent due diligence and analysis regarding the quality of the issue before subscribing.

The Information Memorandum for the Unrated, Unsecured, Subordinated, Non-Cumulative Mudaraba Sukuk ("Fursa Sukuk" or "Sukuk") has been approved by Dar es Salaam Stock Exchange PLC ("DSE") in accordance with the listing requirements.

DSE has not evaluated the quality of the issue and its approval should not be considered and construed as any commitment of the same. The public/investors should conduct their own independent investigation and analysis regarding the quality of the issue before subscribing.

The contents of this Information Memorandum do not constitute an invitation to invest in Sukuk or subscribe for any securities or other financial instrument by DSE, nor should it or any part of it form the basis of, or be relied upon in any connection with any contract or commitment whatsoever of DSE.

The information in this Information Memorandum should not be construed as advice on any particular matter by DSE and must not be treated as a substitute for specific advice.

The Bank of Tanzania (BoT) has given a letter of no objection for the issuance of Sukuk by the Issuer. As a matter of policy, the BoT does not assume responsibility for the accuracy of any statements, opinions, reports or recommendations made in this Information Memorandum. Receipt of a no objection from the BoT of the Issue should not be taken as an indication of the merit of the Issuer or of the Sukuk.

## Director's Declaration

The Directors of KCB Bank Tanzania Limited, whose particulars appear in section 4.5.1 in this Information Memorandum, collectively and individually accept responsibility for the information given and certify that to the best of their knowledge and belief there are no other facts the omission of which would make any statement false or misleading, that they have made all reasonable enquiries to ascertain that this is true.

As at the date of the Information Memorandum and for a period of at least 2 years prior to that date, no Director:

(i) or any partnership in which said Director was a partner or any company of which he was an executive officer, is or has been the subject of a filing of a petition under any bankruptcy law;

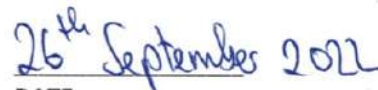
(ii) had been convicted in a criminal proceeding or been a named subject of a ruling of a court of competent jurisdiction or any governmental body, that permanently or temporarily prohibited him from acting as an investment advisor or as a director or employee of a broker or dealer, director or employee of any financial institution or engaging in any type of business practice or activity;

(iii) held any shares of the Company; or

(iv) had existing business contracts with the Company.

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
SECRETARY

  
\_\_\_\_\_  
DATE

# Managing Director's Statetment

Dear Prospective Investors,

It is with great pleasure I present to you a unique investment opportunity (Fursa Sukuk). The following document outlines an opportunity to invest in a Shari'ah Compliant Bond commonly known as Sukuk.

KCB Bank Tanzania Limited is licensed as a full-service commercial Bank incorporated in the United Republic of Tanzania under the Banking and Financial Institutions Act, 2006 in 2008 to conduct banking business in Tanzania.

The Bank has five main business divisions which are: Treasury, Corporate banking, Retail banking, Islamic banking, and Trade Finance which avail a variety of commercial banking services across Tanzania through various channels. As of 30 June 2022, the Bank had 14 branches, eight of which are in Dar es Salaam, two located in Arusha, one each in Moshi, Mwanza, Morogoro and Zanzibar, 15 ATMs, 291 Agents, and 469 POS active merchants across the country.

In line with our vision and mission, we have an overarching strategic goal of being 'Your preferred financial solutions provider in Africa with global reach'. Effective 2020, the bank embarked on a 3-year Strategic plan covering 2020 to 2022 dubbed "The very best in customer experience, driving a digital future" that aspires the bank to grow its total assets to above TZS 1 trillion by 2022. In this endeavour, the following priority areas have been identified:-

To achieve our purpose and deliver our strategy in a way that is sustainable the Bank will focus on building strong relationships with all our stakeholders, who are the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and the planet we all inhabit. At KCB Bank Tanzania, we believe that taking care of the ecological environment is a solemn responsibility for every human being. As a corporate citizen we have embraced a culture of responsible living, with the ultimate intention of building a sustainable work environment that has minimal or nil adverse effects on the environment. KCB Bank Tanzania believes in community development as an integral part of maintaining a sustainable business growth and success whilst sustaining economically healthy society. KCB Bank engages actively in community development initiatives and programs throughout the country. Prioritized sectors are health, education, enterprise development, environment conservation and humanitarian aid. In the year 2021, the bank sponsored 118 youths through VETA (under 2jiajiri youth scholarship) in various fields, trained 304 youths on enterprise development whilst supporting construction of the two dormitories and two classrooms in Mbeya and Simiyu respectively.

The Bank is looking to issue a Sukuk ("Mudaraba Sukuk") to support its Islamic Banking Division (KCB Sahl Banking) in providing Shari'ah compliant financing to its customers including Murabaha Financing, Qardh Loans, Commodity Murabaha — Tawarruq, Service Ijarah Financing, and Diminishing Musharaka Financing. This Sukuk Issuance will be an important milestone to the bank and development of Capital Markets as it will be the first public issued Sukuk in Tanzania.

I am pleased to present this Information Memorandum which sets out information regarding KCB Tanzania operations and contains information regarding the listing of the Sukuk on the Dar es Salaam Stock Exchange PLC as well as business and financial information and investment risk factors.

It is our view that this issuance will:

- Provide KCB Sahl Banking with a new source of capital to facilitate issuing shari'ah compliant financing products;
- Develop the market of Sukuk in Tanzania and across East Africa; and
- Offer Shariah Compliant Investors such as Islamic Banks, Takaful Insurance and Other Islamic Institutions an avenue to invest their excess cash.
- Promote Financial Inclusion

Yours faithfully,



Cosmas Kimario

Managing Director





## Declaration of the Shari'ah Advisory Board

Members of Shari'ah Advisory Board whose particulars appear in section 4.6 in this Information Memorandum collectively and individually affirms that the Information Memorandum in respect of KCB Tanzania Limited Fursa Mudaraba Sukuk is Shari'ah Compliant and has been prepared on the rulings and guidelines of the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI)'s Shari'ah Standards No 17 and 21, and to the best of our knowledge.

*TWAHSEKEMANU BINNE. K... [Signature]*

**Chairman**  
**Shari'ah Advisory Board**

*19/1/2022 [Signature]*

**Date**

## Undertaking by the Head of Sahl Banking at KCB Bank Tanzania and Shari'ah Compliance Manager

**DATE:** 03rd October, 2022

We, Amour Muro and Fardus Mohammed, the Head and Shari'ah Compliance Manager of Sahl Banking respectively, hereby certify and declare that: -

1. This Information Memorandum contains all information with regards to the Issuer and the issue, which is the subject matter in the context of the issue and nothing has been concealed in this respect;
2. The information contained in this Information Memorandum is true and correct to the best of our knowledge and belief;
3. The opinions and intentions expressed herein are honestly held;
4. There are no other facts, the omission of which makes this Information Memorandum as a whole or any part thereof misleading;
5. All requirements of the Capital Markets and Securities Act, 1994, especially the section on both 'disclosure to the authority' and the 'disclosures in public offering' for the preparation of this Information Memorandum, relating to approval and disclosures have been fulfilled; and
6. No charges, fee, expenses, payments etc. have been committed to be paid to any person in relation to this public offering except for those as disclosed in subsection 5.5 of the Information Memorandum.

For and on behalf of KCB Sahl Banking.



**Amour Muro**  
**HEAD OF SAHL BANKING**



**Fardus Mohammed**  
**SHARI'AH COMPLIANCE MANAGER**



## Introductory Notes on KCB Fursa Sukuk

The words Fursa Sukuk depicts the basic purpose of the Sukuk. The word 'Fursa' means 'Opportunity'. Thus, the name 'Fursa' Sukuk has been chosen to reflect the aim of KCB Bank Tanzania Limited of providing an opportunity to all investors regardless of religious background through its newly structured Sukuk product.

This word draws its energy and exuberance from its parent brand - KCB Bank Tanzania Limited, which was the first bank in Tanzania to start offering Islamic banking services back in 2008.

# Table of Contents

List of Figures	xi
Glossary of Abbreviations and Technical Terms	xii
<b>1. Summary of the Information Memorandum</b>	<b>1</b>
1.1 Primary Business of the Issuer	1
1.2 Investment Manager	1
1.3 Salient Features of The Issue	1
<b>2. Economic Overview and Industry overview</b>	<b>4</b>
2.1 Economic Overview	4
2.1.1 Gross Domestic Product (GDP)	4
2.1.2 Inflation	4
2.1.3 Conventional Bank Interest Rates	5
2.1.4 Credit to Private Sector	5
2.1.5 Current Account	6
2.2 Conventional Banking Industry Overview	7
2.2.1 Banking Sector Assets and Liabilities	7
2.2.2 Asset Quality	8
2.2.3 Profitability	8
2.2.4 Capital Adequacy	8
2.2.5 Liquidity Adequacy	8
2.2.6 Overall Industry Performance	8
2.3 Islamic Banking Industry Overview	9
<b>3. Description of Islamic Finance</b>	<b>10</b>
3.1 Principles of Islamic Finance	10
3.2 Sukuk Issues in Africa	11
3.3 Key Benefits of Sukuk Issuances	11
3.4 Comparison of Sukuk and Conventional Bonds	11
<b>4. Issuer's Overview, History and Prospects</b>	<b>13</b>
4.1 Background & History	18
4.2 Operating Performance Highlights	18
4.3 Summary of Borrowings:	19
4.4 Shareholders and Shareholding Structure	19
4.5 Management of the Bank	20
4.5.1 Board of Directors of the Bank	20
4.5.2 Board Committees	23
4.5.3 KCB Bank Tanzania Limited Executive Management	24
4.5.4 KCB Bank Tanzania Limited Executive Management Structure	25
4.6 KCB Sahl Banking Shari'ah Board	28
4.7 KCB Sahl Banking Organization Structure	30
4.8 Employees	30
4.9 Products and Services	30
4.9.1 Saving Accounts	30
4.9.2 Consumer Finance	31
4.9.3 Transaction Accounts	32
4.9.4 Investment Accounts	32

4.10 Branches and ATM	32
4.11 Summary of Issuer's Financial Information	33
4.11.1 Statement of Profit or Loss and Other Comprehensive Income	33
4.11.2 Statement of Financial Position	34
4.11.3 Statement of Cash Flows	35
4.12 KCB Sahl Banking Financial Summary	36
4.12.1 Statement of Profit and Loss and Other Comprehensive Income and Statement of Financial Position Summary:	36
4.12.2 Key Performance Indicators KCB Bank Tanzania Limited	36
4.12.3 Key Performance Indicators KCB Sahl Banking	37
4.13 End Users, Demand for the Products and Competitors	37
<b>5. Details of the Issue and Related Information</b>	<b>38</b>
5.1 Instrument Structure:	38
5.2 Term Sheet of the Issue:	39
5.3 Parties Involved	40
5.4 Offer Timetable	43
5.5 Expenses to the Issue	43
5.6 Utilization of Proceeds	44
5.7 Investors Eligibility	44
5.8 Minimum Amount of Application and Basis of Allotment of Sukuk	44
5.9 Refund of Money to Unsuccessful Applicants	44
5.10 Issue and Credit of Sukuk	45
5.11 Transfer of Sukuk	45
5.12 Sukuk issued in preceding years	45
5.13 Redemption Value	45
5.14 Profit Equalization Reserve	45
5.15 Deduction of Zakat	45
5.16 Shari'ah Advisor to the Issue	45
5.17 CIFCA Shari'ah Board Members	46
5.17.1 Shari'ah Technical Team	46
<b>6.Shari'ah Opinion (CIFCA Certificate)</b>	<b>47</b>
<b>7. Risk Factors</b>	<b>48</b>
7.1 Risk Factors related to the Issuer:	48
7.2 Risk Factors related to the Market:	50
7.3 Risk Factors related to the Sukuk being offered:	50
7.3.1 Summary of Risk Factors related to the Sukuk Issue:	50
<b>8.Terms and Conditions of the Mudaraba Sukuk</b>	<b>52</b>
8.1 Form, Denomination, Register and Title	52
8.2 Transfers of Sukuk	52
8.3 Status	53
8.4 Mudaraba Assets	53
8.5 Periodic Distributions	53
8.6 Payments	54
8.7 Purchase of Mudaraba Sukuk and Redemption	54
8.8 Notices	54
8.9 Dissolution of the Mudaraba Sukuk	55
8.10 Events of Default	55
8.11 Governing Law and Jurisdiction	56

<b>9. General and Statutory Information</b>	<b>57</b>
9.1 Authorisation	57
9.2 Licenses	57
9.3 Summary of Material Provisions of the Memorandum and Articles of Association	57
9.3.1 Annual General Meetings	57
9.3.2 Voting Rights	57
9.3.3 Election and approval of directors	57
9.3.4 Issuance and Alteration of Share Capital	57
9.4 Significant or Material Changes	58
9.5 Acquisitions and Disposals of Material Assets	58
9.6 Material Litigation	58
9.7 Material Contracts	58
9.8 Consents	60
9.8.1 Shari'ah Opinion	60
9.8.2 Legal Opinion	60
9.8.3 Reporting Accountant's Report	60
9.9 Documents available for inspection	60
<b>10. Reporting Accountant Report</b>	<b>62</b>
<b>11. Legal Opinion</b>	<b>154</b>
Appendix 1: Wadiah Yad Dhamanah Contract	167
Appendix 2: Master Mudaraba Sukuk Agreement	169
Appendix 3: Application Form	189
Appendix 4: Pricing Supplement	196
Appendix 5: Authorised Collecting Agents	199



**List of Figures**

Figure 1: GDP Annual Growth Rate 4  
Figure 2: Annual Average Inflation Rate 4  
Figure 3: Interest rates. 5  
Figure 4 Commercial Banks Domestic Lending by Economic Activity 6  
Figure 5 Current Account. 6  
Figure 6 Banking Sector Assets 7  
Figure 7 Banking Sector Liabilities 8  
Figure 8: NPL to Gross Loans. 9  
Figure 9: Cost to Income and Net Interest Margin to Total Income Ratios 9  
Figure 10: Core Capital and Total Capital Ratios. 9  
Figure 11: ROA and ROE 9  
Figure 12: KCBT Executive Management Structure 23  
Figure 13: KCB Sahl Banking Organization Structure 28

## Glossary of Abbreviations and Technical Terms

<b>AAOIFI</b>	Accounting, Auditing Organization of Islamic Financial Institutions
<b>ALCO</b>	Asset Liability Management Committee
<b>Announcement Date</b>	Means the date whereby the results of allocation of Sukuk to Sukuk Holders is announced and marks the commencement of their investment;
<b>Applicable Laws</b>	Means any laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority which may govern the Issue, the Conditions of the Sukuk and the Sukuk issued thereunder in accordance with which the same are to be construed;
<b>Authorised Collecting Agents</b>	Means the Authorised Collecting Agents listed in Appendix 4 of this Information Memorandum
<b>Board/BOD</b>	Board of Directors of KCB Bank Tanzania Limited
<b>BoT</b>	The Bank of Tanzania
<b>CAR</b>	Capital Adequacy Ratio; the amount of risk-based capital (Tier 1 and Tier 2) as a percentage of risk-weighted assets
<b>CIFCA</b>	Means Centre for Islamic Finance, Compliance and Advice
<b>CMSA</b>	Capital Markets and Securities Authority
<b>Companies Act</b>	Means the Companies Act, 2002.
<b>CSD</b>	Central Securities Depository
<b>CSDR</b>	CSD and Registry Company Limited
<b>Conditions</b>	The terms and conditions set out under section 8 of the Information Memorandum and the Master Mudaraba Sukuk Agreement governing and regulating the Sukuk
<b>CY</b>	Calendar Year
<b>DSE</b>	Dar es Salaam Stock Exchange Public Limited Company
<b>EPS</b>	Earnings per Share
<b>FY</b>	Financial Year
<b>General / Mudaraba Pool</b>	The General Pool of funds available to the Mudarib which will be utilized for making investments and financing activities as permitted by Bank's Memorandum and Articles of Association and in compliance with the Bank of Tanzania (BoT) Circulars and Guidelines
<b>Green Shoe Option</b>	Means the right of the Issuer in case of over-subscription to issue Sukuk up to an additional Tanzanian Shillings Five Billion (TZS 5,000,000,000/-).
<b>Investment Manager</b>	KCB Sahl Banking
<b>Issue Date</b>	Issue Date means the Date of Allocation that marks the commencement of the investment which may either be (i) in the event the Sukuk are fully subscribed, or (ii) in the case of undersubscription, the date on which the entire amount of the Sukuk Issue has been fully subscribed, which shall be achieved by the Issuer by no later than fifteen (15) days from the date of closing of the subscription list for the public offering of the Sukuk
<b>KCBT</b>	KCB Bank Tanzania Limited
<b>Lead Arranger</b>	FIMCO Limited
<b>Legal Advisor</b>	CRB Africa Legal



<b>Listing Date</b>	Means the date on which the Sukuk is listed on the Dar es Salaam Stock Exchange PLC.
<b>Market Value</b>	Means the price that the buyer or seller accepts to invest into or redeem the Sukuk;
<b>Master Mudaraba Sukuk Agreement</b>	The agreement entered between the Sukuk holders and the Issuer
<b>MCR</b>	Minimum Capital Requirement as prescribed in the Banking and Financial Institutions Act, 2006);
<b>Mudarib</b>	Means an investment manager or partner in a Mudaraba who invests the investor's funds in a project or portfolio in exchange for a share of the profits
<b>Rabbul Maal</b>	Means the party in a Mudaraba who provides the capital to be invested by the Mudarib for an agreed profit sharing ratio.
<b>Receiving Bank</b>	CRDB Bank PLC (Al Barakah Banking)
<b>Registrar/Transfer Agent</b>	CRDB Bank PLC (Al Barakah Banking)
<b>Reporting Accountant</b>	KPMG Tanzania
<b>Settlement Date</b>	Means the date whereby the Sukuk proceeds are received by the Issuer and any refunds are returned to unsuccessful applicants.
<b>Shari'ah Advisor</b>	CIFCA Tanzania
<b>Sponsoring Broker</b>	Vertex International Securities Limited
<b>Subordinated Sukuk</b>	An asset-based Sukuk that when the issuer goes into liquidation, the holders will have a rank below that of other liabilities
<b>Sukuk</b>	Unrated, unsecured, subordinated, non-cumulative Mudaraba Sukuk issued to finance KCB Sahl Banking asset portfolio.
<b>Sukuk Depository Receipt</b>	The document issued to a Sukuk holder evidencing a portion of ownership of the Sukuk.
<b>Sukuk Holders</b>	Sukuk Holders mean the persons shown as holders of Sukuk in the records of the Issuer's Sukuk Registrar/Transfer Agent.
<b>Sukuk Issue</b>	Issuance of Sukuk of Tanzanian Shillings Ten Billion (TZS 10,000,000,000/-)
<b>Sukuk Price</b>	The issue price to be paid by the Sukuk holders in subscribing for the Sukuk.
<b>Sukuk Proceeds</b>	The amount received by KCB Bank Tanzania Limited after the subscription of the Sukuk by the Sukuk Holders
<b>Tanzanian Shillings or TZS</b>	means the legal currency of Tanzania.
<b>The Bank or Mudarib /Issuer</b>	KCB Bank Tanzania Limited
<b>Tier 1 Capital</b>	means core capital as defined in the Banking and Financial Institutions Act, 2006;
<b>Tier 2 Capital</b>	means supplementary capital as defined in the Banking and Financial Institutions Act, 2006;
<b>Transaction Documents</b>	<ol style="list-style-type: none"> <li>1) Information Memorandum</li> <li>2) Wadiah Yad Dhamanah Contract</li> <li>3) The Master Mudaraba Agreement (MMSA)</li> <li>4) Application Form</li> <li>5) Pricing Supplement</li> </ol>
<b>TRWA and OBSE</b>	means total risk weighted assets and off-balance sheet exposures as defined in the Banking and Financial Institutions Act, 2006;

---

Summary of the  
Information  
Memorandum



## 1.1 Primary Business of the Issuer

The Issuer is licensed as a full-service commercial Bank incorporated in the United Republic of Tanzania under the Banking and Financial Institutions Act, 2006 to conduct banking business in Tanzania. The Bank is regulated by the Bank of Tanzania and is subject to the provisions of the Banking and Financial Institutions Act, 2006 and its regulations. The Bank provides banking and other related services permitted under the Banking and Financial Institutions Act, 2006. The Bank offers a full range of services in corporate, commercial, consumer, retail banking and investment banking activities.

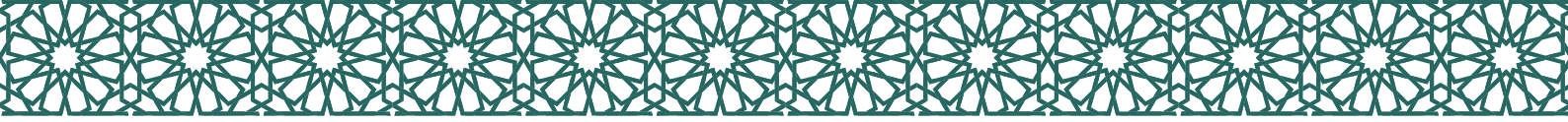
## 1.2 Investment Manager

The proceeds from the issue will be managed by KCB Sahl Banking which is an Islamic Window offering Shari'ah compliant banking services such as customer deposits, fixed deposit Mudaraba accounts, financing products etc. It is an Islamic Window under KCB Bank Tanzania Limited which is licensed by the Central Bank of Tanzania (BoT).

## 1.3 Salient Features of The Issue

Issue Size	Tanzanian Shillings Ten Billion (TZS 10,000,000,000/-)
Greenshoe Option	In case of oversubscription, the Issuer has a right to raise up to an additional Tanzanian Shillings Five Billion (TZS 5,000,000,000/-)
Purpose	The purpose is to finance KCB Sahl Banking asset portfolio
Utilization of Proceeds	<p>The funds so raised will be utilized in KCB Sahl Banking financing and investment activities in line with its business strategy.</p> <p>The proceeds of the Issue shall be commingled with other Shari'ah compliant funds and shall be invested in the General Pool of KCB Sahl banking under Mudaraba contract with Sukuk holders who will be owners of Sukuk funds (Rabbul Maal) and KCB Sahl banking who will be the Investment Manager.</p>
Form and Denomination	The Sukuk will be offered in denominations of Tanzanian Shillings One Hundred Thousand (TZS 100,000/-) or multiples thereof to the investors.
Minimum Investment	Tanzanian Shillings Five Hundred Thousand (TZS 500,000/-) per Investor.

Issue Date	<p>(i) the Date of Allocation of the public offering of the Sukuk in the event the Sukuk are fully subscribed</p> <p>(ii) in the case of undersubscription, the date on which the entire amount of the Sukuk Issue has been fully subscribed, which shall be achieved by the Issuer by no later than 15 (fifteen) days from the date of closing of the subscription list for the public offering of the Sukuk</p>
Tenure	Three years maturity
Principal Redemptions	Applicable at the end of Sukuk maturity
Indicative Profit Rate	The expected profit rate shall be 8.75% per annum
Profit Payment Frequency	On quarterly basis (after each three months)
Issue Price	Par Value
Security	The Sukuk will be unsecured i.e., an asset-based Sukuk transaction that provides no recourse against the underlying originator but provides full recourse against the assets themselves to the extent of the Sukuk holding of the investor.
Subordinated Sukuk	A type of Sukuk structure which give Sukuk holders residual claim over the assets financed by their funds. This claim ranks after the claims of other creditors and depositors (Unrestricted Profit-Sharing Investment Accounts (UPSIA)) with the bank.
Listing	Dar es Salaam Stock Exchange PLC (DSE)
Entity Rating	Unrated
Instrument Rating	Unrated
Subscription Date	09 <sup>th</sup> November 2022 to 05 <sup>th</sup> December 2022 (during banking hours) (both days inclusive)
Risk Factors	For details, please refer to Part 7 of the Information Memorandum
Shari'ah Advisor	Centre for Islamic Finance, Compliance and Advise (CIFCA)
Shari'ah Compliance Manager	Fardus Mohammed Shari'ah Compliance Manager KCB Sahl Banking Harambee Plaza Building, Ali Hassan Mwinyi Road and Kaunda Drive, P.O. Box 804 Dar es Salaam
Lead Arranger	FIMCO Limited
Transferability	The Sukuk will be inducted into the DSE, transfer shall be made in accordance with the Capital Markets and Securities Act, 1994 and



	relevant Regulations and Circulars as well as according to AAOIFI Standard No 21 the Mudarib shall redeem all Sukuk at market value during its maturity.
Governing Law	The Sukuk shall be subject to the laws of The United Republic of Tanzania.

---

Economic  
Overview and  
Industry  
overview

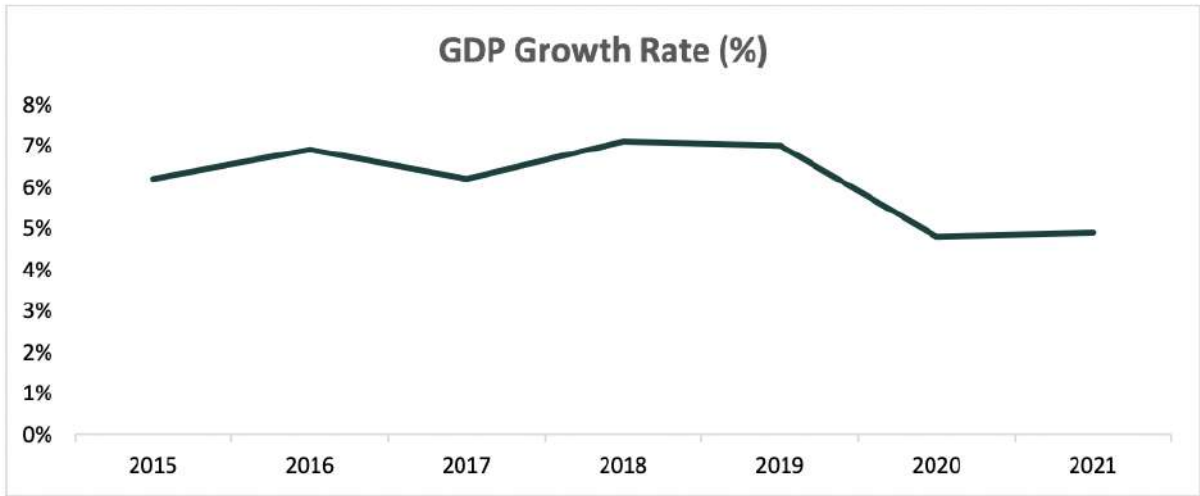
2

## 2.1 Economic Overview

### 2.1.1 Gross Domestic Product (GDP)

During 2021, Tanzania Economy grew by 4.9% in comparison to 4.8% in the previous year indicating that the economy is recovering from the adverse effects of COVID-19 pandemic. The main economic drivers were Arts and Entertainment which increased by 19.4%, electricity supply increased by 10.0%, Mining increased by 9.6% and information and communication increased by 9.1%.

Figure 1: GDP Annual Growth Rate

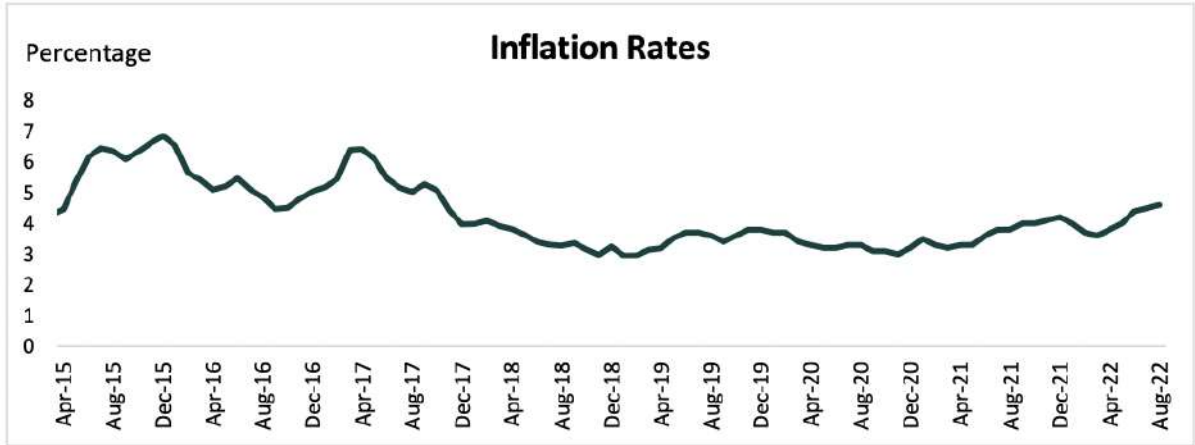


Source: National Bureau of Statistics (NBS)

### 2.1.2 Inflation

According to the National Bureau of Statistics (“NBS”), the average headline inflation of Tanzania stood at 4.6% in August 2022 which is slightly higher compared to 3.8% in August 2021.

Figure 2: Annual Average Inflation Rate



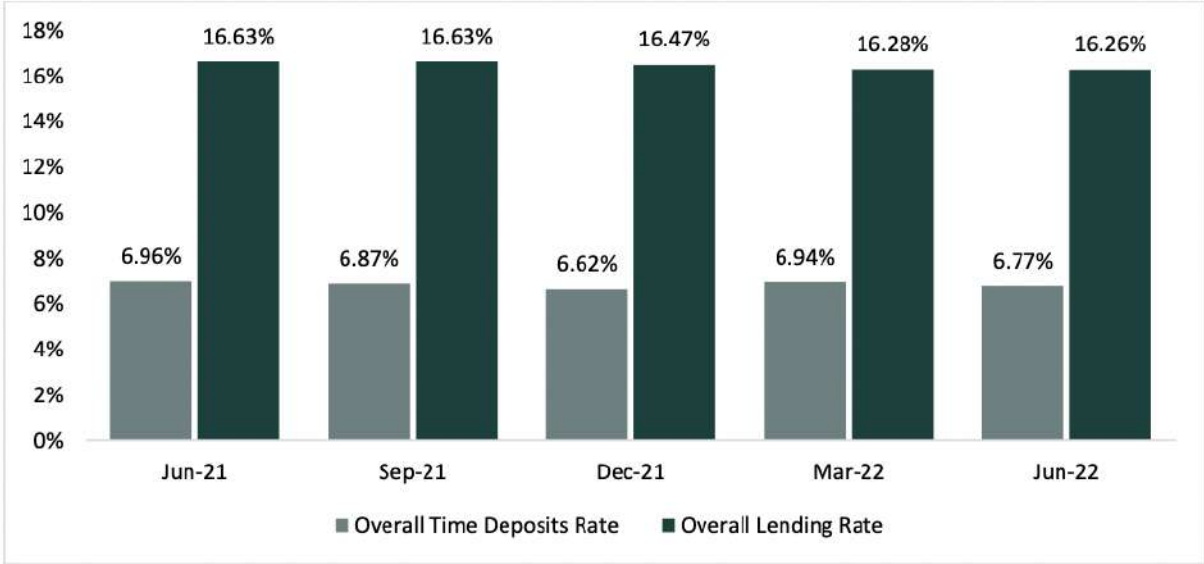
Source: National Bureau of Statistics (NBS)

### 2.1.3 Conventional Bank Interest Rates

Interest rates charged on loans by banks have slowly started to respond to the expansionary monetary policies and measures imposed by the government. This is evidenced by the overall lending rates declining to 16.26% in June 2022 compared to 16.28% in the previous quarter (March 2022) and 16.63% from corresponding quarter in 2021. Some of the monetary measures adopted by the government to lower interest rates includes reduction of statutory minimum reserve requirement (SMR) to banks extending credit to agriculture at interest rate not exceeding 10% per annum and introduction of special fund at BoT amounting to TZS 1 trillion available to banks and other financial institutions for on-lending to private sector with the requirement to charge interest not exceeding 10% per annum to the private sector. Consequently, some of the banks have begun reducing the interest rates to below 10% per annum especially on agricultural loans.

The overall time deposit rate offered by banks decreased to 6.77% from 6.94% in the preceding quarter.

Figure 3: Interest rates



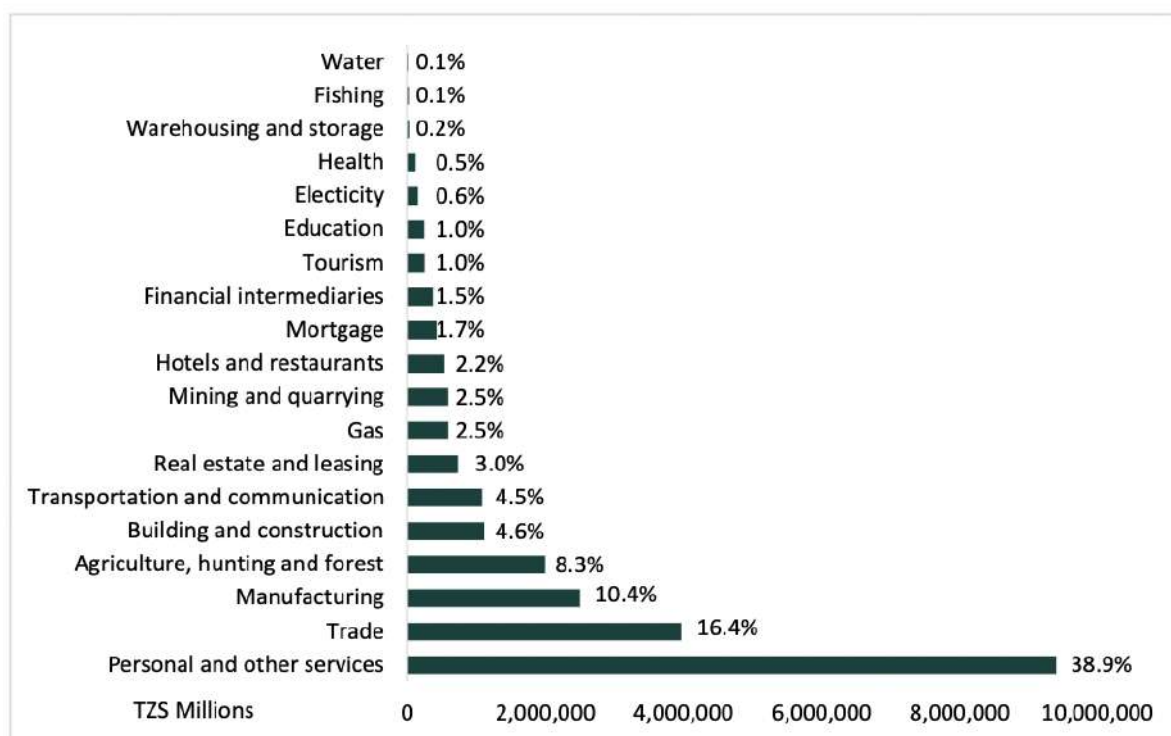
Source: Bank of Tanzania (BoT), Quarterly Economic Bulletin (June 2021 – June 2022)

### 2.1.4 Credit to Private Sector

Credit to private sector grew by 19.4% in the quarter ending June 2022 compared to 3.6% growth recorded in the corresponding quarter in 2021. This was a result of improving business conditions from the adverse effects of COVID-19, expansionary monetary and fiscal policies adopted by the government to boost economy recovery. Most of the credit to private sector were Personal Loans, which had a share of 38.9% of the commercial banks domestic lending.



Figure 4 Commercial Banks Domestic Lending by Economic Activity

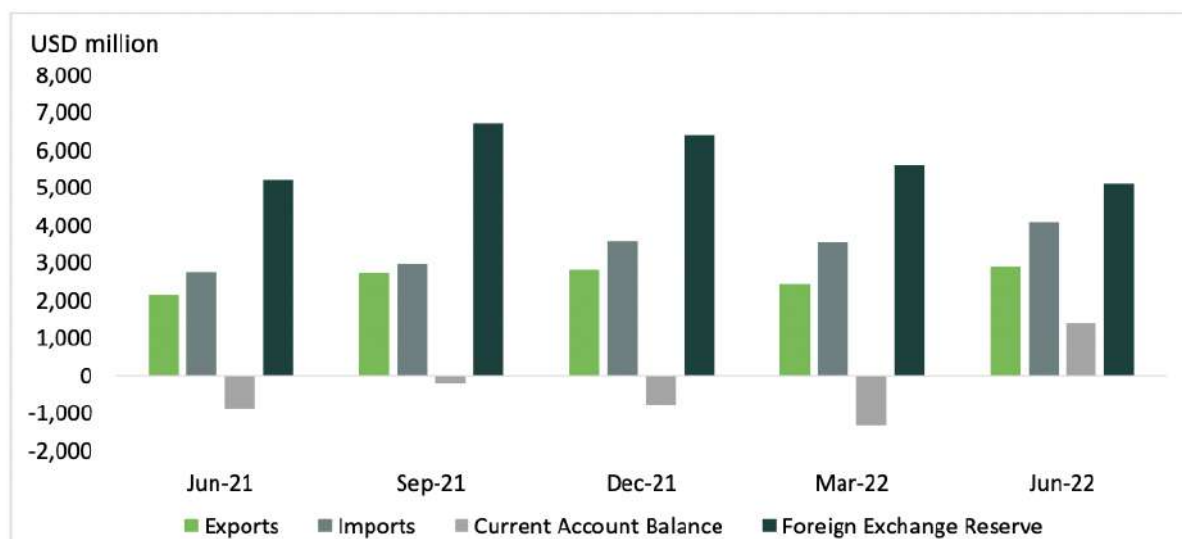


Source: Bank of Tanzania (BoT), Quarterly Economic Bulletin June 2022

## 2.1.5 Current Account

The Current Account recorded a deficit of USD 1,390.5 Million in the Quarter ending June 2022 compared to a deficit of USD 796.2 Million in the Quarter ending June 2021. The imports bill, led by white petroleum products, increased, offsetting the rise in exports. Foreign exchange reserves amounted to USD 5,110.3 million at the end of June, which were sufficient to cover about 4.6 months of imports. This import cover was above the country target of at least 4 months, EAC convergence criteria of at least 4.5 months but less than SADC benchmark of at least 6 months.

Figure 5 Current Account



Source: Bank of Tanzania, Quarterly Economic Bulletin December (June 2021 – June 2022)

## 2.2 Conventional Banking Industry Overview

Tanzania's banking sector comprises of Commercial Banks, Community Banks, Development Banks and Microfinance Institutions. The country has 46 banks, 2 Development Banks, 5 Community Banks, 2021.

### Composition of Tanzania Banking Sector

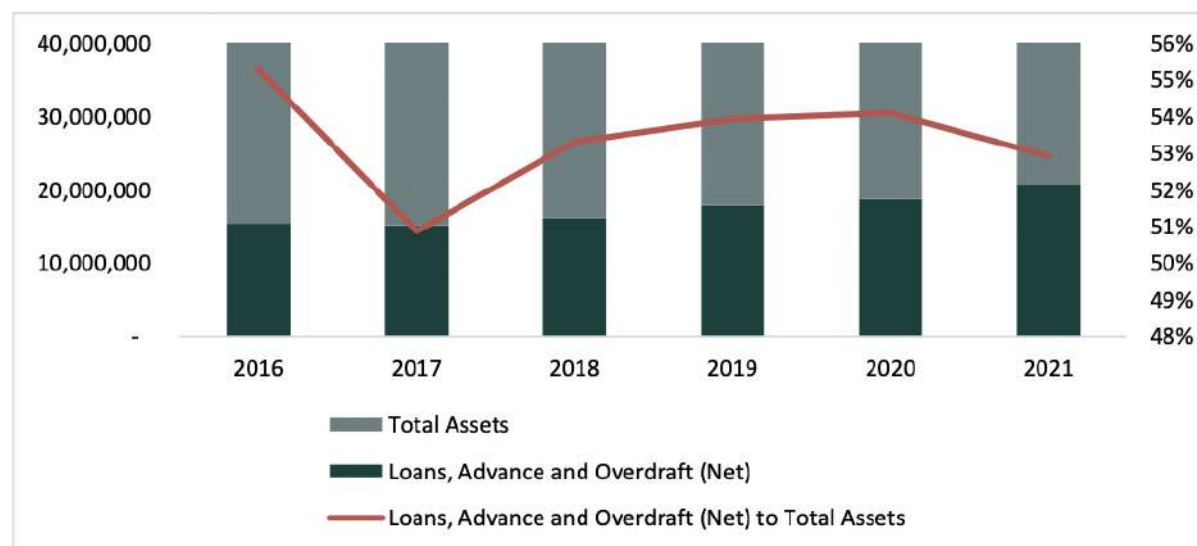
Category	2016	2017	2018	2019	2020	2021
Commercial Banks	38	38	40	38	35	34
Development Banks	2	2	2	2	2	2
Microfinance Banks	4	5	5	5	4	5
Community Banks	12	11	6	6	5	5
Other Financial Institutions	3	3	0	0	0	0
<b>Total</b>	<b>59</b>	<b>59</b>	<b>53</b>	<b>51</b>	<b>46</b>	<b>46</b>

Source: Bank of Tanzania

### 2.2.1 Banking Sector Assets and Liabilities

Banking Total Assets increased by 13.42% from TZS 34.69 trillion in 2020 to TZS 39.35 trillion in 2021. Loans, Advances and Overdrafts had the largest share of 52.92% of the Total Assets.

Figure 6 Banking Sector Assets



Source: Bank of Tanzania

Banking Total Liabilities increased by 13.25% from TZS 29.27 trillion in 2020 to TZS 33.15 trillion in 2021. Total Deposits had the largest share of 85.98% of the Total Liabilities.

Figure 7 Banking Sector Liabilities



Source: Bank of Tanzania

## 2.2.2 Asset Quality

According to BoT, the level of Non-performing Loans (“NPLs”) declined to 8.50% as of 31 December 2021 from 9.42% as of 31 December 2020. The improvement was mainly due to increase of recovery efforts by the financial institutions and measures taken by the Bank of Tanzania to reduce the negative effects of COVID-19. Despite the improvement, the level of NPLs for 2021 was above the minimum regulatory threshold of 5%. **See Figure 8.**

## 2.2.3 Profitability

Despite the adverse effects of COVID-19, the sector remained resilient recording Net Income of TZS 666.434 billion for the year ended 31 December 2021 from TZS 397.922 billion recorded in 2020 which was an increase by 67.48%. **See Figure 9.**

## 2.2.4 Capital Adequacy

According to the Bank of Tanzania (“BoT”), the banking sector remains adequately capitalized as exhibited by core and total capital adequacy ratios 19.50% and 20.20% respectively as at 31 December 2021 above the minimum regulatory requirement of 12.50% and 14.50% for core and total capital. **See Figure 10.**

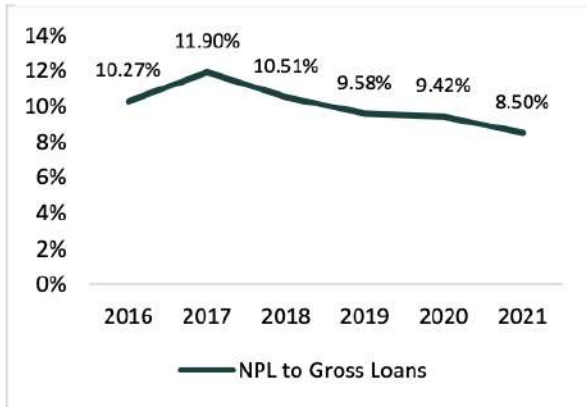
## 2.2.5 Liquidity Adequacy

The sector continued to maintain adequate levels of liquidity to meet maturing short-term obligations. The ratio of liquid assets to demand liabilities slightly declined to 29.40% as at 31 December 2021 from 30.70% recorded in 2020, the ratio was above the minimum regulatory requirement of 20%.

## 2.2.6 Overall Industry Performance

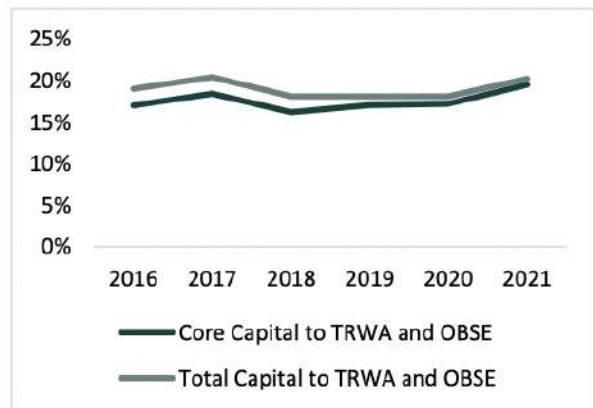
Performance of the banking industry over the past few years has been robust as indicated by considerable growth in asset base, deposits, advances accompanied by sound financial indicators. Some of the key performance highlights of the banking industry are depicted in the charts below:

Figure 8: NPL to Gross Loans



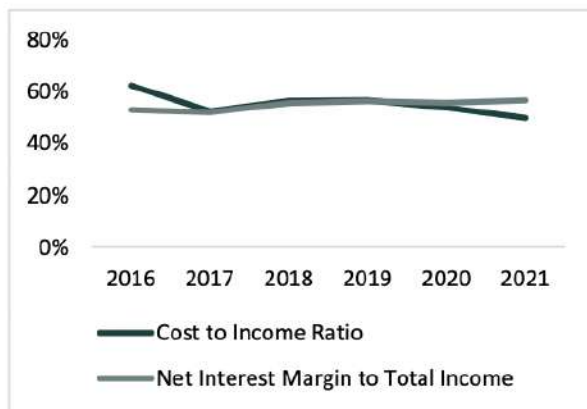
Source: Bank of Tanzania

Figure 10: Core Capital and Total Capital Ratios



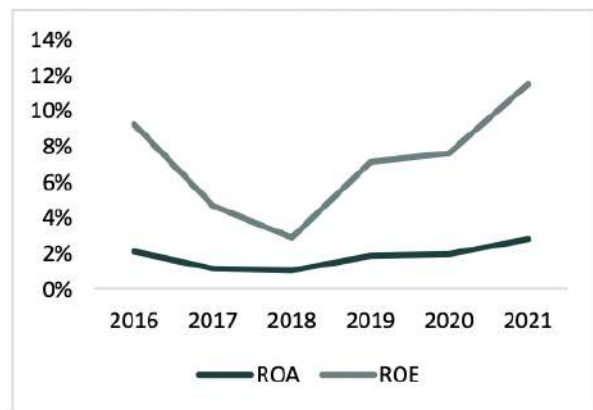
Source: Bank of Tanzania

Figure 9: Cost to Income and Net Interest Margin to Total Income Ratios



Source: Bank of Tanzania

Figure 11: ROA and ROE



Source: Bank of Tanzania

## 2.3 Islamic Banking Industry Overview

The network of Islamic banking industry consists of five (5) Islamic banking institutions; 1 fully fledged Islamic Bank (Amana Bank) and four (4) conventional banks having Islamic banking branches and Islamic Windows namely; KCB Bank, PBZ Bank, NBC Bank and CRDB Bank.


Some of the services provided by the Banks include: Shari'ah Compliant Savings Accounts, Shari'ah Compliant Current Accounts, Murabaha Financing, Ijarah Financing, Zakat Services, Investment Products such as Musharaka and Mudaraba.

Islamic Assets and Deposits are estimated to be TZS 326.77 billion and TZS 541.15 billion respectively as of 31st December 2020, which attributed to 1.55% and 2.35% of Total Commercial Banks Loan (TZS 21.064 trillion) and Total Commercial Banks Deposits (TZS 23.069 trillion) respectively.

---

Description of  
Islamic Finance

3



Islamic finance is a type of financing & investing that complies with Shari'ah (Islamic Law). The concept can also refer to the investments that are permissible under Shari'ah. "Shari'ah" is an Islamic religious law that governs not only religious rituals but also aspects of day-to-day life in Islam. Shari'ah, literally translated, means "the way."

The common practices of Islamic finance and banking are based on the foundation of Islamic Economy. The establishment of formal Islamic finance occurred in the 20th century. Nowadays, the Islamic finance sector is growing at CAGR of 15%-25% per year, while Islamic financial institutions oversee over USD 2.7 trillion in assets in 2021. Islamic banking has a 6% share in global banking assets. Global Sukuk outstanding value stood at USD 767 billion in 2021, as per industry sources. As global economies recover over the next five years, Islamic banking assets are projected to reach USD 3.7 trillion by 2024. Islamic banking is the largest sector in the Islamic finance industry, contributing to 69%, or USD 1.992 trillion, of the industry's assets. However, there are various other segments of Islamic Finance emerged as part of overall Islamic Financial Industry such as Sukuk market, Islamic Mutual Funds, Islamic Money Markets, Islamic Insurance, Islamic Microfinance institutions and Mudaraba companies, Islamic Saccos etc.

## 3.1 Principles of Islamic Finance

Islamic finance strictly complies with Shari'ah financial transaction laws. Contemporary Islamic finance is based on a number of prohibitions that are not always illegal in the countries where Islamic financial institutions are operating:

### **(i) Prohibition on Paying or charging interest**

Islam considers lending with interest payments as an exploitative practice that favours the lender at the expense of the borrower. According to Shari'ah law, interest is usury (Riba), which is strictly prohibited. The Riba can be defined as 'Anything over and above the loan transaction is Riba whether monetary or non-monetary that means loans should always be at zero percentage'.

### **(ii) Prohibition on Investing in businesses involved in prohibited activities**

Some activities, such as producing and selling alcohol or pork, are prohibited in Islam. The activities are considered haram or forbidden. Therefore, investing in such activities is likewise forbidden.

### **(iii) Prohibition on Speculation (Maysir)**

Shari'ah strictly prohibits any form of speculation or gambling, which is called Maysir. Thus, Islamic financial institutions cannot be involved in contracts where the ownership of goods depends on an uncertain event in the future.

### **(iv) Prohibition on Excessive Uncertainty and Risks (Gharar)**

The rules of Islamic finance ban participation in contracts with excessive risk and/or uncertainty. The term Gharar measures the legitimacy of risk or uncertainty in investments. Gharar is observed with derivative contracts and short-selling, which are forbidden in Islamic finance.

In addition to the above prohibitions, Islamic finance is based on two other crucial principles:

i) Material finality of the transaction: Each transaction must be related to a real underlying economic transaction.

(ii) Profit/loss sharing: Parties entering into the contracts in Islamic finance share profit/loss and risks associated with the transaction. No one can benefit from the transaction more than one's share in the transaction.

## 3.2 Sukuk Issues in Africa

In Africa, the Central Bank of Gambia issued a Salam Sukuk worth 5 million Gambian Dalasi with a 90-day maturity as a treasury instrument in 2008. Since then, the Central Bank of Gambia has successfully issued over 30 Sukuks. In 2014, South Africa joined Hong Kong and the UK to become the third non-Muslim country to sell government debt that adheres to Islamic law. The USD 500 million 5.75-year sale was more than four times subscribed, with an order book of USD 2.2 billion. Other recent issuances in Africa include Senegal's CFA150 billion 10-year Sukuk, Côte d'Ivoire's CFA150 billion 7-year Sukuk and Togo's CFA150 billion 10-year Sukuk in 2016. These Sukuk were issued in local currency and subsequently listed on the regional bourse – the Bourse Régionale des Valeurs Mobilières (BRVM), which also serves Benin, Burkina Faso, Guinea-Bissau, Mali and Niger. In 2017, Nigeria launched a 100 billion Naira 7-year sovereign Sukuk on the domestic market which was 5.8 percent oversubscribed, the Sukuk fetched 105.87 billion naira in subscription from retail and institutional investors. In October and December 2018, the governments of Morocco and Nigeria issued USD 105 million and USD 327 million of Sukuk, respectively. It was an inaugural issuance from Morocco and the transaction was 3.6 times oversubscribed, according to reports. First Community Bank Limited in Kenya was the first institution to issue a privately placed Sukuk in East Africa. In Tanzania, there have been three private-placed Sukuks issued by a Microfinance, Imaan Finance Limited, in 2021-2022 amounting TZS 7.75 billion.

## 3.3 Key Benefits of Sukuk Issuances

Islamic finance strictly complies with Shari'ah financial transaction laws. Contemporary Islamic finance is based on a number of prohibitions that are not always illegal in the countries where Islamic financial institutions are operating:

- A) Free from Riba (Interest), Gharar (Uncertainty) & Maysir (Gambling) hence provides comfort to the investors who aspire to ethical financing. Accordingly, Sukuk are more transparent in execution and reporting compare to any conventional bonds;
- B) Sukuk are competitively priced compared to conventional bond issues;
- C) Most Sukuk structures are tradable and fill the need for alternative investments which suits the requirement of investors for liquidity profile;
- D) Fulfils the liquidity needs of the Islamic Financial Institutions.
- E) Promotes product diversification and financial inclusion.

## 3.4 Comparison of Sukuk and Conventional Bonds

	SUKUK	BOND
a)	Sukuk represent ownership stakes in existing and/or to be built well defined assets or business activity;	Bonds represent pure debt obligations due from the issuer;
b)	The sale of a Sukuk represents a sale of a share or rights of usufruct of an asset;	The sale of a bond is basically the sale of a debt;
c)	The underlying assets financed by a Sukuk issuance is Shari'ah compliant in both their nature and use;	Bonds, can be issued to finance almost any purpose which is legal in its jurisdiction regardless of impermissibility in Islamic principles; and
d)	Sukuk holders have recourse to the assets acquired with the Sukuk proceeds in the event of the Originator's bankruptcy.	In case of an Originator's failure, unsecured bondholders join the pool of general creditors seeking payments from



		the assets of a bankrupt company or issuer.
e)	Sukuk adhere to an Islamic view of finance, avoiding Riba (generating money from money, i.e., interest or usury)	Bonds are securities that are interest based hence impermissible to Islamic principles.
f)	Sukuk are priced according to the value of the assets backing them.	Bond pricing is based on credit rating of the Issuer.
g)	Sukuk can increase in value when the assets increase in value.	Interest from bonds correspond to fixed interest.



---

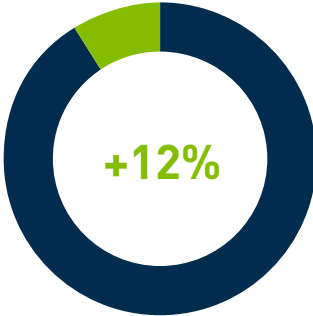
Issuer's Overview,  
History and  
Prospects



# KCB Bank Tanzania Limited at a glance

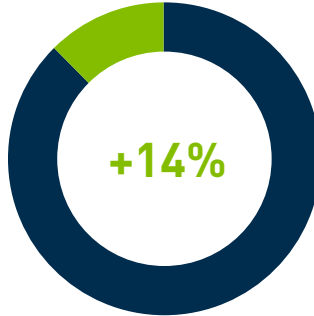
## 2021 Financial Performance

Net Interest Income



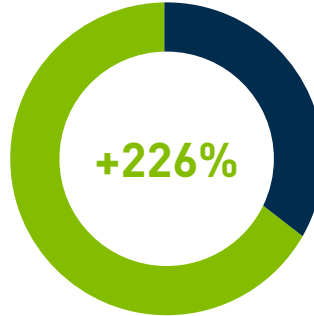
2021: TZS 47.7 billion  
2020: TZS 42.6 billion

Non-Interest Income



2021: TZS 20.2 billion  
2020: TZS 17.7 billion

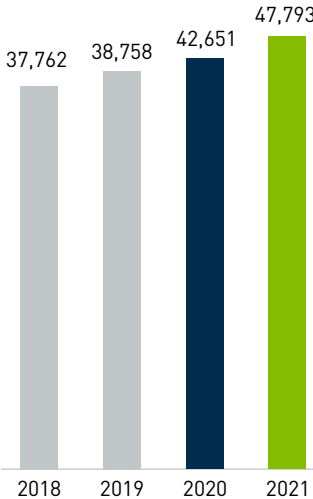
Net Income



2021: TZS 15.2 billion  
2020: TZS 4.7 billion

4-Year Performance Trend

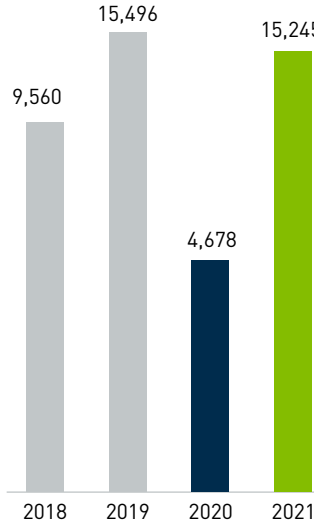
In TZS Millions



In TZS Millions

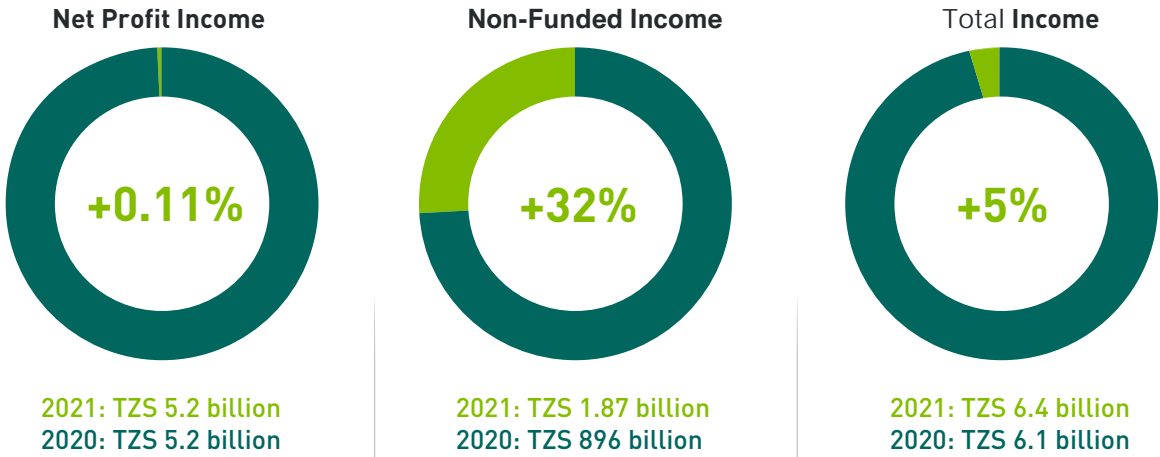


In TZS Millions

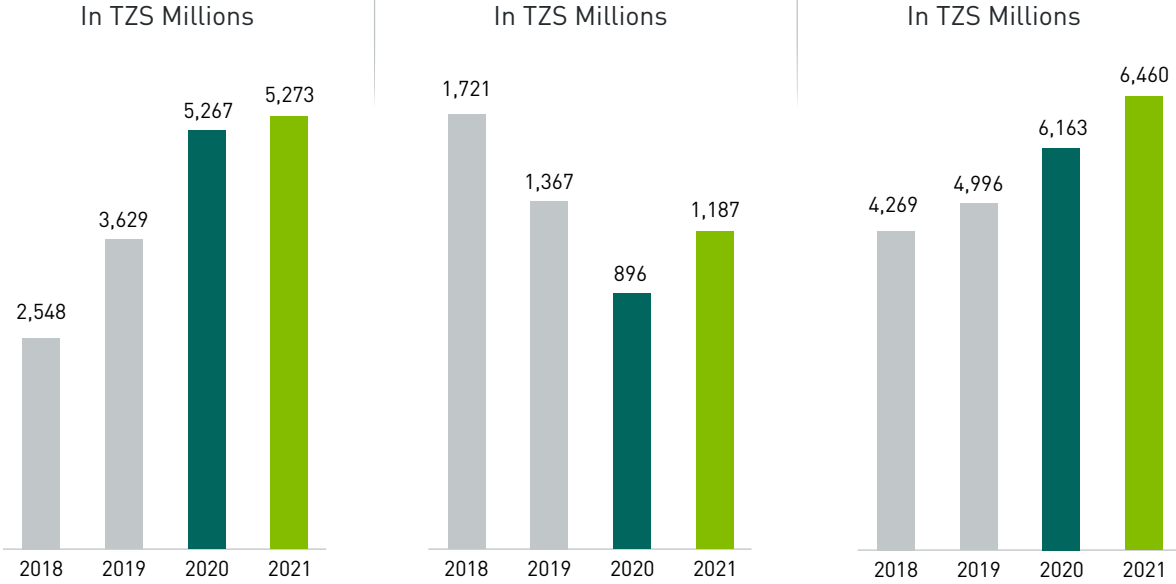


# KCB Sahl Banking at a glance

## 2021 Financial Performance

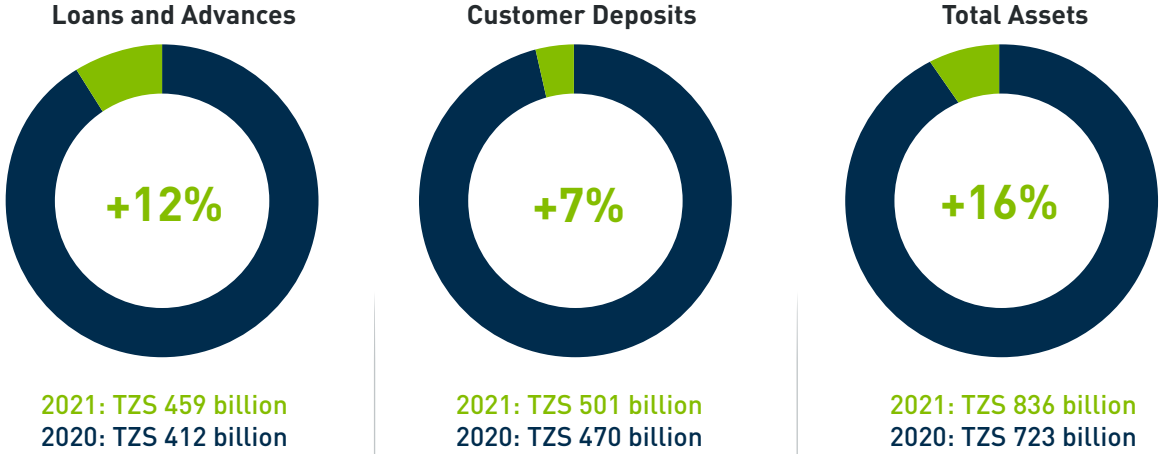


### 4-Year Performance Trend

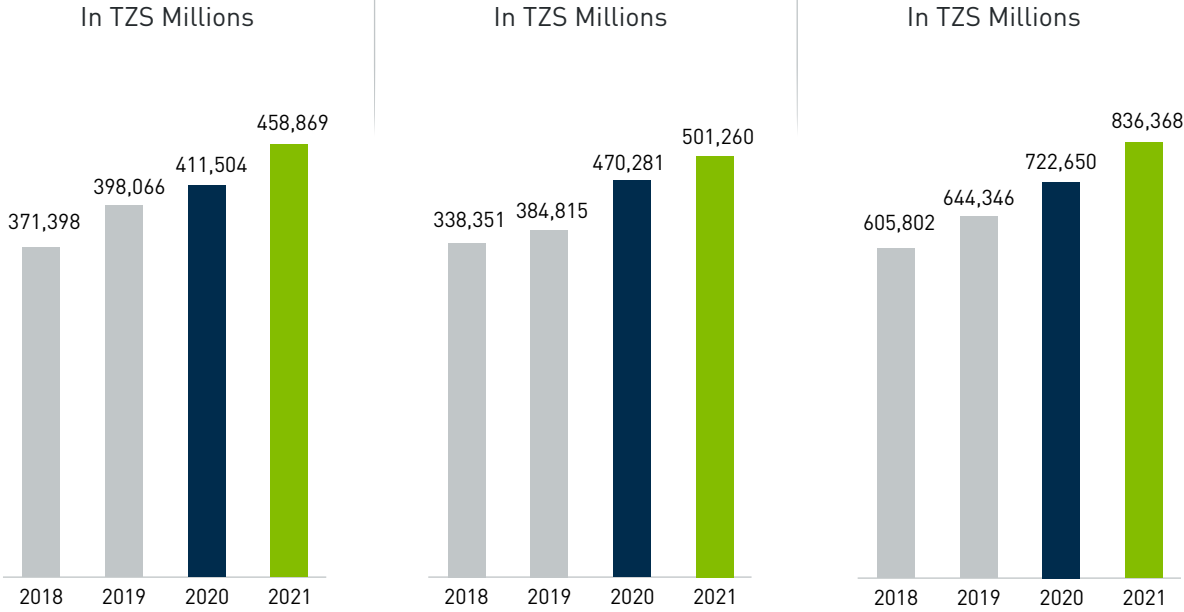


# KCB Bank Tanzania Limited at a glance

## 2021 Financial Performance

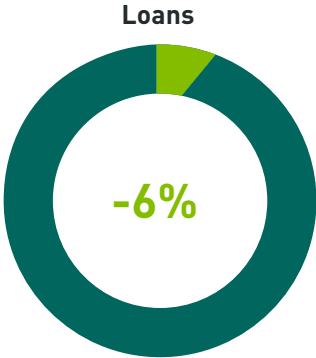


### 4-Year Performance Trend

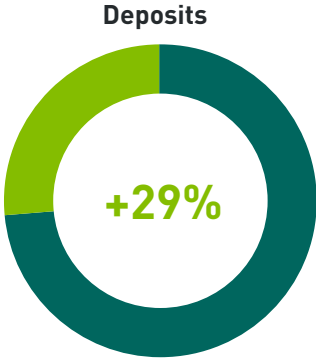


# KCB Sahl Banking at a glance

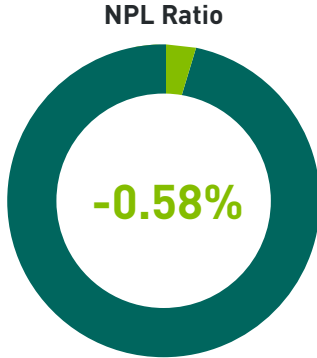
## 2021 Financial Performance



2021: TZS 52.6 billion  
2020: TZS 56.0 billion

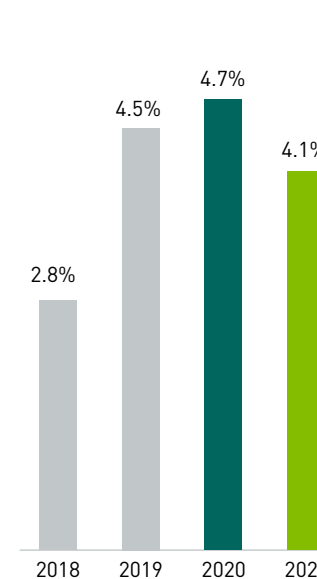
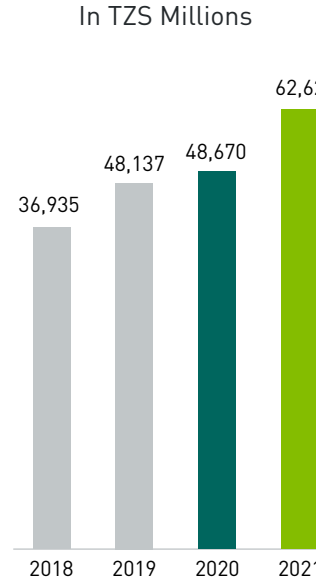
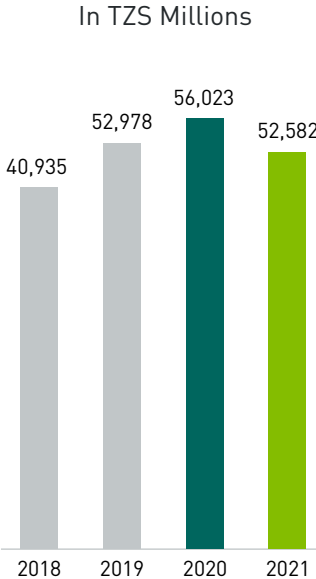


2021: TZS 62.6 billion  
2020: TZS 48.8 billion



2021: 4.1%  
2020: 4.7%

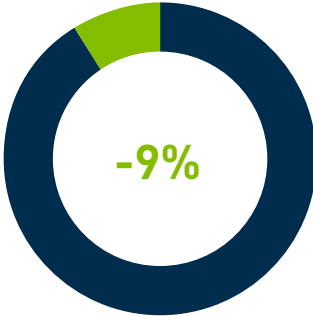
### 4-Year Performance Trend



# KCB Bank Tanzania Limited at a glance

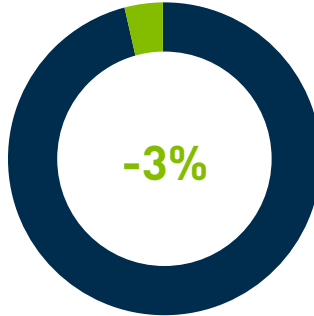
## 2021 Financial Performance

Cost to Income Ratio



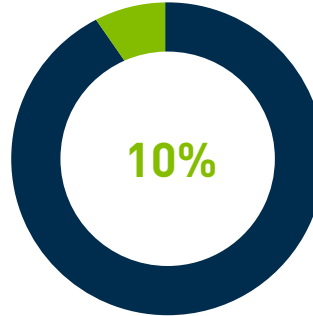
2021: 47.2%  
2020: 56.9%

NPL Ratio



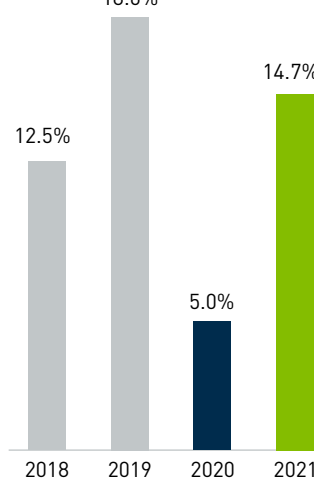
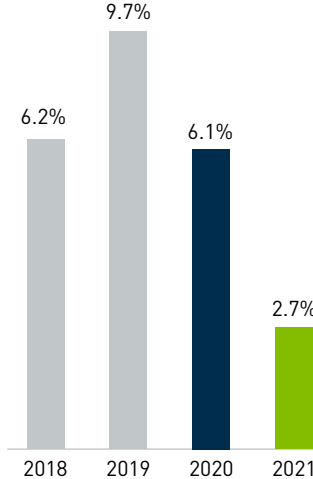
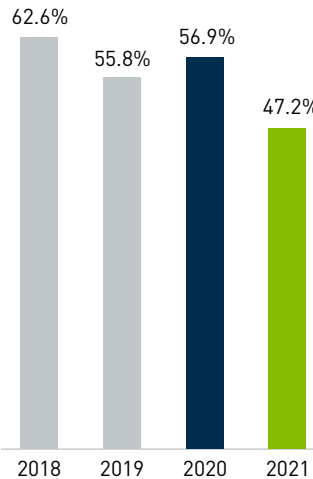
2021: 2.7%  
2020: 6.1%

Return on Equity



2021: 14.7%  
2020: 5.0%

4-Year Performance Trend



## 4.1 Background & History

KCB Bank is the biggest and oldest bank in East Africa, starting its operations in Zanzibar in 1896 and later moving to Kenya and back to Tanzania in 1997. KCB is currently operating in Tanzania, Kenya, Uganda, Rwanda, South Sudan, Burundi and Ethiopia. The Bank employs about 300 staff, exports talents from Tanzania to East Africa, a good tax payer, offers great support to the community in the sectors of education, health, enterprise development, environment and children living in difficulties.

KCB Bank Tanzania Limited is licensed as a full-service commercial Bank incorporated in the United Republic of Tanzania under the Banking and Financial Institutions Act, 2006 to conduct banking business in Tanzania. The Bank is regulated by the Bank of Tanzania and is subject to the provisions of the Banking and Financial Institutions Act, 2006 and its regulations. The Bank provides banking and other related services permitted under the Banking and Financial Institutions Act, 2006. These are not limited to accepting deposits and lending.

Its main business divisions that is Treasury, Corporate banking, Retail banking, Islamic banking, and Trade Finance do avail a variety of commercial banking services across Tanzania through various channels. As of 31 December 2021, the Bank had 14 branches (2020: 14), (eight of which are in Dar es Salaam, two located in Arusha, one each in Moshi, Mwanza, Morogoro and Zanzibar), 15 ATMs (2020: 15), 291 Agents (2020: 217), and 469 POS (2020: 386) active merchants across the country. KCB Group Plc, the majority shareholder of KCB Bank Tanzania Limited is cross listed at the Dar es Salaam Stock Exchange with TZS 2,673.31 billion market capitalization (2020: TZS 2,405.98 billion). In the year 2021, KCB shares traded at an average of TZS 900 (2020: TZS 810)

The origin of KCB Sahl Banking can be traced back to 2008 being the first conventional bank to open a window for Islamic Banking. KCB Sahl banking operation is almost 14 years in Tanzanian Market. KCB Sahl Banking is leveraging on 14 branches located in Dar es Salaam (8), Morogoro (1), Arusha (2 branches), Moshi (1), Zanzibar (1) and Mwanza (1).

As of December 2021, KCB Sahl Banking has a total of 7,932 deposit accounts with the value of TZS 62.6 billion and 130 facility accounts with total value of TZS 52.5 billion. Income generated as of December 2021 stood as TZS 6.695 billion. KCB Sahl Banking offers products that address the needs of not just Muslims but everyone in the country. Some of the Milestones of KCB Sahl Banking includes the following:

- (i) 2008 - Established as a window model – offering Islamic products & services across all branches
- (ii) 2014 - First full-fledged Islamic Branch opened – Lumumba Branch
- (iii) 2017 - Stone Town Branch in Zanzibar converted to full-fledged Islamic Branch

## 4.2 Operating Performance Highlights

- The Bank reported a Net Profit after Tax of TZS 15.245 billion for the year ending 31 December 2021 which was an increase by 234.47% from TZS 4.678 billion reported in 2020. The Bank's Net Profit after Tax has been growing at a CAGR of 16.83% for the last 4 years (2018 – 2021)
- The Bank maintained its CAR at 17.32% in 2019, 16.11% in 2020 and 17.67% in 2021. The Bank has been careful in monitoring and managing the risk profile of its asset portfolio which resulted to the average CAR for the last 3 years 16.16% to be above the minimum regulatory requirement of 12.5%.

- Total Assets increased to TZS 836 billion in for the year 31 December 2021 from TZS 722.65 billion in 2020 which was an increase by 15.72%. Total Assets have been growing at a CAGR of 11.35% for the last four years (2018 – 2021).
- Total Deposits of the Bank stood at TZS 688.665 billion as at December 31, 2021. Deposits have grown at a robust 4-year CAGR of 12.74% primarily due to the Bank’s focus on its core current and savings account (CASA) base.
- The Bank’s NPL Ratio has been improving for the last 3 years. This is evidenced by the decline in NPL Ratio from 9.70% in 2019 to 2.71% in 2021 which was below the minimum regulatory requirement of 5%.

### 4.3 Summary of Borrowings:

Lender	Currency	Amount Outstanding	Year	Tenor	Interest Rate
Tanzania Mortgage Refinancing Company (TMRC)	Tanzanian Shillings	5,075,342,465	2018	4 Years	10.00%
Tanzania Mortgage Refinancing Company (TMRC)	Tanzanian Shillings	5,011,643,835	2021	5 Years	8.50%
<b>Total</b>		<b>10,086,986,301</b>			

### 4.4 Shareholders and Shareholding Structure

KCB Bank Tanzania Limited has 750,000,000 authorized ordinary shares of TZS 100 each out of which 626,699,361 ordinary shares are issued and fully paid as at 31st December 2021. KCB Tanzania pattern of shareholding is given below:

Shareholder Category	No. of Shares	Percentage
KCB Group PLC	626,699,360	100%
KCB Nominee Limited	1	0%
<b>Total</b>	<b>626,699,361</b>	<b>100%</b>

KCB Group is a public listed company with the top shareholder holding 19.76% of the shares. KCB Group Shareholding Structure as at 30 June 2022 is as follows:

Name	No. of Shares	Percentage
PERMANENT SECRETARY TO THE TREASURY OF KENYA	635,001,947	19.76%
NATIONAL SOCIAL SECURITY FUND	272,552,009	8.48%
STANBIC NOMINEES LTD A/C NR3530153-1	129,297,900	4.02%
STANDARD CHARTERED KENYA NOMINEES LTD A/C KE004667	63,984,400	1.99%
KENYA COMMERCIAL BANK NOMINEES LTD A/C 927B	51,289,541	1.60%



BABLA SANDIP KANA SINH: BABLA, ALKA SANDIP	29,514,900	0.92%
STANDARD CHARTERED NOMINEES A/C 9688	29,013,023	0.90%
BABLA SANDIP KANA SINH: KARSANDAS	28,193,900	0.88%
STANDARD CHARTERED NOMINEES NON-RESID. A/C KE10085	27,574,726	0.86%
STANDARD CHARTERED NOMINEES NON-RED. A/C 9827	26,432,015	0.82%
Others	1,920,608,454	59.77%
<b>Total</b>	<b>3,213,462,815</b>	<b>100.00%</b>

## 4.5 Management of the Bank

### 4.5.1 Board of Directors of the Bank

The Bank's affairs are governed by the Board of Directors (the "Board"), which comprises eight directors, including the Chairman and the Managing Director. Except for the Managing Director, all the Directors are Non-Executive Directors. The Board is responsible for policy related issues and is headed by the Chairman. The Managing Director has overall responsibility for the Bank's strategic direction and for managing the Bank's business and its functions. The tenure of the Board membership is three years. The Chairman and all the board members are appointed by the shareholders at the Annual General Meeting.

#### KCB Bank Tanzania Limited Board of Directors

S/NO.	Name	Position	Qualifications	Age	Nationality	Date of appointment
1.	Mr. John Ulanga	Chairman	Executive Master of Development policies and Practices, CPA (T)	50	Tanzanian	26 <sup>th</sup> Oct. 2016 (as a member) 6 <sup>th</sup> July 2019 (as Chairman)
2.	Mr. Cosmas Kimario	Managing Director	MBA Finance	54	Tanzanian	10 <sup>th</sup> Oct 2016
3.	Dr. Alexander Thomas Nguluma	Non-Executive Director	PhD, Master of Laws	69	Tanzanian	27 <sup>th</sup> Jan 2016
4.	Ms. Fatuma Bwedo Chillo	Non-Executive Director	Master of Science in Human Resource Management, Master of Science in Finance, CPA (T)	46	Tanzanian	10 <sup>th</sup> Feb 2016

5.	Mr. Samuel Mwangi Makome	Non-Executive Director	Master of Organizational Leadership, ACIB	55	Kenyan	3 <sup>rd</sup> July 2019
6.	Ms. Santina Majengo Benson	Non-Executive Director	Master of Science in Contemporary Management	44	Tanzanian	28 <sup>th</sup> Nov 2019

Source: KCB Bank Tanzania Limited

## Mr. John Ulanga – Chairman

Mr. John Ulanga joined the Board of Directors of KCB Bank Tanzania Limited as an Independent Non- Executive Director in 2016 and was appointed as the Chairman of the Board with effect from July 6, 2019.

Mr. Ulanga is the Country Director of TradeMark East Africa in Tanzania. Before joining TradeMark East Africa, he was the Vice President, External Affairs and Sustainability for BG East Africa. Before joining BG East Africa, Mr. Ulanga was the Executive Director of the Foundation for Civil Society, and before that he worked with the Economic and Social Research Foundation (ESRF). Previously, Mr. Ulanga worked with the Ministry of Finance and Planning as part of the team that introduced Integrated Financial Management System in the Government.

Mr. Ulanga is the Chairman of the University Council of the Hubert Kairuki Memorial University, Dar es Salaam; Chairman of the Board of Serengeti Breweries Limited, Member of the Board of East African Breweries Limited, and Member of the Board of Mwananchi Communications Limited. Mr. Ulanga is the School Board Chairman for Azania Secondary School and a Member of the Africa Policy Advisory Board for ONE Campaign. He is also a Fellow of the Africa Leadership Initiative in East Africa and the Aspen Global Leadership Network of the Aspen Institute, Colorado, USA and a Senior Fellow of the Centre on Philanthropy and Civil Society Studies at the Graduate Centre of the City University of New York. Mr. Ulanga is a Fellow of the Synergos Institute in New York, an alumnus of both the International Visitors Leadership Programme of the US Department of State and the British Council InterAction Leadership Programme.

## Mr. Cosmas Kimario - Managing Director

Cosmas Kimario is a Banker by profession. He holds a Master's of Business Administration (MBA) in Finance and a Master's of International Management (MIM) from Thunderbird – The American Graduate School of International Management USA as well as Bachelor of Commerce and Management (B'Com) Degree from the University of Dar es Salaam where he was the best student from the class of 1994. Mr. Kimario is a Lifetime Member of Beta Gamma Sigma – the Honor Society for Best World Business Students, a Lifetime Member of Phi Sigma Iota – the International Foreign Language Honor Society and also a Lifetime Member Pi Sigma Alfa –the International Studies Honor Society.

Mr. Kimario is also trained in the areas of Foreign Exchange, Derivatives and Credit Management. Mr. Kimario is an experienced expert in the Banking industry with over 25 years of service in the sector holding different top positions. He has worked in different capacities in different countries including: The USA, The UK, Nigeria, Senegal and Kenya. He has specialized in Structured Products, Project Financing, Corporate Financing, Treasury, Money Market and Foreign Exchange Products and Derivatives Products and Public Housing. Mr. Kimario is one of the pioneers who introduced Foreign Exchange Options and Derivatives in many markets in Africa including Tanzania, Nigeria, Uganda and Zambia.

## Dr. Alexander Thomas Nguluma - Non-Executive Director

Dr Alex Thomas Nguluma is an advocate and managing partner at REX Advocates. He specializes in tax and corporate consultancy, tax and commercial litigation, commercial arbitration, liquidations and receiverships.

He has acted for clients in a variety of transactions, including the mining, telecommunications (interconnection), banking, manufacturing and insurance industries.

Alex is also an expert on legislative and regulatory review matters, having advised companies in respect of gas-to-electricity projects, cement manufacturing, tobacco, telecommunications, insurance, tax and agriculture. In addition, Alex has participated in many high-level negotiations for foreign investors, local businessmen, government and public corporations.

## Ms. Fatuma Bwedo Chillo - Non-Executive Director

Ms. Fatuma Chillo is currently an independent consultant and Trainer in Internal Audit Systems and Processes, Finance and Tax management. She is a Certified Public Accountant ACPA(T), she holds a Master's degree of Science in Finance from University of Strathclyde-UK; Master of Science in Human Resources Management-Mzumbe University, Tanzania; Postgraduate Diploma in Tax Management (PGTM)-Institute of Finance Management (IFM) and Advanced Diploma in Accountancy (ADA)- Tanzania Institute of Accountancy (TIA).

Ms. Fatuma has more than 15 years working experience in the internal audit profession, she worked with National Housing Corporation as a Director of Internal Audit, Tanzania Education Authority as a Chief Internal Auditor, Tanzania Revenue Authority as Senior Internal Auditor and Quality manager implementing Quality Management Systems. Ms. Fatuma is also a trainer in Tax Accounting, Tax Investigations techniques, Internal Audit and Finance.

Ms. Fatuma joined KCB in November 2015 as a Board member, currently she is a chair of the Audit Committee of the bank. She is also a Board Member with TTCL Trust entity and a Co-opted member in the Contractors Registration Board audit committee.

## Mr. Samuel Mwangi Makome Non-Executive Director

Samuel joined KCB Bank in 2013 and has over 20 years progressive experience in banking, 13 of which have been at Executive Management level specializing in Strategic Leadership, Operations and Business Development. He previously worked in Citibank, Standard Chartered Bank and Equity Bank, at both regional and international levels in various parts of Africa, Asia, and the United Kingdom, which enabled him gain extensive experience and vast knowledge of the International, Regional and local banking environment. He holds a Master's Degree in Organizational Leadership from the International Leadership University, Nairobi, a Bachelor of Science (BSc) degree in Engineering from the University of Nairobi, and is an Associate of the Chartered Institute of Bankers (ACIB) London.

## Ms. Santina Majengo Benson - Non-Executive Director

Santina M. Benson is the Executive Director of the CEO Roundtable of Tanzania (CEOrt), which brings together 150 CEOs of leading companies in Tanzania and provides a platform for regular engagement with government and key stakeholders for the country's sustainable economic development. During her time with the CEO Roundtable, Ms. Benson has led key initiatives including driving the organisation's Business and Sustainability agenda and spearheading the Ethical Leadership agenda as part of Tanzania's National Anti- Corruption campaign in collaboration with the Government of Tanzania. She was also responsible for launching the ground-breaking CEO Apprenticeship Programme (CAP), a leadership initiative aimed at developing Tanzania's future leaders.



Prior to her role with the CEO Roundtable of Tanzania, she held senior positions at various multinational corporations within the Telecoms, ICT and Financial sectors. Her experience includes Programme Management, Strategic Planning, Team Building and Business Development.

In addition to her role as Executive Director of the CEOrt, Ms. Benson serves as a Non-Executive Director of KCB Bank Tanzania Limited and sits on the Advisory Board of Strathmore Business School Tanzania Leadership Academy, providing strategic guidance on the transformation of leaders within the region.

Ms. Benson currently serves as an Advisory Board Member for One Acre Fund Tanzania and previously served as a Steering Committee member of the United Nations Global Compact (UNGC) Tanzania Chapter. Santina Benson graduated with a Master's Degree in Management from Caldwell University, New Jersey.

## 4.5.2 Board Committees

The Board has delegated authority to various Board committees to enable them to oversee certain specific responsibilities based on their terms of reference. The terms of reference of each Board committee set out the responsibilities of the Board committee, conduct of meetings including quorum, voting requirements and qualifications for Board committee membership. The Banks Board committees comprise Non-Executive Directors only. Any change to the terms of reference for any Board committee requires Board approval. The minutes of Board Committee meetings, which records the key deliberations and decisions taken during these meetings, are circulated to all Board members for their information

### 4.5.2.1 Audit and Compliance Committee

The Committee meets quarterly and was set up to deal with all matters relating to the financial reporting and disclosures matters, internal control systems of the Bank, internal audit and external auditor. It further oversees the Bank's mitigation and appreciation of all risks in the business.

### 4.5.2.2 Risk and Strategy Committee

The purpose of the Committee is to assist the Board to discharge its duties relating to the corporate accountability together with its associated risks in terms of management, assurance, reporting and execution of KCBT Strategy. The Committee is established to ensure quality, integrity and reliability of the Company's risk management and to oversee the management and execution of the KCBT Strategic Plan.

### 4.5.2.3 Human Resource Committee

The Human Resource Committee meets quarterly to review the human resource policies and make suitable recommendations to the Board on the Senior Management appointments. The Committee also oversees the nomination function and Senior Management performance reviews.

#### 4.5.2.4 Credit Committee

This Committee meets at least once in a quarter to review the credit risk profile of the Bank and recommend for Board's approval, policies and standards for credit risk governance and management. Also, the committee review and approve all credit applications above management discretionary.

##### Summary of KCB Bank Tanzania Limited Board Committees

Name	Audit and Compliance	Risk and Strategy	Human Resource Committee	Credit Committee
Ms. Fatuma Bwedo Chillo	Chairperson			
Mr. Samuel Makome	Member			
Dr. Alexander Thomas Nguluma		Member	Member	Chairperson
Ms. Santana Benson		Member	Chairperson	Member

Source: KCB Bank Tanzania Limited Management

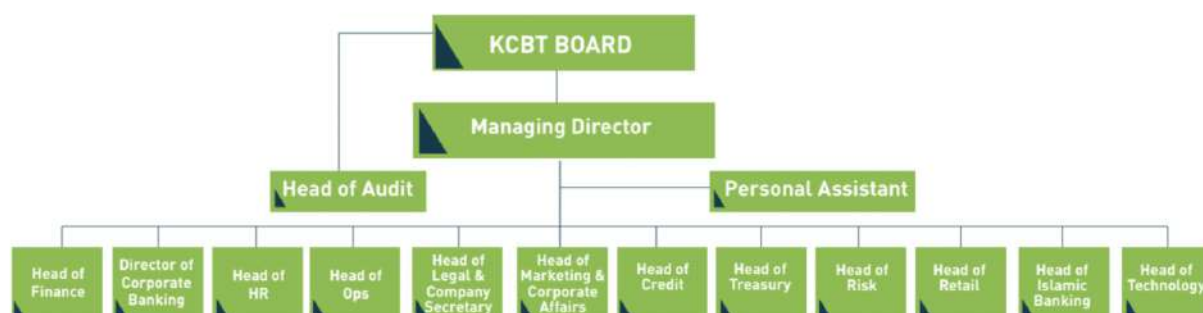
#### 4.5.3 KCB Bank Tanzania Limited Executive Management

The day-to-day management of KCB Bank Tanzania Limited is entrusted to the Managing Director who is supported by the following departments: Corporate, Retail, Treasury; Credit, Operations and information technology, Human Resources, Finance, Internal Audit, Legal Services, Risk, Marketing and Corporate Affairs and Islamic Banking.

Each department is headed by a head of department. The Managing Director reports to the Board and all heads of departments report to the Managing Director. The Head of Internal Audit reports functionally to the Audit and Compliance Committee.

## 4.5.4 KCB Bank Tanzania Limited Executive Management Structure

Figure 12: KCBT Executive Management Structure



Source: KCB Bank Tanzania Limited Management

### KCB Bank Tanzania Limited Executive Management

S/NO.	Name	Position	Nationality
1.	Mr. Cosmas Kimario	Managing Director	Tanzanian
2.	Mr. Gabriel Lekundayo	Ag. Director of Corporate Banking	Tanzanian
3.	Ms. Antonia Kilama	Head of Legal & Company Secretary	Tanzanian
4.	Mr. Willis Mbatia	Head of Finance	Kenyan
5.	Mrs. Fauqiya Shareef	Head of Human Resources	Tanzanian
6.	Mrs. Magreth George	Head of Internal Audit	Tanzanian
7.	Mr. Waissaka Magweiga	Head of Credit	Tanzanian
8.	Mr. Juma Abdul	Head of Retail Banking	Tanzanian
9.	Mr. Amour Muro	Head of Sahl Banking	Tanzanian
10.	Mr. Pascal Machango	Head of Treasury	Tanzanian
11.	Ms. Christina Manyenye	Head of Marketing & Corporate Affairs	Tanzanian
12.	Mrs. Lulu Namfua-Shikonyi	Head of Operations	Tanzanian
13.	Mr. Shadrack Koech	Head of IT and Technology	Kenyan
14.	Mr. Benitho Chiwinga	Ag. Head of Risk and Compliance	Tanzanian

Source: KCB Bank Tanzania Limited Management

### Mr. Cosmas Kimario - Managing Director

See subsection 4.5.1 for experience and profile

### Mr. Gabriel Lekundayo – Ag, Director of Corporate Banking

Gabriel is an experienced banker with over 10 years' experience in Banking and sales having worked in the UK & Tanzania. Prior to joining KCB Tanzania in Jan 2014, he had a privilege of working with Halifax Bank, RBS, Bracknell UK. He holds a degree in Accounting & Management from Spicer Memorial University India, MBA from University of Wales Cardiff Institute UK & a postgraduate diploma in Management from University of Stratford, London UK.

## **Ms. Antonia Kilama - Head of Legal & Company Secretary**

Diversely skilled with practical experience in legal and governance issues pertaining to banking and financial institutions, Antonia joined KCB Bank Tanzania in December 2017 as a Head of Legal and Company Secretary.

Antonia is the holder of bachelor's degree of Laws from Ruaha University College (A constituent college of St. Augustine University of Tanzania). Professionally, Antonia is an Advocate, Notary Public and Commissioner for Oaths in Tanzania Mainland. She is also an active member of the Tanganyika Law Society and the East African Law Society.

Previously, Antonia had a privilege to work with National Bank of Commerce Limited (NBC) and Rex Attorneys a reputable Law firm based in Dar es Salaam.

## **Mr. Willis Mbatia - Head of Finance**

Willis has over 20 years' professional experience across Finance, Audit and Project management. He joined KCB Bank Tanzania with effect from September 2017 from KCB Bank Kenya. He acted as the Head of Finance in KCB Bank Uganda. Between 2011 and 2017, he was a Business Finance Manager in charge of Corporate, Treasury, Mortgage and Credit at KCB Bank Kenya.

Prior to joining KCB Bank Kenya in 2004, he worked at Ernst & Young Kenya where he was involved in auditing and accountancy assignments of various companies and industries both as a team leader and as a team member for a period of five years.

He holds a Bachelor of Commerce (Finance Option) from the University of Nairobi and is a Certified Public Accountant of Kenya.

## **Mrs. Fauqiya Shareef - Head of Human Resources**

Fauqiya Shareef is a senior HR professional with over 10 years progressive experience in Human Resources Management and Gender & youth development consultant. She is a strategic and innovative HR Executive who translates business vision into HR initiatives that improve performance, profitability, growth, and employee engagement. She joined KCB Bank as Head of Human Resources in December 2017.

Fauqiya holds a Bachelor of Science in Mineral Processing Engineering from University of Dares Salaam (College of Engineering) and Master's in Human Resource Management from Open University Tanzania.

## **Mrs. Magreth George - Head of Internal Audit**

Mrs. Magreth holds a Master's of Science in Finance with distinction from University of Strathclyde, and a Bachelor of Commerce with Honors from University of Dar Es Salaam. Professionally, she is a registered member of the National Board of Accountant and Auditors (NBAA), as a Certified Public Accountant and she is the active member of the Institute of Internal Auditors (IIA). Previously, Mrs. Magreth had the privilege to work with Delloitte & Touche where she was involved in Auditing assignments of various companies and industries. She also worked with Alios Finance Tanzania as a Chief Accountant.

## Mr. Waissaka Magweiga - Head of Credit

Waissaka is a Certified Professional Banker, holder of CPB qualification from Tanzania Institute of Bankers with over 10 years' experience in Credit risk management. Prior joining KCB Tanzania as Head of Credit, he worked with KCB Burundi as Head of Credit (Expatriate). Also, he has worked in various roles at NIC (NCBA) bank and KCB Tanzania before joining KCB Burundi.

He holds bachelor's degree of Commerce in Accounting with Honors from The University of Dodoma.

## Mr. Juma Abdul - Head of Retail Banking

Juma Abdul has more than 18 years' experience in the Banking Industry having worked with Local and International Banks. Previously had a privilege to work with Akiba Commercial Bank, Stanbic Bank, Standard chartered Bank and Barclays/ABSA. He holds Bachelor of Accounting from college of Business Education.

## Mr. Amour Muro - Head of Sahl Banking

Amour has more than 6 years of banking experience in several roles including Treasury Sales, Corporate Banking, and Investment Banking exposure.

He joined KCB Bank Tanzania with effect from August 2021 to take on a new role as Head of Islamic Banking. He is guided by a foundation of integrity, diplomacy, and the necessary tact to deliver results and overall stakeholder needs. He holds a Bachelor of Science in Economics from Rockford University in Illinois, U.S.A.

## Mr. Pascal Machango – Head of Treasury

Pascal Stanislaus Machango fellow and holds of MBA from Open University, Bachelor of commerce and accounts from university of Dar es salaam and ACI holder. He has experience in Banking industry for more than 21 years. Current, he is Head of Treasury at KCB Tanzania.

## Ms. Christina Manyenye – Head of Marketing & Corporate Affairs

Christina Manyenye is a Marketing and Corporate Affairs professional with a wealth of experience gained in the banking and ICT industries. She joined KCB Bank Tanzania Limited in 2009 as Head of Marketing & Corporate Affairs, taking care of traditional & digital marketing, products development and management, events managements, internal communications, sustainability agenda and Corporate Social Responsibilities.

She began her career with InfoTech Computers as Sales & Marketing Executive and later moved to International Communication Systems (ICS) as Senior Marketing & Sales Executive also heading Hardware Unit. Her banking career took off in 2002 with one of reputable the Banks in Tanzania as a marketing and Sales Executive; she was later promoted to Marketing & Communications Manager heading the Marketing, sales, events management and customers service units. She holds an MBA from East and Central Africa Management Institute (ESAMI) and BA in Economics from Aligarh University, India. She attended a brand guideline and strategic marketing short course in South Africa.

## Mrs. Lulu Namfua-Shikonyi - Head of Operations

Lulu has been a banker for more than 20 years and in the Mining Industry for 2 years taking up Managerial roles within these two industries. She has been managing and overseeing various departments in the Operation area as the Head of Internal Control, Head of Operations and Head, Human Resource and Administration. Under her tenor the following have been her area of expertise; Customer Care, Trade Finance, Treasury Back Office and SWIFT, Clearing, Administration and



Procurement, Projects, Facility and Security, Operations Integrity (Risk and Compliance), Operations Branch Support and Human Resource Management.

Lulu has been a member in various Management Committees such as Extended Management Committee (EXCO), Board Audit Committee (BAC), Operational Risk Committee, Cost Containment Committee and New Product Committee.

In August Lulu joined KCB Bank Tanzania as the New Head of Operations. Seeing herself bringing impact in the business growth and ready to take up new challenges with the Mission, Vision and the Strategy of KCB Bank.

Lulu holds a Bachelor of Arts Degree in Public Administration (International Relations) and Masters' Degree in Business Administration (Human Resource Management) both from the University of Dar es Salaam, in Tanzania

She is passionate to what she has been and continue to do being hard working, team player, a mentor and role model to many. She is a person of integrity, accompanied with track record of good performance and successes including awards such as Leadership Excellency and Team Player award, Long Service Award and Service Excellence Award.

## Mr. Shadrack Koech - Head of IT and Technology

Mr. Koeach has more than 24 years' experience dealing with ICT related roles in several geographies including Kenya, Tanzania, Rwanda and Uganda. He holds an MBA in Strategic Management from JKUAT and Bachelors of Science in Computer Information Maseno University in Kenya.

## Mr. Benitho Chiwinga – A.g Head of Risk and Compliance

Benitho Chiwinga is a Risk and Compliance expert with more than 12 years' experience in Banking and Financial Institutions industry. He holds Bachelor of Arts in Economics and Statistics with Honors from the University of Dar es salaam. He is a lead Risk and Compliance expert with strong proven ability in Risk Management with experience in project management having been participated in various projects in Banking and Financial institution industry.

He joined KCB Bank Tanzania in 2013 from FINCA Microfinance Bank.


### 4.6 KCB Sahl Banking Shari'ah Board

#### KCB Sahl Banking Shari'ah Advisory Board (SAB)

S/NO.	Name	Position	Nationality	Date of re-appointment
1.	Sheikh Khamis Mataka –	Chairman	Tanzanian	5 <sup>th</sup> August 2020
2.	Sheikh Dr. Abdallah Y. Tego	Member	Tanzanian	5 <sup>th</sup> August 2020
3.	Sheikh Twaha Bane	Member	Tanzanian	5 <sup>th</sup> August 2020

## Sheikh Khamis Said Mohamed Mataka

Sheikh Khamis Said Mohamed Mataka has more than 15 years working experience in the Islamic Finance profession, he has served several religious bodies as Chairman and Secretary General National Executive Organ of the National Muslim Council of Tanzania (BAKWATA), Board of Trustee Masjid Nur & Islamic Centre, Educational Board of Tanzania Islamic Centre, Foundation of Sheikhs and Islamic Scholars in Tanzania and the Mohamed IV Foundation for African Ulamaa (Scholars). He is currently a co-chair of interfaith Standing Committee on Economic Justice and Integrity of Creation which is formed jointly by the Catholic Tanzania Episcopal Conference (TEC), The National Muslim Council of Tanzania (BAKWATA) and Christian Council of Tanzania (CCT).



Sheikh Mataka has a vast knowledge in the field of language especially Arabic, Swahili and English and he is holder of B.A of Arts in language, Philosophy and religious studies. He is a holder of MBA in Human Resource and marketing from IGNOU University, India.

Sheikh Mataka joined KCB Sahl Banking Shari'ah Advisory Board in 2008 as a member of Technical Team and on 2010 as Board member, currently he is a chair of the Board.

## Sheikh Twaha Selemani Bane

Sheikh Twaha Selemani Bane is a holder of BA in Islamic Law from Islamic University of Madina, Saudi Arabia. Sheikh is well trained on the sector of Imam and Islamic teachings with an experience on this field for more than 30 years.

Sheikh Bane joined KCB Sahl Banking Shari'ah Advisory Board in 2008 serving as a Board member.

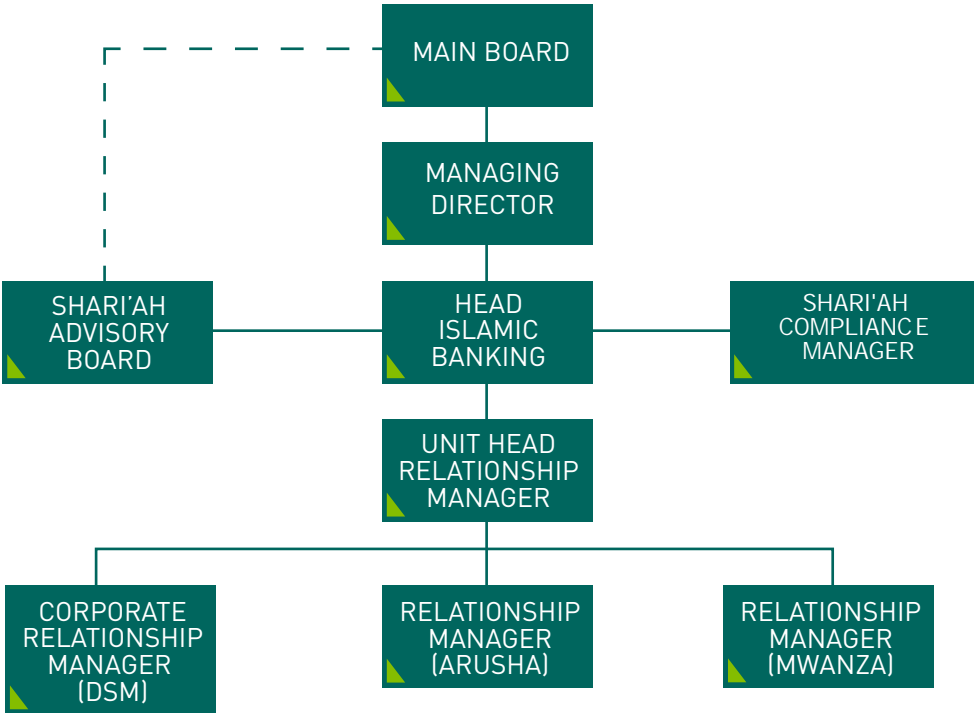
## Sheikh Abdallah Yahya Tego

Sheikh Dr. Abdallah Yahya Tego is a holder of BA (Ed) (Hons) from University of Uganda, MA in Islamic Studies from Muslim College London and PhD in Economics (Islamic Microfinance) from Omdurman Islamic University Khartoum Sudan. Currently he is a lecturer at Muslim University of Morogoro.

Sheikh Tego has more than 15 years working experience in the Islamic Finance profession, he has served different Shari'ah Boards for the banks including AMANA Bank, NBC and now serving KCBT Sahl Banking Shari'ah Advisory Board as a member.

## 4.7 KCB Sahl Banking Organization Structure

Figure 13: KCB Sahl Banking Organization Structure



Source: KCB Bank Tanzania Limited Management

## 4.8 Employees

As of 30 June 2022, the Bank employed 271 full-time employees. The bank has a strong ethical culture that is customer and employee centric with competent and skilled employees engaged within a diverse workforce.

## 4.9 Products and Services

KCB Sahl Banking has a full range of products and services catering to various customer segments. A summary of the products/services offered by the Bank is given below:

### 4.9.1 Saving Accounts

KCB Sahl Banking offers a wide variety of accounts fulfilling all the needs of its diverse customer base. The following are the account options offered by the KCB Sahl Banking:

- (i) Personal Saving Account  
This is a saving account designed for personal savings and structured under Qardh Contract.
- (ii) Cub account  
This is an account for children and managed by a parent or guardian structured under Qardh Contract. This account enables a parent to save for the child and groom a child with savings behavior.

(iii) Student account

This is an account for students structured under Qardh Contract. This account enables a student to save and transact for his education use.

(iv) Hajj Saving Account

This account is designed to help customers to perform Haji and Umrah through gradual savings till the required amount for Hajj is completed. Hajj Saving Account is structured under Qardh Contract.

(v) Salary Saving Account

This is an account designed for organizations' staff whose source of income is salary. The account is structured under Qardh Contract.

## 4.9.2 Consumer Finance

In this category, KCB Sahl Banking offers a range of Shari'ah compliant financing products to its customers. The following products are available for the consumers in the category:

(i) Murabaha Financing

Murabaha is a trade contract for the sale of an item on cost of good plus mark-up whereby the seller is obliged to disclose to the buyer the cost of goods sold and a margin of profit included in the sale price of goods agreed to be sold. The contract is normally done on deferred payment basis.

(ii) Qardh Loan

(A good-will loan) is a contract of loan between two parties in which borrower is required to pay back only the amount borrowed. The debtor is required to return the principal amount in the future without any increase.

(iii) Commodity Murabaha – Tawarruq

Commodity Murabaha (Tawarruq) is the process of purchasing a commodity for a deferred price and selling it to third party for a spot price to obtain cash. This is typically done in a matter of minutes through an existing Shari'ah-Compliant commodity market. It's designed to cater for the needs of getting cash in meeting various commitments; it can be done between the Banks as liquidity management tool and with customers who need cash.

The commodity Murabaha shall be the last resort in helping our customers after looking at all existing profit-making products (contracts) such as, normal Murabaha, Mudaraba, Ijarah, and Musharaka.

KCBT carries out this arrangement with both local and foreign markets such as Bursa Suq Al- Sila (BSAS) depending on need and type of transactions to be performed.

(iv) Ijarah Financing (Leasing) – Service Ijarah

This is a lending product for business purposes granted to existing and potential KCBT clients who meet our onboarding Credit Criteria; the underlying Shari'ah structure for this product is Ijarah (leasing) with deferred repayment.

Ijarah refers to 'the lease of an asset or service for an agreed period in exchange for an agreed consideration' charged in terms of fees or rentals. The Ijarah contract is applicable to 'usufructs' as well as 'services'. Currently KCBT offers Ijarah on services and not usufructs.

Ijarah on Services or Service Ijarah means; a lease contract for providing services in exchange for agreed consideration. For instance, the services of a lawyer, clearing agents, Tax payments, Insurance payments, etc.

#### (v) Diminishing Musharaka Financing

This is a lending product based on a partnership mode with a profit-and-loss sharing under Musharaka contract. Diminishing Musharaka (declining partnership) is now being used extensively in many areas for financing fixed assets such as houses and motor vehicles as well as project financing.

It is used mostly when one party who wants to own an asset cannot afford to pay the full price and takes the assistance of financing from another party with the end-goal of complete ownership of the asset by the first party at the end of the repayment period through gradual purchase of the shares of the other party. Both parties need to contribute capital to jointly own the asset.

When used in home financing, Diminishing Musharaka can be viewed as a form of shared ownership with a leasing sale-back arrangement, which makes it different from an interest- based mortgage.

### 4.9.3 Transaction Accounts

#### (i) Personal & Business Current Accounts

These accounts have been designed for Sole Proprietors and SME clients to assist in their daily business transactions structured under Qardh Contract.

#### (ii) Community Current Account

This account is designed for various groups within the community including but not limited to Madrasa's (Schools), Mosques, Churches, SACCOS/Cooperatives/Vikoba, Family Groups, Wakfs (Trusts), etc. It is a zero charges accounts structured under Qardh Contract.

#### (iii) Corporate Current account – Mid & Large

This account is designed for large companies and Government bodies and is structured under Qardh Contract.

### 4.9.4 Investment Accounts

#### (i) Sahl Simba Savers Account

This account is designed under Mudaraba contract specific for savers to earn profit on monthly basis calculated via their minimum average monthly balances maintained.

#### (ii) Fixed Deposit Account - Mudaraba

This account is designed Under Mudaraba contract specific for savers to earn profit on an agreed fixed period. Profit Ratio is not set but is negotiable be based on amount and time deposits are to be fixed.

## 4.10 Branches and ATM

KCB Bank Tanzania Limited has 14 branches across Tanzania. KCB Sahl Banking is available across all the branches. Currently, KCB Sahl Banking has 2 fully fledged Islamic branches one located at Stone Town in Zanzibar and the other branch is located at Lumumba in Dar es Salaam.

**Note:** Islamic Banking Services are available in all 14 branches.

#### KCB Bank Tanzania Limited Branch Network

	2017	2018	2019	2020	2021
Number of Branches	14	14	14	14	14

## 4.11 Summary of Issuer's Financial Information

### 4.11.1 Statement of Profit or Loss and Other Comprehensive Income

During 2021, Tanzania Economy grew by 4.9% in comparison to 4.8% in the previous year indicating that the economy is recovering from the adverse effects of COVID-19 pandemic. The main economic drivers were Arts and Entertainment which increased by 19.4%, electricity supply increased by 10.0%, Mining increased by 9.6% and information and communication increased by 9.1%.

<b>TZS Millions</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Jun-22<sup>1</sup></b>
Interest Income	56,808	61,728	67,793	74,413	42,747
Interest Expense	(19,046)	(22,970)	(25,142)	(26,620)	(15,465)
<b>Net Interest Income</b>	<b>37,762</b>	<b>38,758</b>	<b>42,651</b>	<b>47,793</b>	<b>27,282</b>
Impairment Losses on Loans and Advances	(3,167)	(3,963)	(15,360)	(12,501)	3,942
<b>Non-Interest Income</b>	<b>17,399</b>	<b>21,389</b>	<b>17,753</b>	<b>20,296</b>	<b>10,223</b>
Foreign Exchange Profit/(Loss)	6,031	7,905	6,701	7,489	4,736
Fee and Commission Income	10,571	11,840	10,163	10,204	5,393
Other Operating Income	796	1,645	889	2,603	94
<b>Non-Interest Expense</b>	<b>(34,512)</b>	<b>(33,564)</b>	<b>(34,360)</b>	<b>(32,962)</b>	<b>(18,964)</b>
Salaries and Benefits	(16,304)	(17,028)	(16,519)	(16,426)	(9,272)
Fees and Commission Expense	(1,138)	(1,008)	(996)	(1,103)	-
Other Operating Expenses	(17,071)	(15,529)	(16,846)	(15,433)	(9,692)
<b>Operating Income/(Loss) before Tax</b>	<b>17,482</b>	<b>22,619</b>	<b>10,683</b>	<b>22,626</b>	<b>14,599</b>
Income Tax Expense	(7,922)	(8,136)	(6,005)	(7,381)	4,457
<b>Net Income/ (Loss) after Income Tax</b>	<b>9,560</b>	<b>14,483</b>	<b>4,678</b>	<b>15,245</b>	<b>10,142</b>
Other Comprehensive Income	(1,605)	(604)	4,838	972	8,796
<b>Total Comprehensive Income</b>	<b>7,955</b>	<b>13,880</b>	<b>9,516</b>	<b>16,217</b>	<b>18,938</b>

Source: KCB Bank Tanzania Limited (Audited Financial Reports (2018 -2021))

<sup>1</sup>Unaudited Financial Information for the period ended 30<sup>th</sup> June 2022.

## 4.11.2 Statement of Financial Position

TZS Millions	2018	2019	2020	2021	Jun-22 <sup>2</sup>
<b>ASSETS</b>					
Cash and Bank balances with Bank of Tanzania	70,363	67,603	82,795	61,912	49,386
Placements with Other Banks	12,004	28,282	69,343	108,526	119,605
Items in the course of collection		73	101	-	-
Loans and Advances to Customers	371,398	398,066	411,504	458,869	542,174
Government Securities at FVOCI	33,653	33,016	63,123	94,208	106,757
Government Securities at Amortized Cost	93,204	84,117	61,300	79,788	80,224
Investment in Other Securities at Amortized Cost	-	-	-	205	613
Property, Plant and Equipment	5,317	5,852	8,384	7,853	7,614
Right of use assets		11,888	9,781	7,611	6,413
Intangible Assets	1,354	957	1,801	2,613	2,198
Deferred Income Tax	6,885	7,358	2,974	3,126	-
Current Income Tax	-	-	1,572	431	-
Derivative Financial Instrument	725	881	896	1,179	1,614
Other Assets	10,899	6,252	9,073	10,046	12,073
<b>Total Assets</b>	<b>605,802</b>	<b>644,346</b>	<b>722,650</b>	<b>836,368</b>	<b>928,671</b>
<b>LIABILITIES</b>					
Deposits from Other Banks & Financial Institutions	142,202	119,794	132,898	187,405	238,176
Deposits from Customers	338,351	384,815	449,300	501,260	525,391
Items in the course of collection	198	-		227	-
Other Liabilities	16,447	12,244	14,267	14,359	14,167
Borrowings	31,660	24,532	17,336	10,087	10,086
Lease Liabilities		12,484	10,817	8,781	7,657
Current Income Tax	370	412	-	-	9
<b>Total Liabilities</b>	<b>529,230</b>	<b>554,281</b>	<b>624,618</b>	<b>722,119</b>	<b>795,486</b>
<b>EQUITY</b>					
Share Capital	62,670	62,670	62,670	62,670	62,670
Retained Earnings	12,423	29,043	25,534	46,491	58,118
General Provision Reserve	3,037	-	-	-	-
Fair Value Reserve	(1,605)	(2,209)	2,629	3,602	12,397
Non Distributable Reserve	47	561	7,198	1,487	-
<b>Total Equity</b>	<b>76,572</b>	<b>90,065</b>	<b>98,032</b>	<b>114,249</b>	<b>133,185</b>
<b>Total Liabilities and Equity</b>	<b>605,802</b>	<b>644,346</b>	<b>722,650</b>	<b>836,368</b>	<b>928,671</b>

Source: KCB Bank Tanzania Limited (Audited Financial Reports (2018 -2021),

<sup>2</sup>Unaudited Financial Information for the period ended 30<sup>th</sup> June 2022.

### 4.11.3 Statement of Cash Flows

Amounts in TZS Millions	2018	2019	2020	2021	Jun-22 <sup>3</sup>
Profit before Tax	17,482	22,619	10,683	22,626	14,599
<b>Adjustment for non-cash items</b>					
Depreciation	1,711	1,679	1,831	2,125	1,617
Amortisation	498	437	391	589	-
Net Impairment Charge on Loans and Advances	3,167	3,963	-	-	3,978
Profit on disposal of items of Property and Equipment	(9)	(23)	(12)	(13)	111
Interest Charge on Long term Borrowing	3,177	(2,715)	2,000	1,170	-
Depreciation on right of use assets		1,065	2,353	2,400	-
Interest Charge Lease Liability		2,290	933	805	-
<b>Cash Flows from Operating Activities before Changes in Working Capital Items</b>	<b>26,026</b>	<b>34,746</b>	<b>18,177</b>	<b>29,702</b>	<b>20,305</b>
<b>Changes in Working Capital Items</b>					
Increase in Loans and Advances to Customers	(77,142)	(30,631)	(13,438)	(47,365)	(83,305)
Increase in Derivative Financial Instrument	(282)	157	(15)	(283)	-
(Increase)/decrease in other assets	(5,320)	4,533	(1,677)	(1,189)	3,987
Increase in deposits		24,055	77,589		74,902
	108,434			106,468	
(Decrease)/increase in other Liabilities	(10,431)	(4,203)	475	92	(1,534)
Itels in the course of payment			-	227	-
Change in recognition of Right in Use and Lease Liability	-	(550)	-	-	-
Decrease in Statutory Minimum Reserve account	70	(694)	(1,009)	(4,280)	(932)
Increase/(decrease) in deposits from other banks			-		-
Increase in Government Securities at FVOCI	(33,653)	9,087	(23,195)	(29,697)	(827)
Decrease/(increase) in Government Securities at amortized cost	84	637	22,817	(18,487)	-
Other Investments in Other Securities at amortized costs	-	-	-	(205)	-
	<b>7,785</b>	<b>37,136</b>	<b>61,546</b>	<b>5,281</b>	<b>(7,709)</b>
Tax paid during the year	(2,082)	(9,162)	(5,679)	(6,809)	(4,595)
<b>Net Cash generated from / (used in) Operating Activities</b>	<b>5,704</b>	<b>27,974</b>	<b>74,045</b>	<b>28,173</b>	<b>8,002</b>
<b>Cash Flow from Investing Activities</b>					
Purchase of Property and Equipment	(1,220)	(2,218)	(4,363)	(1,603)	(963)
Purchase of Intangible Assets	(77)	(39)	(1,235)	(1,401)	-



Proceeds from disposal of items of Property and Equipment	15	27	12	22	111
<b>Net Cash used in Investing Activities</b>	<b>(1,282)</b>	<b>(2,230)</b>	<b>(5,586)</b>	<b>(2,982)</b>	<b>(852)</b>
<b>Cash Flow from Financing Activities</b>					
Proceeds from Borrowings	5,000	-	-	-	-
Principal paid on Borrowings	(6,968)	(6,968)	(6,968)	(6,968)	(1)
Interest paid on Borrowings	(3,289)	(2,876)	(2,228)	(1,450)	-
Lease payment	-	(2,805)	(2,845)	(3,071)	-
<b>Net Cash (used in)/ generated from Financing Activities</b>	<b>(5,258)</b>	<b>(12,649)</b>	<b>(12,040)</b>	<b>(11,490)</b>	<b>(1)</b>
<b>Net (Decrease)/Increase in Cash During the period</b>	<b>(836)</b>	<b>13,094</b>	<b>56,419</b>	<b>13,701</b>	<b>7,149</b>
Cash and Cash Equivalents at the beginning of the year	55,916	55,079	68,812	125,231	138,932
<b>Cash and Cash Equivalents at the year end</b>	<b>55,079</b>	<b>68,174</b>	<b>125,231</b>	<b>138,932</b>	<b>146,081</b>

Source: KCB Bank Tanzania Limited (Audited Financial Reports (2018 -2021),

<sup>3</sup>Unaudited Financial Information for the period ended 30<sup>th</sup> June 2022.

## 4.12 KCB Sahl Banking Financial Summary

### 4.12.1 Statement of Profit and Loss and Other Comprehensive Income and Statement of Financial Position Summary:

Amounts in TZS Millions	Dec-18	Dec-19	Dec-20	Dec-21	Jun-22
Profit Income	2,933	4,601	6,679	6,069	3,130
Profit expense	(385)	(972)	(1,412)	(796)	690
<b>Net Profit Income</b>	<b>2,548</b>	<b>3,629</b>	<b>5,267</b>	<b>5,273</b>	<b>2,440</b>
Net Fees & Commission	1,721	1,367	896	1,187	990
<b>Total Income</b>	<b>4,269</b>	<b>4,996</b>	<b>6,163</b>	<b>6,460</b>	<b>3,430</b>
Deposits	36,935	48,137	48,670	62,627	71,653
Loans	40,935	52,978	56,023	52,582	60,207

Source: KCB Sahl Banking

### 4.12.2 Key Performance Indicators KCB Bank Tanzania Limited

Ratio	2018	2019	2020	2021	June-22
Return on Assets	1.72%	2.48%	0.68%	2.01%	2.40%
Return on Equity	12.45%	18.60%	4.97%	14.71%	17.16%
Cost to Income Ratio	62.57%	55.81%	56.89%	47.20%	50.29%
Net Interest Income to Average Earning Assets	8.19%	7.62%	7.85%	7.63%	7.12%
Shareholders' Funds to Total Assets	12.64%	13.98%	13.57%	13.71%	14.34%
Non-Performing Loans and Advances to Total Gross Loans	6.21%	9.70%	6.11%	2.71%	2.63%
Capital Adequacy Ratio (Tier 1)	15.05%	17.32%	16.11%	17.67%	9.09%
Gross Loans and Advances to Total Deposits	80.19%	82.23%	72.29%	68.15%	72.71%

Loans and Advances to Total Assets	61.31%	61.78%	56.94%	54.87%	58.38%
Loans and Advances Growth	20.05%	7.18%	3.38%	11.51%	18.15%
Total Deposits Growth	5.01%	15.38%	18.01%	12.65%	9.09%
Assets Growth	19.36%	6.36%	12.15%	15.70%	7.79%

### 4.12.3 Key Performance Indicators KCB Sahl Banking

Ratio	2018	2019	2020	2021	June-22
Return on Assets	1.58%	2.25%	0.65%	1.82%	1.09%
Non-Performing Loans and Advances to Total Gross Loans	2.77%	4.48%	4.67%	4.09%	
Total Deposits Growth		29.42%	5.75%	-6.14%	14.50%
Assets Growth		30.33%	1.11%	28.68%	14.41%

### 4.13 End Users, Demand for the Products and Competitors

End users of the Bank's products are individuals and corporates. Financial inclusion and banking penetration levels in the country have increased in recent years due to mobile banking, however, this presents an opportunity for KCB Sahl banking to experience growth backed by population expansion, improving regulatory environment, improved investment environment, rising income levels, increasing awareness and a growing preference for Shari'ah-compliant modes of finance. Moreover, structural factors, such as the expansion of private-sector employment, are expected to enhance demand and increase the banking penetration rate.

The Islamic banking industry comprises of one full-fledged Islamic bank and four Islamic windows of conventional banks. The key competitors of KCB Sahl Banking are the full-fledged Islamic bank and other Islamic windows as listed below:

- (i) Amana Bank Limited
- (ii) PBZ Islamic Division
- (iii) NBC Islamic Window (La Riba) and (iv) CRDB Albaraka Islamic Window

---

Details of  
the Issue  
and Related  
Information

5

## 5.1 Instrument Structure:



The Sukuk has been structured on the basis of Islamic principle of Mudaraba where one partner gives money to another for investment in a business. The capital provider / Sukuk Holders are called "Arbaabul-Maal/ (singular Rabbul Maal)", while the management and work are the exclusive responsibility of the other partner, the Bank, who is called the "Mudarib". The Mudaraba structure will be as follows:

1) The Originator and Issuer (KCBT) initializes Mudaraba Sukuk process by creating a Master Mudaraba Sukuk Agreement (MMSA) between it and Sukuk Investors (to be contained in Initial Public Offer-IPO) with terms and conditions on the Master Mudaraba Sukuk Agreement with a specific pre-agreed rate of return on investment (ROI)

2) KCBT creates a Wadiah Yad Dhamanah with KCB Sahl allowing it to invest the Sukuk proceeds by co-mingling the Sukuk proceeds with its general funds for Investment to generate profits.

3) Sukuk Investors purchase Sukuk and pay Sukuk Proceeds to KCBT which puts them under KCB Sahl as an Investment Manager under Wadiah Yad Dhamanah arrangement. The funds are comingled into General KCB Sahl banking services pool as a Mudaraba Pool.

4) KCB Sahl will invest the Sukuk proceeds together with its other Shari'ah compliant funds as a General Mudaraba Investment Pool and the profit share of the Sukuk investors is used to pay for periodic distributions from Profit Reserve created therefrom.

5) KCB Sahl will deliver part of the profit due to Sukuk investors to KCBT for it to pay periodic distributions to Sukuk Investors four times every year at the agreed profit rate specified in the IPO.

6) At Sukuk maturity- three (3) years, KCBT will purchase the Sukuk from Sukuk investors at market value and will redeem the Sukuk through the Final Dissolution amount plus the final periodic distribution. The remaining part of profit from Sukuk remains with KCB Sahl as part of its general portfolio in its Shari-ah compliant banking activities.

## 5.2 Term Sheet of the Issue:

Issuer & Mudarib	KCB Bank Tanzania Limited (the “Bank” or the “Issuer”);		
Instrument/Issue/Transaction	Unrated, unsecured, subordinated, non-cumulative Mudaraba Sukuk issued to finance KCB Sahl Banking assets portfolio.		
Issue Size	Tanzanian Shillings Ten Billion (TZS 10,000,000,000/-).		
Greenshoe Option	In case of oversubscription, the Issuer has a right to raise up to an additional Tanzanian Shillings Five billion (TZS 5,000,000,000/-).		
Issue Title/Name	The Instrument has been named as “Fursa Sukuk” and being marketed under the same.		
Tenure	Three years fixed maturity;		
Principal Redemption	Applicable at Sukuk maturity;		
Purpose	The purpose is to finance KCB Sahl Banking asset portfolio		
Profit	Payment of Profit	<p>Profit will be payable on a quarterly basis (365/4 days in a year) in arrears on the outstanding investment amount. The first such profit payment will fall due at the last day of third calendar month from the issue date and subsequently every last day of the third calendar month thereafter. The profit should only be paid from the relevant months’ attributable profit of the General Pool;</p> <p>The profit payment to the Sukuk Holders will be non-cumulative in nature. Accordingly, the profit payment made to the Sukuk Holders based on their respective monthly profit weightages will be considered as full and final payment for that particular period;</p>	
	Expected Profit Rate	8.75 % per annum.	
	Profit Sharing Ratio	Issuer	12.50%
		Sukuk holders	87.50%
	Profit Payment Basis	Actual/365 days	
	Profit Payment Frequency	Quarterly basis	
	Profit Payment Date	Profit will be paid on March, June, September and December in each year up to and including the Maturity date (16 <sup>th</sup> December 2025)	
Loss Sharing	In case of loss in the General Pool, the loss will be absorbed by the Issuer by creation of a Profit Equalization Reserve which is a portion of Mudaraba Income set aside by the Issuer		
Security	The Sukuk will be unsecured;		
Face Value	Tanzanian Shillings One Hundred per Sukuk Depository Receipt (TZS 100/-);		
Issue Price	The Sukuk will be issued at par value.		
Form & Denomination	The Sukuk will be issued in denominations and multiples of Tanzanian Shillings One Hundred Thousand (TZS 100,000/-);		

Minimum Investment Amount	Tanzanian Shillings Five Hundred Thousand (TZS 500,000/-);
Issue Date	16th December 2022
Redemption Date	16th December 2025
Eligible Investors for IPO	General Public including Individuals and Institutional Investors;
Placement and Transferability	The Sukuk shall be inducted into the CRDB Bank Register and shall be referred to as Sukuk investment instrument;
Seniority of Claim / Sub-ordination	In case of liquidation, the claim of the Sukuk Holders shall be: <ul style="list-style-type: none"> <li>(i) superior to the claims of ordinary shareholders;</li> <li>(ii) pari-passu without preference amongst Sukuk holders; and</li> <li>(iii) subordinate to and rank inferior to all other debts of the Issuer including deposits and any Tier 2 Capital instruments;</li> </ul>
Issuer Rating	Not applicable in this Sukuk
Instrument Rating	Not Rated
Listing and Public Subscription	Listing will be done via issuance of Information Memorandum at Dar es Salaam Stock Exchange PLC (DSE). The public subscription will remain open for 27 days or any other period approved by the CMSA;
Allotment Policy	All retail applications shall be considered equally for purposes of allotment. In the event of oversubscription, retail allotment will be on a pro rata basis. Allotment for institutional investors will be on a case-by-case basis. The basis of allotment shall be approved by the Capital Markets and Securities Authority and notified to subscribers. Applicants will be informed of the reasons for rejection of an application.
Classification on the Balance Sheet	Sukuk shall be classified as "Liabilities" in the Balance Sheet;
Legal Advisor	CRB Africa Legal
Shari'ah Compliance Manager	Fardus Mohammed
Registrar / Transfer Agent	CRDB Bank PLC (Al Barakah Banking)
Receiving Bank	CRDB Bank PLC (Al Barakah Banking)
Lead Arranger	FIMCO Limited
Shari'ah Advisor	CIFCA Tanzania
Sponsoring Broker	Vertex International Securities Limited
Reporting Accountant	KPMG Tanzania
Applicable Laws	Banking Act, 2006 and other BoT Prudential Regulations issued from time to time; CMSA ACT 1994 and rules and regulations issued thereunder by the CMSA Regulations, Companies Act, 2002, the DSE Rules 2022, Central Securities Depository (CSD) Rules, 2022 and AAOIFI Shari'ah Standards;



## 5.3 Parties Involved

a)		Issuer and Investment Manager
i)	Issuer	KCB Bank Tanzania Limited
ii)	Investment Manager	KCB Sahl Banking
iii)	Registered Office of the Issuer	Harambee Plaza Building, Ali Hassan Mwinyi Road and Kaunda Drive, PO Box 804,

		Dar es Salaam, Tanzania.
iv)	Issuer Business registration number	31740
v)	Date and place of incorporation of the Issuer	17 <sup>th</sup> September 2008, Dar es Salaam
vi)	Issuer's Principal Activities	The Issuer provides banking and other related services permitted under the Banking and Financial Institutions Act, 2006.
vii)	Investment Manager's Principal Activities	The principal activity of the Investment Manager is to provide banking services to various entities, in compliance with Islamic principles (Shari'ah).
viii)	Managing Director	Mr. Cosmas Kimario
ix)	Head of Sahl Banking	Mr. Amour Muro
x)	Financial Calendar	31 <sup>st</sup> December
xi)	Bankers	<p><b>KCB Bank Kenya Ltd,</b> KCB MOI Avenue Branch, P.O Box 30081 Nairobi</p> <p><b>Deutsche Bank AG</b> Head office 60262 Frankfurt Bank sort code: 500 700 10 Swift: DEUTDEFF</p> <p><b>Deutsche Bank Trust Company Americas</b> P.O Box 318, Church Street Station, New York, New York 10008-0318. Cable: BANKTRUS Swift: BKTRUS33</p> <p><b>Deutsche Bank</b> 72, London Wall, London, EC2N 2DB United Kingdom</p>
xii)	Auditors	<p><b>PricewaterhouseCoopers</b> Certified Public Accountants (Tanzania) 369 Toure Drive, Pemba House - Oysterbay P.O Box 45 Dar-es Salaam, Tanzania</p>
xiii)	Legal Advisors	<p><b>EMS Attorneys</b> City Plaza – Golden Tulip, Hotel, Office No. 3.2, Third Floor, Jamhuri Street, P.O. Box 7839, Dar es Salaam – Tanzania Mob: 0764 935 287, 0711 666 700</p> <p><b>Kilindu Giatas &amp; Partners</b> 58 Ursion Street, Regent Estate P.O. Box 195406, Dar es salaam Tanzania Mob: No. 0778 000 222, 0763 119 595</p>

b) Transaction Advisors	
i) Lead Arranger	 <p><b>FIMCO Limited</b> Suite 205 – Jangid Plaza, 2nd Floor Plot No. G6, Chaburuma Road Ali Hassan Mwinyi Road Dar es Salaam, Tanzania +255 22 292 627/+255 767 211 690 <a href="mailto:info@fimco.co.tz">info@fimco.co.tz</a></p>
ii) Sponsoring Broker	 <p><b>Vertex International Securities Limited</b> Zambian High Commission Building Ohio St./Sokoine Drive</p>
iii) Shari’ah Advisor	 <p><b>CIFCA Tanzania</b> 4th Floor, Plot 13 House No.2 Morogoro Road/Lumumba Street P.O. Box 5533 Dar es Salaam- Tanzania</p>
iv) Legal Advisor	 <p><b>CRB Africa Legal</b> 5th Floor, Tanzanite Park Victoria, Bagamoyo Road P.O Box 79958 Dar es Salaam Tanzania</p>
v) Reporting Accountant	 <p><b>KPMG Tanzania</b> The Luminary, 2nd Floor Haile Selassie Road, Masaki Tel: +255767422003/656264800</p>



vi) Receiving Bank	 <b>AL - Barakah</b> <b>BANKING</b> <b>CRDB BANK PLC</b> PLOT No. 25, 26 Ali Hassan Mwinyi Road P.O. Box 268, Dar es Salaam, Tanzania
vii) Registrar	 <b>AL - Barakah</b> <b>BANKING</b> <b>CRDB Bank PLC</b> PLOT No. 25, 26 Ali Hassan Mwinyi Road P.O. Box 268, Dar es Salaam, Tanzania

## 5.4 Offer Timetable

Event	Date
Application Lists Open	09 <sup>th</sup> November 2022
Application Lists Closes	05 <sup>th</sup> December 2022
Date of Allocation	16 <sup>th</sup> December 2022
Announcement Date	19 <sup>th</sup> December 2022
Settlement Date	20 <sup>th</sup> December 2022
Dispatch of Sukuk Depository Receipts	22 <sup>nd</sup> December 2022
Listing Date	05 <sup>th</sup> January 2023

## 5.5 Expenses to the Issue

S/NO	Professional Fees	Amounts in TZS
1.	Lead Arranger	80,000,000
2.	Sponsoring Broker	30,000,000
3.	Legal Advisor	20,000,000
4.	Reporting Accountant	30,000,000
5.	Shari'ah Advisor	50,000,000
6.	Receiving Bank	40,000,000
7.	Registrar	37,500,000
8.	Placing Agents	65,000,000
9.	Marketing Expenses	65,000,000
10.	CMSA Prospectus Evaluation Fees	35,000,000
11.	DSE Application Fees	5,900,000
12.	DSE Annual Listing Fee	4,425,000
13.	CSDR IPO Processing Fee	10,000,000
14.	Printing Depository Receipts	1,000,000
15.	International Securities Identification Number (ISIN)	300,000
16.	Designing and Printing of the IM and Application Forms	31,400,000
	<b>Total</b>	<b>365,225,000</b>

## 5.6 Utilization of Proceeds

The funds raised will be utilized in KCB Sahl Banking financing and investment activities in line with its business strategy. These activities involve providing Shari'ah compliant financing products to its customers as mentioned in section 4.9.2, including Murabaha Financing, Qardh Loans, Commodity Murabaha – Tawarruq, Service Ijarah Financing, and Diminishing Musharaka Financing.

The proceeds of the Issue shall be commingled with other Shari'ah compliant funds (General Pool) and shall be invested in the aforementioned activities of KCB Sahl banking under Mudaraba contract with Sukuk holders who will be owners of Sukuk funds (Rabbul Maal) and KCB Sahl banking who will be the Investment Manager. Profits generated from the General Pool will be shared between Sukuk Holders and KCB Sahl Banking per the indicated profit sharing ratio in this IM. Total deposits in KCB Sahl Banking representing the General Pool as of 30th June 2022 was TZS 71.653 billion hence the Sukuk funds would represent a 21% share, assuming full subscription with green shoe option exercised of TZS 15 billion.

## 5.7 Investors Eligibility

- (i) Tanzanian citizens resident in Tanzania at the time of issuance;
- (ii) Tanzanian citizens residing outside Tanzania;
- (iii) Foreign nationals whether living in Tanzania or not;
- (iv) Companies, bodies corporate or other legal entities incorporated or established in or outside Tanzania (to the extent permitted by their constitutive documents and existing regulations, as the case may be);
- (v) Mutual funds, social security/provident/pension/gratuity funds/trusts (subject to the terms of their trust deeds and existing regulations); and

## 5.8 Minimum Amount of Application and Basis of Allotment of Sukuk

The basis and conditions of allotment shall be as follows:

- i) Face value of the Sukuk is TZS 100/-.
- (ii) The Sukuk will be issued in denominations and multiples of TZS 100,000/-.
- (iii) The minimum amount of application for subscription of Sukuk is TZS 500,000/-.
- (iv) Applications for Sukuk below the aggregate face value of TZS 500,000/- shall not be entertained.
- (v) If the Sukuk to be issued to the general public are sufficient for the purpose, all applications shall be accommodated.
- (vi) If the issue is oversubscribed in terms of amount, then the Issuer will have the right to issue up to an additional TZS 5 billion. All applications shall be allotted on pro- rata basis to all applicants.
- (vii) If the issue is over-subscribed in terms of number of applications and the amount, the Sukuk shall be allotted through computer balloting.
- (viii) Allotment of Sukuk shall be subject to scrutiny of applications for subscription by the Issuer.

## 5.9 Refund of Money to Unsuccessful Applicants

The Issuer shall take a decision within fourteen (14) days of the closure of subscription list as to which applications have been accepted or are successful and refund the money in cases of unaccepted or unsuccessful applications within fourteen (14) days of the date of such decision as required.

## 5.10 Issue and Credit of Sukuk

The Issuer shall credit Sukuk to the successful allottees within fourteen (14) days of closure of subscription list in compliance with the requirements of CMSA. Sukuk will be issued only in the Book-Entry Form through credit in their CDS Accounts. The applicants, therefore, must provide their CDS Account Number (Investor Account Number or Sub-Account Number) in the Sukuk Subscription Form.

The Sukuk issued shall be subject to the terms & conditions for the issuance of the Sukuk specified in this Information Memorandum

## 5.11 Transfer of Sukuk

The Sukuk will be inducted into the DSE, transfer shall be made in accordance with the DSE and CSDR Rules.

## 5.12 Sukuk issued in preceding years

The Issuer has not issued any Sukuk since its incorporation.

## 5.13 Redemption Value

The Sukuk will be redeemed by the Issuer at the market value plus the profit payment accrued on the Sukuk as at the maturity date.

## 5.14 Profit Equalization Reserve

Profit equalization reserve will be set aside by the Issuer out of the Issuer's portion of Mudaraba Income and it will be used to smoothen out the volatility in profit distribution to Sukuk Holders and cover any shortfalls arising from the redemption of the sukuk at the market value.

## 5.15 Deduction of Zakat

Zakat deduction not applicable. Investors will personally pay Zakat on their own as this issuance is for general public and not only for Muslims.

## 5.16 Shari'ah Advisor to the Issue

The Centre for Islamic Finance, Compliance and Advice (CIFCA) is acting as Shari'ah Advisor to the Issue and it has provided its consent to include and publish its name in the Information Memorandum.

## 5.17 CIFCA Shari'ah Board Members

The CIFCA has a renowned Shari'ah Supervisory Board in order to ensure compliance of Shari'ah Standards issued by Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) and governance standards issued by Islamic Financial Services Board (IFSB) in all banking operations in general and revenue generating activities. CIFCA has a committed professional team in the Shari'ah Compliance department consisting of Shari'ah Scholars along with business graduates from reputed organizations.

The profiles of the members of the Shari'ah Board are provided below:

## CIFCA Shari'ah Board Members

S/NO	Name	Office
1.	Sheikh Abdallah Ndauga	Hayatul Ulamaa
2.	Sheikh Mohamed Issa	CIFCA
3.	Sheikh Muharram Mwaita	Hayatul Ulamaa
4.	Sheikh Mohamed Kibab	Hayatul Ulamaa
5.	Sheikh Hassan Katungunya	Hayatul Ulamaa
6.	Sheikh Omar Mahmoud Sharifu	CIFCA
7.	Sheikh Abdallah Msonde	Hayatul Ulamaa
8.	Sheikh Khamis Gharib	Mufti's Office Zanzibar
9.	Sheikh Nassor Tajo	Mufti's Office Zanzibar
10.	Sheikh Shaaban Battashy	Mufti's Office Zanzibar

### 5.17.1 Shari'ah Technical Team

In this issue, CIFCA's technical team was composed of Sheikh Mohamed Issa Hemed, Shari'ah Advisor and a Certified Sukuk Professional and Omar Mahmoud Sharif a Certified Sukuk Professional.

They structured this Fursa Mudaraba Sukuk structure to ensure that it is Shari'ah compliant as well as Master Mudaraba Sukuk and Wadia Yad Dhamanah Agreement. The experience of CIFCA Shari'ah Technical Team is provided below:

#### 1) Sheikh Mohamed Issa - Member, Shari'ah Supervisory Board

- i) Deputy Secretary General -Supreme Council of Ansar Sunnah Organizations in Tanzania
- ii) (BASUTA)
- iii) Executive Committee Member- Muslim Scholars Organization (Hay-atul Ulamaa)
- iv) Executive Committee Member- Awqaf Tanzania
- v) Chairman of Muslim Development Board-Shinyanga
- vi) Shari'ah Advisor to Alhuda Center for Islamic Banking and Economics- Dubai, U.A.E
- vii) Shari'ah Banking and Finance Director- Mytradefinance Pty Limited, Johannesburg South Africa
- viii) Chairman – African Islamic Capital Markets, Banking and Insurance Services Company Limited (AICAMBIS)
- ix) Chairman – Yusra Takaful Brokerage Company Limited
- x) Head Trainer during Capital Markets and Securities Authority (CMSA) five (5) days Sukuk training

#### 2) Omar Mahmoud Sharif

- i) A CIFCA long time resource person
- ii) Holder of post Graduate diploma in Islamic finance and Economy- Alhuda-CIBE, Dubai-U.A.E
- iii) A Certified Sukuk Professional (CSP)-Alhuda-CIBE, Dubai-U.A.E
- iv) Certified Islamic Professional Accountant (CIPA)-Accounting Auditing Organization of Islamic
- v) Financial Institutional, Manama- Bahrain
- vi) A Shari'ah Technical Team member and Advisor to Tanzania Insurance Regulatory Authority
- vii) (TIRA) on Takaful matters
- viii) Assistant Trainer during Sukuk Training to Capital Markets and Securities Authority (CMSA) five (5) days Sukuk training
- ix) Partner-OMRA Business Solutions

## 6 Shari'ah Opinion (CIFCA Certificate)

In The Name of Allah, The Most Beneficent, The Most Merciful



**CIFCA**  
مركز مراقبة المعاملات المالية الإسلامية والإشارات  
Centre for Islamic Finance Compliance and Advice

**A CERTIFICATE OF SHARI'AH COMPLIANCE**  
**for KCB FURSA Mudaraba SUKUK**

The Centre for Islamic Finance, Compliance and Advice (CIFCA) hereby issues this certificate in its capacity as Independent Shari'ah Advisors for the KCB Fursa Mudaraba Sukuk, as per the agreement with KCB Tanzania Limited dated **27th day of May, 2022**.

We, the following undersigned Shari'ah Scholars, have reviewed the **KCB Fursa Mudaraba Sukuk Prospectus, Master Mudaraba Sukuk Agreement, Mudaraba Sukuk Structure, Wadi'ah Wad Dhamanah Agreement** prepared by CIFCA's Certified Sukuk Professionals as well as the whole Information Memorandum (IM) for **FURSA Mudaraba SUKUK** prepared by various parties to this Sukuk issuance.

Based on the rulings and guidelines of the **Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI)'s Shari'ah Standards No 17 and 21**, and to the best of our shariah knowledge,

*We proclaim and affirm that;*

**KCB TANZANIA LIMITED FURSA Mudaraba SUKUK IS  
SHARI'AH COMPLIANT**

**Allah knows the best.**

This religious ruling has been issued and signed by the undersigned on this; -

**01st Day of August, 2022.**

  
Sheikh Mohamed A.H. Mshangama  
Member - Shari'ah Advisory Council



  
Sheikh Omar Idris Msonde  
Member-Shari'ah Advisory Council

  
Sheikh Abdallah S. Ndauga  
Chairman-Shari'ah Advisory Council

Disclaimer: This Shari'ah compliance certificate is being issued in relation to KCB Fursa Mudaraba Sukuk of TZS 10,000,000,000 with a Green shoe option of TZS 5,000,000,000 only. Any other Sukuk to be issued by the Issuer shall be subject to a new Shari'ah compliance review. The certificate is only on Shari'ah compliance nature of KCB Fursa Mudaraba Sukuk and it does not entitle any other act to be done by the issuer in regard to its implementation or a declaration of its economic viability which falls outside the realm of this council.

---

Risk Factors



## 7.1 Risk Factors related to the Issuer:

### **(i) Compliance and Regulatory Risk**

The Issuer operates in a highly regulated environment and non-compliance of such regulations could result to imposition of sanctions by the BoT. Some of those sanction could result to the revocation of the banking license if the bank fails to meet the requirements relating to capital adequacy, minimum capital requirements and anti-money laundering.

The overall responsibility of managing compliance risks lies with the issuer's board. The issuer has risk management systems which are robust with a well-developed risk management framework governed by mandated board and management committees with the relevant expertise. The issuer's risk measures seek to balance regulatory requirements and shareholder expectations for risk-adjusted returns by carefully managing capital, liquidity and funding levels to support business growth, maintain depositor and creditor confidence, and create value for shareholders and other stakeholders

### **(ii) Strategic Risk**

Strategic risk arises due to wrong assumptions in strategic decision making or the failure to react correctly to long-term changes in strategic parameters.

The Bank follows a deliberate low-risk strategy. Within the general constraints of Sukuk niche market, the Bank is aware of the need of reducing risk. The Bank has a well-established strategic planning and evaluation process which involves all levels of management and which is subject to regular review.

### **(iii) Credit Risk**


Credit risk arises from the potential that the Issuer is either unwilling to perform an obligation or its ability to perform such obligations is impaired resulting in economic loss to the Bank. This credit risk arises mainly from both direct financing activities as well as contingent liabilities.

The Issuer manages credit risk by effective credit appraisal mechanism, approving and reviewing authorities, limit structures, internal credit risk rating system, collateral management and post disbursement monitoring so as to ensure prudent financing activities and sound financing portfolio under the umbrella of a comprehensive Credit Policy approved by the Board of Directors.

### **(iv) Liquidity Risk**

Liquidity risk is the potential loss to the Bank arising from its inability either to meet its obligations (financial) or to fund increases in assets as they fall due without incurring unacceptable costs or losses.

The Bank's liquidity at various levels (day to day, short term, long term) is managed by its Treasury and Asset and Liabilities Committee (ALCO) along with the Risk Management Committee (RMC), which is one of the most important management level committees. It serves as a critical role with risk management and treasury department, monitoring and maintaining key liquidity ratios, a viable funding mix, depositor concentration, reviewing contingency plans etc..



Liquidity risk is defined as the potential loss arising from the Bank's inability to meet in an orderly way its contractual obligations when due. Liquidity risk arises in the general funding of the Bank's activities and in the management of its assets. The Bank maintains sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new financings, participate in new investments when opportunities arise, and to meet any other commitments. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs. The bank calculates the Liquidity Asset Ratio ("LAR") on monthly basis as per the Banking and Financial Institutions (Liquidity Management) Regulations, 2014. The objective of LAR is to ensure the short-term resilience of the liquidity risk profile of Bank which requires banks to maintain sufficient High-Quality Liquid Assets (HQLAs) to meet stressed cash outflows over a prospective 30 calendar days period. As of December 31, 2021, Bank's LAR stood at 38.38% against the BoT's minimum requirement of 20%.

#### **v) Market Risk**

Market risk is defined as the risk of losses in on-and-off balance sheet positions arising from movements in market prices e.g., fluctuations in values in tradable, marketable or leasable assets. The risks relate to the current and future volatility of market values of specific assets and of foreign exchange rates and benchmark yields.

The Bank uses various tools and techniques to assess market risk including but not limited to full valuation, stress testing, scenario analysis, Value at Risk (VaR). These assessment methods enable the Bank to estimate changes in the value of the portfolio, if exposed to various risk factors. Moreover, since the Issuer does not deal in interest-based products, the impact of the above risks will be very minimal. The Issuer does not have positions or forward exchange contracts giving mismatches of maturity unless such risks have been taken care of through some other mechanism. The VaR reports are complemented by various other position and sensitivity limit structures, including stress, sensitivity, gap and scenario analysis. The capital charge for market risk has been calculated by using Standardized Approach.

#### **(vi) Yield / Profit Rate Risk**

Yield / Profit rate risk includes all material yield risk positions of the Bank taking into account all repricing and maturity data. It includes current balances and contractual yield rates; the Issuer understands that its Islamic financing and related assets shall be repriced as per their respective contracts.

The Bank estimates changes in the economic value of equity due to changes in the yield rates on on-balance sheet positions by conducting duration gap analysis. It also assesses yield rate risk on earnings of the Bank by applying upward and downward shocks.

Notional principal limits at various levels to control the open position, and ultimately the residual foreign exchange risk of the Bank. The Bank also strictly adheres to all associated regulatory limits.



### **(vii) Country Risk**

Country Risk can be defined as the risk of adverse impact of certain factors on a country's specific economic, political and social scenarios which affects the ability of the country (or a borrower in that country) to repay its obligations.

### **(viii) Systemic Risk**

Systemic risk is the risk of a total or partial collapse of the financial system. Such a collapse could be due to technical factors or market driven (psychological reasons).

Systemic risk is reduced by the activities of BoT national and international regulatory authorities. The Bank actively supports these organizations through its membership of the relevant banking industry association i.e., Tanzania Bankers' Association (TBA) as well a forum on Banks providing Islamic banking in Tanzania. The Bank also takes account of systemic risk by means of careful management of counter party risks in the inter-bank market.

## **7.2 Risk Factors related to the Market:**

### **(I) Secondary Market Risk**

The Sukuk being the first public issued sukuk in Tanzania, the Sukuk may not have a well structured and sufficiently liquid trading market. This may affect the liquidity of the Sukuk, as Investors may not be able to sell their investments easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market

### **(ii) Market Price Risk**

The market prices of the Sukuk depend on various factors, such as changes in the rate of return of government bonds, inflation rates, government monetary policies, or supply and demand for the Sukuk in the secondary market. Changes in these factors may result to fluctuations of the Sukuk market price

### **(iii) Foreign Exchange rate risk**

The Issuer will pay principal and distribute profits to sukuk holders in the Specified Currency. This presents certain risks relating to currency conversion if an investor's financial activities are denominated principally in a currency or currency unit (other than the Specified Currency. Adverse movements in investor currency may result to currency conversion loss.

## **7.2 Risk Factors related to the Sukuk Issue**

### **7.3.1 Summary of Risk Factors related to the Sukuk Issue:**

#### **(i) Shari'ah Non-Compliance Risk**

Shari'ah non-compliance risk arises from Issuer's failure to comply with the Shari'ah rules and principles prescribed by the International Islamic Finance Standard setting bodies such as AAOIFI and IFSB; and / or the Shari'ah Board of the Issuer. It remains the most important operational risk for the Issuer. Compliance of Shari'ah principles must permeate throughout the organization and its adherence should be reflected in the products and activities. This risk is mitigated by the Bank through the presence of; an internal Shari'ah Advisory Board, an Independent Shari'ah Advisor who ensures the Sukuk issue and Information Memorandum are compliant to Shari'ah Laws and an experienced and skilled Shari'ah Compliance Manager overseeing the compliance of the day to day operations of KCB Sahl Banking.

### **(ii) Security and Subordination**

The Sukuk will be unsecured and subordinated to all other indebtedness of the Bank, including the deposits. The Sukuk proceeds will be invested in the General Pool of KCB Sahl Banking. Considering that the General Pool is comprised of different Shari'ah compliant funds, the Sukuk holders have a right over the funds in the General Pool to the extent of their Sukuk investments.

### **(iii) Instrument Liquidity**

The maturity nature of the instrument means that investors would be able to recoup their investment through principal redemption.

The risk will be mitigated to some extent by listing the Sukuk on DSE which will facilitate market trading activity. However, market liquidity might not be sufficient to allow investors an exit without incurring a loss. management of counter party risks in the inter-bank market.

### **(iv) Market Rate of Return on Investment (ROI) Rate**

Market rate of return on investment (ROI) is affected by such factors as the mix of assets, the business's strategy and operations, the state of the economy, political stability, fiscal policy and regulations affecting the profit yield on the Sukuk and hence may lower down its market price. The Sukuk has been priced attractively by considering the financing strategy of KCB Sahl banking and its ability to operate in multiple sectoral segments.

While the above instrument features protect investors from portfolio risks to some extent, the Sukuk's price will be determined by market forces. Therefore, there is no guarantee that market prices will always be favorable to the investors which in principle complies to a Shari'ah maxim "verily incomes are by taking risks".

### **(v) Risk related to Profit Sharing and Loss Bearing**

The nature of Mudaraba Sukuk is profits are shared between the Mudarib and the Rabbul Maal according to a pre-agreed sharing ratio and losses are born by the Rabbul Maal This risk will be mitigated by creation of Profit Equalization Reserve (PER) out of the Issuer's share of profit distribution to cover any shortfalls in periodic distribution to Sukuk holders.

## **DISCLAIMER:**

To the best of our knowledge it is stated that all material risk factors have been disclosed in this paragraph and that nothing has been concealed in this respect. However, there may be additional risk factors, which are not disclosed herein, that are not presently known to us or that are currently deemed to be less significant, which may materially and adversely affect the bank's business, its financial condition, results of operations and prospects.

---

Terms and  
Conditions  
of the  
Mudaraba  
Sukuk



## Description of the Sukuk

The Sukuk represent the Sukuk holders' undivided and proportionate beneficial interest in the Mudaraba Pool as defined below and shall at all times rank pari passu amongst themselves. The Mudaraba Pool will be held by KCB Bank Tanzania (as Mudarib) (the "Issuer") for the benefit of the registered holders of the Mudaraba Sukuk (as Rabbul Maal) (the "Sukuk holders") pursuant to a Master Mudaraba Sukuk Agreement dated 01st November 2022 between the Issuer and the Sukuk holders. The Sukuk is issued to Sukuk holders who have subscribed to the Sukuk by paying the issue price ("Sukuk Proceeds") in accordance to the allotment criteria defined in the Pricing Supplement.

### 8.1 Form, Denomination, Register and Title

#### a) Form and Denominations:

The Sukuk is issued in Tanzanian Shillings, are in registered form and are denominations of TZS 100,000 and integral multiples of TZS 100,000 in excess thereof, subject to a minimum subscription amount of TZS 500,000.

#### b) Register and Title

Register: The Registrar will maintain the Register in respect of the Mudaraba Sukuk in accordance with the provisions of the Registry Agreement. In these Conditions, a "Sukuk holder" means the person in whose name such Mudaraba Sukuk is for the time being registered in the Register (or, in the case of a joint holding, the first named). Only Qualified Persons may be registered as Sukuk holders.

Title: Each Sukuk holder shall (except as otherwise required by law) be treated as the absolute owner of such Mudaraba Sukuk for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein).

### 8.2 Transfers of Sukuk

#### a) Transfers:

The Mudaraba Sukuk may be transferred in accordance with the DSE and CSD Rules 2022 by delivering to the Registrar such information as such regulations and procedures shall require. The Mudaraba Sukuk may not be transferred unless:

- (i) the Nominal Amount of Mudaraba Sukuk to be transferred together with any existing holding of Mudaraba Sukuk by the party acquiring the Mudaraba Sukuk to be transferred are Authorised Holdings;
- (ii) where not all the Mudaraba Sukuk held by a Sukuk holder are being transferred, the Nominal Amount of the balance of Mudaraba Sukuk not transferred is an Authorised Holding;
- (iii) the transferee is a Qualified Person; and
- (iv) the transferee has agreed to accept and be bound by the terms of any Standing Instruction in relation to the Mudaraba Sukuk.

#### b) Transfer Charges:

The transfer of Mudaraba Sukuk will be subject to a charge by the Registrar in accordance with its schedule of charges in force for its services and all such charges shall be borne solely by the transferring Sukuk holder and the transferee in accordance with the Registrar's practice. For the avoidance of doubt, neither the Issuer nor the Investment Manager shall be liable to pay any such charges imposed by the Registrar.

## 8.3 Status

The Mudaraba Sukuk constitute subordinated, unsecured obligations of the Issuer and, except as otherwise required by law, shall rank equally in right of payment to all other unsecured obligations of the issuer

## 8.4 Mudaraba Assets

a) Mudaraba Assets: The proceeds of the sale of the Mudaraba Sukuk will constitute the capital of the Mudaraba and will be used by the Investment Manager to invest in a shari'ah compliant assets to generate profits.

b) Application of Proceeds – Mudaraba Income: Pursuant to and in accordance with the terms of the Mudaraba Agreement, the Mudaraba Assets are held for and on behalf of the Sukuk holders. The proportional shares of the Sukuk holders and the Issuer in the Distributions and any other payments in respect of the Mudaraba Assets received by the Issuer from any Subsidiary, after deduction of the Mudaraba Costs (the "Net Profit"), shall be calculated using the following ratios:

c) Sukuk holders: 87.50 per cent of the Net Profit from the Mudaraba Assets (the "Mudaraba Income"); and Issuer: 12.50 per cent of the Net Profit from the Mudaraba Assets (the "Mudarib Profit").

## 8.5 Periodic Distributions

a) Profit rate: The fixed profit rate ("Profit Rate") will be determined by Investment Manager and Fiscal Agent and the rate shall be applicable throughout the tenure of each issue of the Mudaraba Sukuk. The Profit Rate shall be applicable from the issue date of the respective Mudaraba Sukuk up to the maturity date of that of the Sukuk.

b) Profit payment amount: the Issuer shall pay a distribution to each Sukuk holder in an amount equal to such Sukuk holder's pro rata share of the Profit payment amount.

c) Profit payment frequency: The Sukuk holders will receive Periodic Profits on quarterly intervals ("Periodic Payment Period") in arrears with the first payment commencing three (3) months from the relevant issue date of the Mudaraba Sukuk and the last ending on the date falling on the maturity date.

d) Profit Payment Basis: The Profit Payments of Mudaraba Sukuk shall be calculated based on the actual number of days elapsed and 365 days basis (actual/365).

e) Periodic Payment Date: is the last day of a particular Periodic Payment Period.

## 8.6 Payments

- a) General: Payments under the Mudaraba Sukuk shall be made in a manner described in the Application Form.
- b) Payments subject to Applicable Laws: All payments in respect of the Mudaraba Sukuk are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment. No deductions or expenses shall be charged to the Sukuk holders in respect of such payments.
- c) Payments on Business Days: Payment instructions will be initiated for value on the due date, or, if the due date is not a Business Day, for value on the next succeeding Business Day. A Sukuk holder shall not be entitled to any distribution or other payment in respect of any delay in payment resulting from the due date for a payment not being a Business Day.
- d) Transfer Record Date: Each payment in respect of the Mudaraba Sukuk will be made to the person shown as the Sukuk holder in the Register at the opening of business in the place of the Registrar's specified office on the Transfer Record Date.
- e) Currency of account and payment: The currency of account and for any sum due from the Issuer hereunder is the Tanzanian Shillings.

## 8.7 Purchase of Mudaraba Sukuk and Redemption

- a) Purchase: The Issuer may at any time purchase the Mudaraba Sukuk in the open market or otherwise and at any price agreed between the Sukuk holder and the Issuer.
- b) Cancellation: If any Mudaraba Sukuk are so purchased by the Issuer such Mudaraba Sukuk shall be cancelled and may not be reissued or resold.
- c) Final redemption: Unless previously purchased or cancelled each Sukuk will be redeemed by the Issuer at market value plus the periodic distribution accrued on the Sukuk.

## 8.8 Notices

Notices to the Sukuk holders will be deemed to be validly given if made by e-mail, fax, delivered to them, or sent by registered mail or (if posted to an overseas address) by airmail to them, and:

- a) in the case of any communication made by fax, will be deemed to have been validly given when dispatched with a fax transmission report showing that the entire communication was received by the intended recipient in legible form at its fax number as recorded on the Register; or
- b) in any other case, will be deemed to have been validly given when such communication or document is left with or, as the case may be, 10 days after its being posted to the intended recipient at its address as recorded on the Register.

## 8.9 Dissolution of the Mudaraba Sukuk

Unless previously redeemed, or purchased and cancelled, the Mudaraba Sukuk shall be redeemed on the Maturity Date and each Sukuk holder shall receive its pro rata share of the Redemption Amount. On payment of all amounts due under the Sukuk Documents, the Mudaraba will be dissolved.

## 8.10 Events of Default

Each of the following events and circumstances constitutes an “Event of Default”:

Unless previously redeemed, or purchased and cancelled, the Mudaraba Sukuk shall be redeemed on the Maturity Date and each Sukuk holder shall receive its pro rata share of the Redemption Amount. On payment of all amounts due under the Sukuk Documents, the Mudaraba will be dissolved.

a) Default resulting in non-payment of Periodic Distribution Amount: the amount distributed to Sukuk holders on any Periodic Distribution Date in accordance with Condition 8.4(b) (Application of Proceeds – Mudaraba Income) is less than the Periodic Distribution Amount for such Periodic Distribution Date and such shortfall in amounts has not been paid in full three (3) Business Days after its due date and occurs as a direct result of the Issuer’s default or negligence in performing its obligations under the Sukuk Documents; or

b) Breach of other obligations: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Mudaraba Sukuk or the Sukuk Documents and (except in any case where the failure is incapable of remedy where no continuation or notice as is hereunder mentioned will be required) such default remains unremedied for thirty (30) days after written notice thereof, addressed to the Issuer by any Sukuk holder, has been delivered to the Issuer or to the specified office of the Registrar; or

c) Cross-default of Issuer:

(i) any Indebtedness of the Issuer or any of its Subsidiaries becomes due and payable prior to its stated maturity as a result of an acceleration event (howsoever described) following an event of default; or

(ii) any of the Issuer’s or any of its Subsidiaries’ creditors exercise any or all of their rights, remedies, powers or discretions under any Security Interest granted to them following an event of default (including, without limitation, instructing the relevant account bank(s) to cease to comply with instructions from the Issuer or its Subsidiaries and instead requiring the relevant account bank(s) to comply with the instructions of the creditors from time to time in relation to such accounts);

(iii) the Issuer fails to pay any amount payable by it of any Indebtedness within any applicable grace period;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds TZS 50,000,000,000 (or its equivalent in any other currency or currencies);

d) Unsatisfied judgment: one or more judgment(s) or order(s) for the payment of an amount in excess of TZS 50,000,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate is rendered against the Issuer or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of thirty (30) days after the date(s) thereof or, if later, the date therein specified for payment;

e) Insolvency: (i) the Issuer or any of its Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed over the whole or at

least twenty-five per cent. (25%) of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries (or application for any such appointment is made) and such appointment is not discharged within twenty-eight (28) days, (iii) the Issuer or any of its Subsidiaries makes a general assignment or an arrangement or composition with or for the benefit of its creditors (including any arrangement under the Settlement to Avoid Bankruptcy Law) or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring whilst solvent which is approved by an Extraordinary Resolution); or

f) Winding up: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Subsidiaries (otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring whilst solvent which is approved by an Extraordinary Resolution (any such event, a "Winding Up Proceeding"); or

g) Failure to take action: any action, condition or thing at any time required to be taken, fulfilled or done in order: (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Mudaraba Sukuk or the Sukuk Documents; and (ii) to ensure that those obligations are legal, valid, binding and enforceable is not taken, fulfilled or done; or

h) Unlawfulness: it is or becomes unlawful for the Issuer to perform or comply with any or all of its obligations under or in respect of the Mudaraba Sukuk or the Mudaraba Assets or any of the Sukuk Documents are held by a court not to be legally effective, or the Issuer repudiates or evidences an intention to repudiate any of the Sukuk Documents.

If an Event of Default occurs and is continuing, the Investment Manager will as soon as is reasonably practicable after it receives notice thereof give notice of the occurrence of such Event of Default to the Sukuk holders requiring them to indicate within a period of up to three (3) Business Days, or such other date as is notified to the Sukuk holders by the Investment Manager, (the "Exercise Period") whether they wish to exercise their rights pursuant to the Mudaraba Agreement to require the Issuer to redeem the Mudaraba Sukuk from all Sukuk holders by payment of their pro rata share of the Redemption Amount. Any Sukuk holder may then deliver a notice (an "Event of Default Notice") within such Exercise Period to the Investment Manager declaring the Mudaraba Sukuk held by it to be purchasable or declining to declare the Mudaraba Sukuk held by it to be purchasable.

The Mudaraba Sukuk in respect of which an Event of Default Notice is delivered may not be transferred until after the expiry of the Exercise Period and only to the extent not purchased by the Issuer during such Exercise Period in accordance with the Conditions. If the Investment Manager receives an Event of Default Notice, the Investment Manager shall promptly give notice to the Issuer and the Registrar that such an Event of Default Notice has been received, specifying the Event of Default referred to therein (but so that such notice shall only be given in relation to the first Event of Default Notice received in respect of any Event of Default). If the Investment Manager receives Event of Default Notices from the Required Sukuk holders within the Exercise Period, then the Investment Manager shall promptly deliver to the Issuer an exercise notice (the "Exercise Notice") so notifying the Issuer (with a copy to the Sukuk holders) and, provided that the Event of Default in respect of such Exercise Notice is continuing, the Issuer shall, pursuant to the Mudaraba Agreement, immediately purchase the Mudaraba Sukuk from all Sukuk holders by payment of the Redemption Amount applicable to the Mudaraba Sukuk as of the date on which Event of Default Notices from the Sukuk holders were first received (the "Event of Default Date"), together with payment of the Partial Periodic Distribution Amount, calculated as of the date of such purchase.

## 8.11 Governing Law and Jurisdiction

The Sukuk will be governed by the Laws of the United Republic of Tanzania.



---

General and  
Statutory  
Information



## 9.1 Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Sukuk, including but not limited to a resolution of the Board of Directors of the Bank passed on 15th October 2021.

## 9.2 Licenses

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Sukuk, including but not limited to a resolution of the Board of Directors of the Bank passed on 15th October 2021.

## 9.3 Summary of Material Provisions of the Memorandum and Articles of Association

### 9.3.1 Annual General Meetings

Pursuant to article 51 of the Articles of Association, the Company shall each year hold a general meeting as its annual general meeting in addition to any other meetings in the year and shall specify as such in the notice calling the meeting; not more than fifteen months shall have elapsed between the date of one annual general meeting and the next. The annual general meeting shall be at the registered office of the company or such other place in Tanzania as the Directors shall appoint.

### 9.3.2 Voting Rights

Pursuant to article 67 of the Articles of Association, subject to any rights or restrictions for the time being attached to any class or classes of shares, every member shall have one vote for each share of which it is a holder.

### 9.3.3 Election and approval of directors

Pursuant to article 78, the number of the Directors shall, unless otherwise determined by an ordinary resolution of the Company, neither be less than five nor more than seven. Any director appointed shall be subject to the provisions of article 83 relating to removal from and vacation of the office of a Director.

As long as Kenya Commercial Bank Limited shall hold fifty-one per cent (51%) or more of the issued shares of the Company it shall:

- i) appoint the directors of the Company;
- (ii) appoint the Chairman of the Board from among the Directors of the Company;
- (iii) from time to time appoint, in respect of any director, an Alternate Director available to act in place of such Director whenever he is absent or otherwise unable to act; and
- (iv) remove or replace any Director or Alternate Director from office.

### 9.3.4 Issuance and Alteration of Share Capital

Pursuant to article 6, any share may be issued with such rights or restrictions, whether in regards to dividend, voting, return of capital or otherwise as the Company may from time to time by Ordinary Resolution determine.

Pursuant to article 47 of the Articles of Association, the Company may by Ordinary Resolution consolidate and divide all or any of its share capital into shares of larger amount than its existing shares, sub-divide its existing shares into shares of smaller amount and cancel shares which have been taken or agreed to be taken by any person.

Pursuant to article 48 of the Articles of Association, the Company may by Special Resolution increase its share capital.

## 9.4 Significant or Material Changes

As at the date of this Information Memorandum, there has been no significant change in the financial or trading position of the Bank.

## 9.5 Acquisitions and Disposals of Material Assets

As at the date of this Information Memorandum, there was no acquisition and disposal of material assets otherwise in the ordinary course of business.

## 9.6 Material Litigation

Below is a summary of the Issuer's Material Litigation as at 31st July 2022:

### Summary of Material Litigation

No.	CASE NUMBER	PARTIES	DESCRIPTION	ESTIMATED VALUE OF CLAIM/LOSS (TZS)
1	High Court of Tanzania, Land Division at Dar es Salaam, Land Case No. 320/2017.	Mariam Omary Zahoro Vs KCB Bank and Huduma Ginners Limited and others	The Applicant alleges that she is an administratrix of the estate of the late Zahoro Omary. She filed this case on the allegation that the title deed was stolen from their custody and the same was subsequently mortgaged to the Bank without the knowledge and or consent of the beneficiaries to the estate she therefore prays for the court to nullify the mortgage (issued sometime in 2009) and the subsequent transactions. The Bank had sold the property in 2016 following default by the Borrower (Huduma Ginners). The Judgment was issued in favour of plaintiff. The Bank has appealed against the decision.	241,990,599
2	High Court of Tanzania Land Division, at Dar es Salaam, Land Case No. 5 of 2019	Nichoderm Bethелеhem v/s KCB Bank Tanzania Limited.	The Bank had issued a loan in 2014 to Maimuna Mpanda whereby the property issued as security for loan was in the name of the Plaintiff (Nichoderm Bethелеhem). The Plaintiff upon receipt of the default notice, alleged that the Bank's intended Auction was unlawful as he never consented for his property to be used as collateral Plaintiff prays for nullification of the mortgage.	224,222,313

3	High Court of Tanzania Commercial division Commercial case no. 130 of 2013	Nasra Said Vs. KCB Bank Tanzania Limited	The Plaintiff prays for a declaration against the defendants that the sale of matrimonial property was illegal, also an order to restrain the 1 <sup>st</sup> and 2 <sup>nd</sup> defendants from evicting the plaintiff and his family from the Matrimonial Property. Judgment was delivered in favour of Nasra Said, the Bank has filed the Notice of Appeal, though the Bank is yet to be supplied with the proceedings, judgment for appeal purpose.	79,476,439
4	High Court of Tanzania, DSM District Registry, Misc Land Application No. 391/2021 arising from Land case No. 44 of 2015	KCB Bank Tanzania Ltd vs Rosemary Homanje, Philemon Homanje and Remmy Augustino Kwayu	The Plaintiffs claimed among others that Certificate of title mortgaged to the Bank in favour of the 1 <sup>st</sup> , (Humphrec Insurance Brokers) was fraudulently created, and that the Mortgagor had no right to dispose the same in any manner whatsoever. Judgment was delivered on 22/12/2020 in favour of the Plaintiff and against the Bank. The Bank has filed an appeal.	371,862,358
5	the Resident Magistrate's Court of Kivukoni at Kinondoni. Civil Case No. 81 of 2020.	Levi Ignas Kaduma Vs KCB Bank Tanzania Limited and Sensitive Auction Mart	This case emanates from the mortgage created by Humphrec Insurance in favour of the Bank, who defaulted to service the facility and the collateral was auctioned the Plaintiff became the highest bidder and deposited the sum TZS 26,000,000/=. The original title deed was discharged to him, however transfer to his name is yet to be completed due to the existence of caveat and the case above. The Plaintiff has filed this case for reimbursement of his money and damages. Prior to this, a Lady by the name of Rosemary Homanje filed Land Case No 44 of 2015, which is pending at the high Court of Tanzania, Dar es Salaam District Registry.	95,000,000
6	in the High Court of Tanzania (Commercial Division) at Dar es Salaam Com Case No. 144/2021	Avit Raphael Bureta T/A Kanana Motors General Supply Vs KCB Bank Tanzania Limited	The Plaintiff is the customer to the Bank, his facility having been secured by the landed property comprising of CT No. 108986, LO No. 333149 Plot No. 2095, Block D Mbezi Beach area within Kinondoni Municipality. The Plaintiff claims for general damages caused due to delay by the Bank of releasing his title.	350,000,000
7	District Court of Kinondoni, Civil Case No. 162 of 2022	Winstone Churchill Katwaza Vs KCB Bank Tanzania Limited and Nkaya Company Limited	The Plaintiff prays for among other orders, refund of the purchase price amounting to TZS 145,000,000, and TZS 100,000,000 being general damages for the injuries suffered having bought, through a public auction, landed property comprising of CT No. 114770 Plot No. 517 located at Jangwani sea breeze. transfer of the property could not proceed due to another case filed by the administratrix of the estate of the late Gaitani which ultimately nullified the mortgage.	245,000,000.00

## 9.7 Material Contracts

The Bank has two contracts with Tanzania Mortgage Refinance Company Limited (TMRC) dated 31st December 2021 and 09th August 2022 respectively for the purpose of financing mortgage loans. Both contracts have a term of 5 years.

## 9.8 Consents

### 9.8.1 Shari'ah Opinion

CIFCA Tanzania, the Shari'ah Advisor to the Issuer, have given and not withdrawn their written consent to the inclusion in this Information Memorandum of their Shari'ah Opinion and the references to their names, in the form and context in which they appear and have authorized the contents of their letter set out in this Information Memorandum.

### 9.8.2 Legal Opinion

CRB Africa Legal, Advocates., the Legal Advisor to the Issuer, have given and not withdrawn their written consent to the inclusion in this Information Memorandum of their Legal Opinion and the references to their names, in the form and context in which they appear and have authorized the contents of their letter set out in this Information Memorandum.


### 9.8.3 Reporting Accountant's Report

KPMG Tanzania (KPMG), the Reporting Accountant, have given and have not, prior to the date of the Information Memorandum, withdrawn their written consent to the inclusion of the Reporting Accountant's Report in the Information Memorandum in the form and context in which it appears.

## 9.9 Documents available for inspection

As long as the Sukuk remains outstanding, copies of the following documents will, when published, be available for inspection at the Specified Offices of the Issuer in Dar es Salaam, Tanzania:

- (i) The Memorandum and Articles of Association of the KCB Bank Tanzania Limited;
- (ii) The Audited Financial Statements of the Issuer for the four years ended 31 December 2018, 2019, 2020 and 2021;
- (iii) The Board Resolution approving the Issue;
- (iv) The Reporting Accountant's Report as reproduced in this Information Memorandum and their written consent to the issue of this Information Memorandum with their report included herein in the form and context in which it is so included;
- (v) The legal opinion of Legal Advisor with respect to the validity of the Sukuk and the Sukuk documentation and their written consent to the issue of this Information Memorandum with their report included herein in the form and context in which it is so included;
- (vi) The Shari'ah Compliance Certificate with respect to the Shari'ah Compliance of the Sukuk and the Certificate documentation

- 
- (vii) A copy of the Authorised Collecting Agent Agreements between the Placing Agents and the Issuer;
  - (viii) A copy of Master Mudaraba Sukuk Agreement
  - (ix) A copy of Wadiah Yad Dhamanah Contract;
  - (x) The consents of the advisors to this transaction;
  - (xi) A copy of this Information Memorandum;
  - (xii) A copy of the approval of the CMSA in respect of this issue;
  - (xiii) A copy of DSE's Letter approving the Listing;
  - (xiv) A copy of a letter of no objection from the BOT, in respect of this Issue.
  - (xv) Tax clearance certificate from TRA
  - (xvi) Confirmation of BRELA status of shareholders (BRELA Search)
  - (xvii) Copy of payment remittance
  - (xviii) Certificate of Incorporation

---

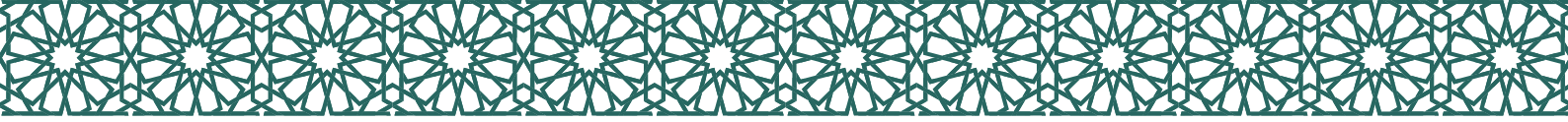
Reporting  
Accountant  
Report

10



**KCB BANK TANZANIA LIMITED**  
**REPORTING ACCOUNTANT'S REPORT**





<b>Contents</b>	<b>Pages</b>
Reporting accountant's report	1-2
Statement of Profit or Loss and Other Comprehensive Income	3
Statement of Financial Position	4
Statement of Changes in Equity	5-6
Statement of Cash Flows	7
Notes to the Financial Statement	8-78
Appendices to the Financial Statement	i- iv
Key Ratios	79
Independent Reporting Accountant's Report on Forecast Financial Information	80-82
Forecast Islamic banking window Income statement, Statement of Financial position and Statement of Cashflows	83-84



KPMG  
Certified Public Accountants  
2nd Floor, The Luminary  
Haile Selassie Road, Masaki  
P O Box 1160  
Dar es Salaam, Tanzania

Telephone +255 22 2600330  
Fax +255 22 2600490  
Email info@kpmg.co.tz  
Internet www.kpmg.com/eastafrika

## 1. Reporting Accountant's Report

To  
Managing Director  
KCB Bank Tanzania Limited  
Harambee, Plaza, Ali Hassan Mwinyi Road  
P. O. Box 804  
Dar es Salaam, Tanzania.

### Introduction

At your request, we submit our Reporting Accountant's Report for the purpose of listing KCB Fursa Sukuk ("Sukuk") as required by Capital Markets and Securities Act of 1994 and subject to the Laws of Tanzania and of the Guidelines for the issue of corporate bonds and commercial paper from the Capital Markets and Securities, 2019.

### Responsibilities of the Directors

The Directors of KCB Bank Tanzania Limited are responsible for the preparation and accuracy of the financial statements of KCB Bank Tanzania Limited for the years ended 31 December 2021, 31 December 2020, and 31 December 2019, and the preparation and presentation of the forecast financial information for three years from 31 December 2022 up to 31 December 2024, and Cashflow for 12 months ending 31 December 2022 ("Forecast Financial Information") and the assumptions on which it is prepared ("Directors' Assumptions").

The statutory financial statements for the years ended 31 December 2021, 31 December 2020, and 31 December 2019 were audited by PricewaterhouseCoopers and received unmodified audit reports.

### Our responsibilities as reporting accountants

Our responsibilities are detailed in our engagement letter. These included compiling a Reporting Accountant's Report that includes the following:

- (a) A compilation report in accordance with the requirements of the Capital Markets and Securities Act of 1994 and subject to the Laws of Tanzania and of the Guidelines for the issue of corporate bonds and commercial paper from the Capital Markets and Securities, 2019 and the International Standard on Related Services applicable to compilation engagements (ISRS) 4410 *Compilation Engagements* set out on pages 3 to 79; and
- (b) A report on the forecast financial information for the three years from 31 December 2022 up to 31 December 2024, and Cashflow for 12 months ending 31 December 2022 including a limited assurance conclusion on the reasonableness of the Directors' Assumptions and an opinion on the Forecast Financial Information in accordance with the International Standard on Assurance Engagements applicable to the examination of prospective financial information (ISAE) 3400 *The Examination of Prospective Financial Information* set out on page 80.

### Consent

We as the Reporting Accountants confirm that we have given, and have not, prior to the date of the Prospectus, withdrawn our written consent to the inclusion of the Reporting Accountant's Report in the Information Memorandum in the form and context in which it appears.

*The engagement partner responsible for the engagement resulting in this Reporting Accountants' Report is Vincent Onjala (TACPA 2722).*

For and on behalf of:

KPMG  
Certified Public Accountants (T)  
P.O. Box 1160 – Dar es Salaam, Tanzania

Date: .....22 September 2022



**KPMG**  
**Certified Public Accountants**  
2nd Floor, The Luminary  
Haile Selassie Road, Masaki  
P O Box 1160  
Dar es Salaam, Tanzania

Telephone +255 22 2600330  
Fax +255 22 2600490  
Email info@kpmg.co.tz  
Internet www.kpmg.com/eastafrica

## REPORTING ACCOUNTANT'S COMPILATION REPORT TO THE DIRECTORS OF KCB BANK TANZANIA LIMITED

We have compiled the accompanying financial statements of KCB Bank Tanzania Limited ("KCB and/or Bank") on pages 3 to 78, based on information you have provided. These financial statements comprise the statements of financial position of KCB Bank Tanzania Limited as at 31 December 2021, 31 December 2020, and 31 December 2019, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards (IFRSs). We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on the financial statements.

*The engagement partner responsible for the engagement resulting in this Reporting Accountants' Report is Vincent Onjala (TACPA 2722).*

*For and on behalf of:*

**KPMG**  
**Certified Public Accountants (T)**  
P. O. Box 1160 – Dar es Salaam, Tanzania

Date: 22 September 2022

**KCB BANK TANZANIA LIMITED**  
**REPORTING ACCOUNTANT'S REPORT**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Note	2021 TZS' 000	2020 TZS' 000	Restated 2019 TZS' 000
Interest and similar income	6	74,413,279	67,792,956	61,728,364
Interest expense and similar charges	7	(26,620,170)	(25,142,239)	(22,970,470)
<b>Net interest income</b>		<b>47,793,109</b>	<b>42,650,717</b>	<b>38,757,894</b>
Fees and commission income	9	10,203,973	10,162,706	11,839,669
Fees and commission expense	9	(1,102,981)	(996,245)	(1,007,755)
<b>Net fees and commission income</b>		<b>9,100,992</b>	<b>9,166,461</b>	<b>10,831,914</b>
Trading income and foreign exchange revaluation	10	7,488,739	6,700,927	7,904,636
Other income	11	2,603,370	12,371	1,644,828
<b>Total income</b>		<b>66,986,210</b>	<b>58,530,476</b>	<b>59,139,272</b>
Impairment charge on loans and advances	8 (c)	(12,501,308)	(14,483,276)	(3,963,183)
<b>Net income after impairment charge on loans and advances</b>		<b>54,484,902</b>	<b>44,047,200</b>	<b>55,176,089</b>
Employee benefits	13	(16,425,523)	(16,518,674)	(17,027,689)
Depreciation and amortisation	18,19 & 20	(5,113,392)	(4,574,390)	(2,115,525)
Other operating expenses	12	(10,319,728)	(12,271,178)	(13,413,411)
<b>Profit before income tax</b>		<b>22,626,259</b>	<b>10,682,958</b>	<b>22,619,464</b>
Income tax expense	14(a)	(7,381,369)	(6,004,542)	(8,136,034)
<b>Profit for the year</b>		<b>15,244,890</b>	<b>4,678,416</b>	<b>14,483,430</b>
<b>Other comprehensive income net of income tax</b>		<b>972,178</b>	<b>4,838,214</b>	<b>(603,595)</b>
<b>Total comprehensive income for the year</b>		<b>16,217,068</b>	<b>9,516,630</b>	<b>13,879,835</b>

**KCB BANK TANZANIA LIMITED**  
**REPORTING ACCOUNTANT'S REPORT**

**STATEMENT OF FINANCIAL POSITION**

	Note	2021 TZS' 000	2020 TZS' 000	2019 TZS' 000
<b>ASSETS</b>				
Cash and bank balances with Bank of Tanzania	15	61,911,887	82,795,180	67,603,266
Placements with other banks	16	108,525,580	69,343,470	28,281,500
Items in the course of collection		-	101,314	73,094
Derivative financial instrument	29	1,179,244	896,073	881,168
Government securities at FVOCI	17	94,208,419	63,122,590	33,016,010
Loans and advances to customers (Net)	8	458,869,033	411,504,319	398,066,183
Government securities at amortized cost	17	79,787,849	61,300,414	84,117,160
Investment in other securities at amortized cost		204,667	-	-
Other assets	22	10,046,399	9,073,220	6,251,973
Current income tax	14(b)	431,079	1,571,906	-
Property and equipment	18	7,853,128	8,384,623	5,852,418
Right-of-use assets	19	7,610,828	9,780,813	11,888,372
Intangible assets	20	2,613,476	1,801,294	956,505
Deferred income tax	21	3,126,167	2,974,433	7,358,366
<b>TOTAL ASSETS</b>		<b>836,367,756</b>	<b>722,649,649</b>	<b>644,346,105</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Deposits from other banks	23	187,405,477	132,897,826	119,794,252
Deposits from customers	24	501,259,955	449,299,592	384,814,535
Items in the course of payment		226,608	-	-
Other liabilities	25	14,359,141	14,267,413	12,244,479
Borrowings	28	10,086,986	17,335,855	24,531,907
Lease liabilities	19	8,780,777	10,817,219	12,483,648
Current income tax	14(b)	-	-	412,469
<b>TOTAL LIABILITIES</b>		<b>722,118,944</b>	<b>624,617,905</b>	<b>554,281,290</b>
<b>EQUITY</b>				
Share capital	26	62,669,936	62,669,936	62,669,936
Retained earnings		46,490,737	25,534,169	29,042,602
Fair value reserve	27	3,601,619	2,629,441	(2,208,773)
Non distributable reserve	27	1,486,520	7,198,198	560,960
<b>TOTAL EQUITY</b>		<b>114,248,812</b>	<b>98,031,744</b>	<b>90,064,725</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>836,367,756</b>	<b>722,649,649</b>	<b>644,346,015</b>

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT  
STATEMENT OF CHANGES IN EQUITY**

	Note	Share capital	Retained earnings	Non distributable reserves	Fair value reserve	General provision	Total
		TZS' 000	TZS' 000	TZS' 000	TZS' 000	-	TZS' 000
<b>At 1 January 2021</b>		62,669,936	25,534,169	7,198,198	2,629,441	-	98,031,744
Profit for the year		-	15,244,890	-	-	-	15,244,890
Change in fair value of government securities at FVOCI		-	-	-	1,388,826	-	1,388,826
Deferred tax on change in fair value of government securities at FVOCI		-	-	-	(416,648)	-	(416,648)
<b>Total comprehensive income for the year</b>		-	15,244,890	-	972,178	-	16,217,068
Transfer to the non-distributable reserve		-	5,711,678	(5,711,678)	-	-	-
<b>At 31 December 2021</b>		62,669,936	46,490,737	1,486,520	3,601,619	-	114,248,812
<b>At 1 January 2020</b>		62,669,936	29,042,602	560,960	(2,208,773)	-	90,064,725
Profit for the year		-	4,678,416	-	-	-	4,678,416
Change in fair value of government securities at FVOCI		-	-	-	6,911,734	-	6,911,734
Deferred tax on change in fair value of government securities at FVOCI		-	-	-	(2,073,520)	-	(2,073,520)
<b>Total comprehensive income for the year</b>		-	4,678,416	-	4,838,214	-	9,516,630
Transfer to the non-distributable reserve		-	(6,637,238)	6,637,238	-	-	-
<b>Owner's movements</b>		-	(1,549,611)	-	-	-	(1,549,611)
Declared dividend-2019		-	-	-	-	-	-
<b>At 31 December 2020</b>		62,669,936	25,534,169	7,198,198	2,629,441	-	98,031,744

**KCB BANK TANZANIA LIMITED**  
**REPORTING ACCOUNTANT'S REPORT**  
**STATEMENT OF CHANGES IN EQUITY**

	Note	Share capital TZS' 000	Retained earnings TZS' 000	Non distributable reserves TZS' 000	Fair value reserve TZS' 000	General provision TZS' 000	Total TZS' 000
At 1 January 2019		62,669,936	12,423,136	47,010	(1,605,178)	3,037,277	76,572,181
Adoption of IFRS 16		-	(387,291)	-	-	-	(387,291)
Restated balance at 1 January 2019		62,669,936	12,035,845	47,010	(1,605,178)	3,037,277	76,184,890
*Profit for the year		-	14,483,430	-	-	-	15,496,112
*Change in fair value of government securities at FVOCI		-	-	-	(862,278)	-	(1,874,960)
Deferred tax on change in fair value of government securities at FVOCI		-	-	-	258,683	-	258,683
<b>Total comprehensive income for the year</b>		-	-	-	<b>(603,595)</b>	-	<b>13,879,835</b>
Transfer to the non-distributable reserve		-	(513,950)	513,950	-	-	-
Transfer from General Provision		-	3,037,277	-	-	(3,037,277)	-
<b>At 31 December 2019</b>		<b>62,669,936</b>	<b>29,042,602</b>	<b>560,960</b>	<b>(2,208,773)</b>	-	<b>90,064,725</b>

\* The restatement relates to IFRS 9 day 1 deferred tax of TZS 1,012,682,000 recognised under change in fair value of government securities at FVOCI instead of being accounted for under income tax charge in the profit or loss.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**STATEMENT OF CASH FLOWS**

	Notes	2021 TZS'000	2020 TZS'000	2019 TZS'000
<b>Profit before tax</b>		22,626,259	10,682,958	22,619,464
<b>Adjustment for non-cash items</b>				
Depreciation	18	2,125,065	1,830,598	1,678,875
Amortisation	20	588,517	390,710	436,650
Profit on disposal of items of property and equipment		(12,700)	(12,371)	(23,244)
Interest charge on long term borrowing	7	1,169,594	1,999,787	2,715,383
Depreciation on right of use assets	19	2,399,810	2,353,082	2,290,144
Interest charge on lease liability	19	805,023	932,587	1,065,093
<b>Cash flows from operating activities before changes in working capital items</b>		<b>29,701,568</b>	<b>18,177,351</b>	<b>30,782,365</b>
<b>Changes in working capital items</b>				
Loans and advances to customers		(47,364,714)	(13,438,136)	(26,667,954)
Derivative financial instrument		(283,171)	(14,904)	156,565
Other assets		(1,189,394)	(1,676,929)	4,621,803
Deposits from customers		51,960,363	85,466,412	46,463,444
Other liabilities		91,728	474,530	(4,202,989)
Items in the course of payment		226,608	-	-
Statutory Minimum Reserve account		(4,280,034)	(1,009,023)	(694,405)
Deposits from other banks		54,507,651	(7,877,781)	(22,407,713)
Government securities at FVOCI		(29,697,003)	(23,194,846)	9,086,600
Government securities at amortized cost		(18,487,435)	22,816,746	636,990
Other investments in other securities at amortized costs		(204,667)	-	-
Tax paid during the year	14 (b)	(6,808,923)	(5,678,504)	(9,162,116)
<b>Net cash generated from operating activities</b>		<b>28,172,577</b>	<b>74,044,916</b>	<b>28,612,590</b>
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	18	(1,602,855)	(4,362,803)	(2,218,385)
Purchase of intangible assets	20	(1,400,700)	(1,235,499)	(38,925)
Proceeds from disposal of items of property and equipment		21,985	12,371	27,197
<b>Net cash used in investing activities</b>		<b>(2,981,570)</b>	<b>(5,585,931)</b>	<b>(2,230,113)</b>
<b>Cash flows from financing activities</b>				
Principal paid on borrowings	28	(6,968,204)	(6,968,204)	(6,968,204)
Interest paid on borrowings	28	(1,450,259)	(2,227,635)	(2,875,765)
Lease payment		(3,071,289)	(2,844,539)	(2,805,352)
<b>Net cash used in financing activities</b>		<b>(11,489,752)</b>	<b>(12,040,378)</b>	<b>(12,649,321)</b>
<b>Net increase in cash and cash equivalents</b>		<b>13,701,255</b>	<b>56,418,607</b>	<b>13,733,156</b>
Cash and cash equivalents at the beginning of the year		125,231,059	68,812,452	55,079,296
<b>Cash and cash equivalents at the year end</b>	15 (b)	<b>138,932,314</b>	<b>125,231,059</b>	<b>68,812,452</b>



KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

KCB Bank Tanzania Limited (the Bank) is a company domiciled in Tanzania. The Bank's registered office is at Harambee Plaza Building, junction of Ali Hassan Mwinyi Road and Kaunda Drive, P. O. Box 804, Dar es Salaam, Tanzania. The parent company is KCB Group Plc, a company registered in Kenya.

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

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Tanzania Companies Act, 2002.

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

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

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

i) *New standards and amended standards adopted by the Bank in 2021*

**Interest rate benchmark reform – phase 2: amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (ibor) is replaced with an alternative nearly risk-free interest rate (rfr). The amendments include the following practical expedients:

- a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by ibor reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- provide temporary relief to entities from having to meet the separately identifiable requirement when an rfr instrument is designated as a hedge of a risk component.

These amendments had no impact on the financial statements of the Bank. The Bank intends to use the practical expedients in future periods if they become applicable.

**Covid-19-Related Rent Concessions beyond 30 June 2021 *Amendments to IFRS 16***

On 28 May 2020, the IASB issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Bank has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

ii) *New and revised standards and interpretation which have been issued but are not effective.*

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

Title	Effective date	Key requirements
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023  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.
IFRS 17, Insurance contracts Amendments	Annual periods beginning on or after 1 January 2023  (Published June 2020)	In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

ii) *New and revised standards and interpretation which have been issued but are not effective (Continued)*

Title	Effective date	Key requirements
Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022  (Published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.
Annual improvements cycle 2018 - 2020	Annual periods beginning on or after 1 January 2022  (Published May 2020)	These amendments include minor changes to: <ul style="list-style-type: none"> <li>IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS.</li> <li>IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation.</li> <li>IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.</li> <li>IAS 41, 'Agriculture' has been amended to align the requirements for measuring fair value with those of IFRS 13. The amendment removes the requirement for entities to exclude cash flows for taxation when measuring fair value.</li> </ul>
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2022 (Published Jan 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(a) Basis of preparation (Continued)**

*ii) New and revised standards and interpretation which have been issued but are not effective (Continued)*

<b>Title</b>	<b>Effective date</b>	<b>Key requirements</b>
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023	<p>The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.</p> <p>To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.</p>
Definition of Accounting Estimates – Amendments to IAS 8	1 January 2023	<p>The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.</p>
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	1 January 2023	<p>The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.</p> <p>The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:</p> <ul style="list-style-type: none"> <li>• right-of-use assets and lease liabilities, and</li> <li>• decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.</li> </ul> <p>IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.</p>

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currency transactions and balances

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.

(c) Recognition of 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.

(d) 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.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

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

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

(e) 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.

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax (Continued)

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.

(f) Financial assets (excluding derivatives)

*Recognition and measurement of financial assets*

*Initial recognition*

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 initial 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*

The Bank classifies its financial assets into the following categories:

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

(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, and are not designated at FVPL. 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, financial assets held to collect, cash and balances with BOT, placement with other banks 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

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (excluding derivatives) (Continued)

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

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. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

(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.

(g) Impairment of financial assets

*Assets carried at amortised cost*

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

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

*Modification of loans*

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

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(g) Impairment of financial assets (Continued)**

*Modification of loans (Continued)*

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 recognizes 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)

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

**(h) Financial Liabilities**

The Bank's holding in financial liabilities is mainly in financial liabilities at amortised cost and financial liabilities at fair value through profit or loss. 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) 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.

**(j) Leases**

**1. The Bank's leasing activities and how these are accounted for**

The Bank leases office space in various parts of the region. Rental contracts are typically made for fixed periods of 4 to 10 years but may have extension options as described in note 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.

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component



**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(j) Leases (Continued)**

**1. The Bank's leasing activities and how these are accounted for (Continued)**

From 1 January 2020, 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, e.g., 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.

**2. 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.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(k) Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. 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 recognized in accordance with IFRS 15.

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

**(l) 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:

<b>Description</b>	<b>Rate</b>	<b>Useful life</b>
Furniture and fittings	10%	10 years
Office equipment	20%	5 years
Software and computer equipment	20%	5 years
Motor vehicles	25%	4 years

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.

Leases of leasehold improvements are classified as operating leases; these include improvements made on leased Bank buildings for its head office and branches. The total payments made under operating leases are charged to the profit and loss on a straight-line basis over the life of the lease period.

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. Leasehold improvements are stated at cost, less accumulated amortisation and accumulated impairment in value. Leasehold improvement amortisations are calculated on straight line basis at annual rates estimated to write down the carrying values of the assets to their residual value over their expected useful lives. The annual amortisation rates in use are:

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Property and equipment (Continued)

Description of items	Amortisation rates	Useful lives
Leasehold improvements	11%	Dependent on lease term of the asset

No amortisation charge is made to leasehold improvements work in progress under refurbishments.

(m) 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.

(n) 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 can also 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.

(o) 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.

(p) 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.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(q) 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.

**(r) Provisions**

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

**(s) Related Parties**

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence on the other party in making either financial or operational decisions. Related party transactions are carried out at arm's length except for staff loans which are issued at concessionary rates.

**(t) Contingent liabilities**

Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the Directors.

**3. FINANCIAL RISK MANAGEMENT**

The Bank's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Bank's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Bank's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors of the Bank has established the Credit, Audit, Risk and Human Resources committees, which are responsible for developing and monitoring the Bank risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

The Committee is assisted in these functions by a Risk and Compliance department which undertake reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

The Bank has exposure to the following risks:

- (a) Credit risk;
- (b) Liquidity risk;
- (c) Market risks;
- (d) Operational risk; and
- (e) Capital management.

This note presents information about the Bank's exposure to each of the above risks, its objectives, policies and processes for measuring and managing the risks, and its management of capital.

**(a) Credit risk**

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

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 and settlement balances with market counterparties and reverse repurchase loans.

**(i) Governance and oversight**

The Board of Directors has delegated responsibility for the management of credit risk to its Board Credit Committee. Credit Division, reporting to the Board Credit Committee, is responsible for the day-to-day management of credit risk, while the Risk and Compliance division, reporting to Risk and Strategy Committee, is responsible for independent credit risk oversight, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Periodically reviewing the credit risk strategy, credit risk management policies, and the underlying credit risk management process of the Bank as a whole, including the Bank tolerance or appetite for credit risk;
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by head of credit, bank credit committee or the board of directors as appropriate;
- Reviewing and assessing credit risk. Bank Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentrations of exposure to counterparties, geographies and industries (for loan and advances), and by issuer, credit rating band, market liquidity and country (for investment securities);
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, counter risk and product types. Regular reports are provided to credit committee in respect of the quality of the loan portfolio; and
- Developing and maintaining the Bank's risk grading in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures;
- Regular audits of business units and Bank credit processes are undertaken by Internal Audit Department.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (Continued)**

*(i) Governance and oversight (Continued)*

The Credit Risk Management Committee is responsible for reviewing the Bank's credit risk strategy and overseeing the implementation of the Credit Risk Management policies, standards and practices as well as providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk. The committee also regularly reviews and reports on the quality of the Bank's loan portfolio and compliance of business units with agreed exposure limits, including those for selected industries and product types.

*(ii) Management and monitoring*

The credit risk management framework enables the Bank to manage credit risk within the limits of its evolving risk appetite, develop risk-response strategies and optimise risk-taking by anticipating and acting on potential opportunities or threats. Specifically, it relies on the Bank's well-established dual control structure, sound credit processes and clear delegation of decision-making authority, amongst other considerations, for the approval of loans.

Credit risk exposures are managed through the Bank's robust credit assessment, structuring and monitoring process. The latter, under the responsibility of the Credit Division, involves the daily monitoring of credit limit excesses as well as the review of all exposures, the frequency of which is increased in accordance to the size and likelihood of potential credit losses to ensure the timely detection of possible default loans. Exposures showing signs of deterioration are placed on early alert list for closer monitoring where appropriate. The Credit division is responsible for independent risk portfolio monitoring and risk measurement methodologies.

*(iii) Credit risk measurement*

Credit risk measurement consists of appraising the track record of customers as appropriate for the prediction of the likely future behaviour of existing accounts for ongoing credit risk management. Ultimately, the Bank assesses whether individual business areas provide sufficient contribution to the targeted risk-return profile, with the aim to ensure that capital allocation generates an optimum return for the Bank. This is achieved by channelling risk capital away from low-return to high-return business areas, in a manner commensurate with the risks assumed.

The Bank's rating grades reflect the range of parameters developed to predict the default probabilities of each rating class in line with international best Practices and in compliance with regulatory requirements. The suitability of the classification of the debt and of the collectible amount is examined by Credit Division.

The Bank ratings scale is as follows:

<b>Grade</b>	<b>Regulatory Classification</b>	<b>Days Past Due</b>	<b>Equivalent IFRS 9 classification</b>
Grade 1	Normal	0 – 30	Stage 1
Grade 2	Especially mentioned	31 – 90	Stage 2
Grade 3	Sub-standard	91 – 180	Stage 3
Grade 4	Doubtful	181 – 360	Stage 3
Grade 5	Loss	> 360	Stage 3

The Bank also assesses the probability of default of customer or counterparty using internal rating scale tailored to the various categories of counter party as described below;

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Credit risk measurement (Continued)

*Retail*

Retail credit comprising mainly residential mortgages, unsecured loans and credit cards are managed on a portfolio basis and assessed, based on credit scoring models, records from the Credit Reference Bureaus, customers' behavioural records, as well as the application of relevant risk acceptance criteria. To ensure the robustness and adequacy of the scoring models, the Risk Division independently conducts formal validation of those models. In collaboration with the Credit Division, Risk regularly analyses default trends, identifies the underlying root causes and subsequently and where applicable results in appraisal of the credit scoring parameters.

*Corporate*

Large corporate credits are assessed using credit software which evaluates the counterparty's financial standing and specific non-quantitative factors such as industry risk, access to funding, market standing and management strength. The ratings generated are used to measure the risk profile of the corporate banking customer segment which consumes a sizeable proportion of capital resources of the Bank. The ratings are also used to set tolerance limits for management of excesses. The counterparty risk rating assigned to smaller business borrowers is primarily based on the counterparty's financial position and strength.

(iv) 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 its 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.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "stage 3".
- 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.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.

*Significant increase in credit risk*

**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:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) (Expected credit loss measurement (Continued))

*Significant increase in credit risk (Continued)*

*Qualitative criteria (Continued)*

- Breach of loan covenants or conditions;
- Initiation of Group bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

**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 done based on external rating as shown in the following table

External rating criteria

<u>No</u>	<u>Rating description</u>	<u>Credit risk</u>	<u>Staging</u>
1	Very Good	Very low risk	Stage 1
2	Good	Low risk	Stage 1
3	Average	Relative low risk	Stage 1
4 & 5	Poor and Very poor	Increase in credit risk	Stage 2
-	Defaulted	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.

*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.



**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (Continued)**

*(iv) Expected credit loss measurement (Continued)*

*Definition of default and credit-impaired assets (Continued)*

**Loans and advances to customers (Continued)**

*Qualitative criteria*

The borrower meets unlikelihood 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.

**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:

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) *Expected credit loss measurement (Continued)*

**Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)**

**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.
- 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, and time to repossession. For unsecured products, LGD's are assessed based cure rate for the product.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12-month EAD) or over the remaining lifetime (Lifetime EAD). For revolving products, the exposure at default is predicted by taking limit or for balances above limit the outstanding balance. For fixed exposures EAD equate to current outstanding balance at the reporting date.

**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 is assessed under the framework of external rating of the counter parties.
- 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 borrower will be unable to meet its debt obligations. PD for this is assessed based on market experience.
- 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 government securities is computed based on collateral placed or recovery rate experience.

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) *Expected credit loss measurement (Continued)*

**Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)**

**Government securities (Continued)**

**Forward - looking information incorporated in the model**

Incorporation of forward-looking parameters in ECL calculation has been assessed and analysed 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 for loans and advances. None of them demonstrated hypothetical based correlation with the bank's default rate evolution over a period under observation. Management overlays have been considered as the alternative approach to determine forward looking information.

(v) *Credit related commitment risk*

The Bank makes available to its customers guarantees which may require the Bank to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

(vi) *Write-off policy*

The Bank writes off loans either partially or in their entirety as and when the Board Credit Committee reviews and accepts the recommendations by the management that the loans or a portion thereof are irrecoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure. A write-off constitutes a derecognition event.

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

**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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)

Loss allowance (Continued)

2021	Stage I		Stage II		Stage III		Total	
	Gross Carrying Amount	12 - Month ECL	Gross Carrying Amount	Lifetime ECL	Gross Carrying Amount	Lifetime ECL	Gross Carrying Amount	ECL
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Balance as at 1 January	306,300,663	2,999,343	75,806,093	1,964,814	38,735,896	4,374,176	420,842,652	9,338,333
<b>Stage transfer</b>								
Stage 1 to stage 2	(46,493,871)	(295,763)	46,493,871	413,594	-	-	-	117,831
Stage 1 to stage 3	(5,203,345)	(149,355)	-	-	5,203,345	2,301,074	-	2,151,719
Stage 2 to stage 1	17,027,031	121,606	(17,027,031)	(662,945)	-	-	-	(541,339)
Stage 2 to stage 3	-	-	(9,358,974)	(94,988)	9,358,974	647,325	-	552,337
Stage 3 to stage 1	8,694,244	108,452	-	-	(8,694,244)	(366,486)	-	(258,034)
Stage 3 to stage 2	-	-	2,271,875	386,006	(2,271,875)	(748,453)	-	(362,447)
Allowance on new loan and advances	164,410,575	1,842,950	14,581,407	234,064	2,429,856	651,394	181,421,838	2,728,408
Payment and assets derecognized	(90,711,618)	(1,823,914)	(22,795,357)	(1,031,147)	(4,977,342)	12,447,599	(118,484,317)	9,592,538
Unwinding of Discount	-	416,129	-	281,583	-	497,079	-	1,194,791
Foreign Exchange Adjustment	(295,724)	(1,627)	(101,599)	(2,024)	(3,776)	(445)	(401,099)	(4,096)
Write off	-	-	-	-	(14,084,120)	(14,084,120)	(14,084,120)	(14,084,120)
<b>Balance as at 31 December</b>	<b>353,727,955</b>	<b>3,217,821</b>	<b>89,870,285</b>	<b>1,488,957</b>	<b>25,696,714</b>	<b>5,719,143</b>	<b>469,294,954</b>	<b>10,425,921</b>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)

Loss allowance (Continued)

2020	Stage I		Stage II		Stage III		Total
	Gross Carrying Amount	12 - Month ECL	Gross Carrying Amount	Lifetime ECL	Lifetime ECL	Gross Carrying Amount	
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Balance as at 1 January	295,124,957	4,546,322	71,943,946	1,434,582	10,912,795	414,959,881	16,893,699
<b>Stage transfer</b>							
Stage 1 to stage 2	(41,424,607)	(1,390,841)	41,424,607	1,032,603	-	-	(358,238)
Stage 1 to stage 3	(5,195,880)	(122,562)	-	-	1,018,987	-	896,425
Stage 2 to stage 1	13,524,433	79,453	(13,524,433)	(59,382)	-	-	20,071
Stage 2 to stage 3	-	-	(4,364,842)	(522,680)	337,478	-	(185,202)
Stage 3 to stage 1	93,619	-	-	-	-	-	-
Stage 3 to stage 2	-	-	351,587	-	-	-	-
Allowance on new loan and advances	121,843,216	1,144,381	12,518,180	224,256	1,459,911	139,607,414	2,828,548
Payment and assets derecognized	(78,471,325)	(1,874,691)	(32,919,342)	(346,340)	11,904,895	(112,332,224)	9,683,864
Unwinding of Discount	-	607,462	-	194,825	1,635,312	-	2,437,599
Foreign Exchange Adjustment	1,009,997	16,222	425,823	6,950	13,973	1,523,159	37,145
Write off	(203,747)	(6,403)	(49,433)	-	(22,909,175)	(22,915,578)	(22,915,578)
<b>Balance as at 31 December</b>	<b>306,300,663</b>	<b>2,999,343</b>	<b>75,806,093</b>	<b>1,964,814</b>	<b>4,374,176</b>	<b>420,842,652</b>	<b>9,338,333</b>

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (Continued)**

**Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)**

**Loss allowance (Continued)**

2019	Stage I 12 - Month ECL TZS'000	Stage II Lifetime ECL TZS'000	Stage III Lifetime ECL TZS'000	Total TZS'000
<b>Balance as at 1 January</b>	<b>5,011,237</b>	<b>1,736,655</b>	<b>7,205,148</b>	<b>13,953,040</b>
<b>Stage transfer</b>				
Stage 1 to stage 2	(696,851)	835,656	-	138,805
Stage 1 to stage 3	(22,341)	-	927,644	905,303
Stage 2 to stage 3	-	(56,521)	237,857	181,336
Stage 2 to stage 1	283,840	(41,042)	-	242,798
Stage 3 to stage 1	12,654	-	(97,306)	(84,652)
Stage 3 to stage 2	-	52,855	(167,371)	(114,516)
Allowance on new loan and advance	1,706,227	11,191	341,567	2,058,985
Charge during the year (with no stage movement)	(1,748,444)	(1,104,212)	3,487,779	635,123
Write off	-	-	(1,022,523)	(1,022,523)
<b>Balance as at 31 December</b>	<b>4,546,322</b>	<b>1,434,582</b>	<b>10,912,795</b>	<b>16,893,699</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)

Loss allowance (Continued)

The maximum exposure to credit risk before collateral held on other credit enhancements (net):

	2021		2020		2019	
	TZS'000	%	TZS'000	%	TZS'000	%
Balances with Bank of Tanzania	42,420,526	5.36%	58,027,643	8.58%	50,146,212	8.38%
Balances due from other banks	108,525,580	13.71%	69,343,470	10.26%	28,281,500	4.72%
Government securities at FVOCI	94,208,419	11.90%	63,122,590	9.34%	33,016,010	5.52%
Government securities at amortized cost	79,992,516	10.11%	61,300,414	9.07%	84,117,160	14.05%
Loans and advances to customers	458,869,033	57.99%	411,504,319	60.67%	398,066,183	66.49%
Other assets (excluding prepayments)	7,336,377	0.93%	11,598,637	2.09%	5,014,459	0.84%
	<b>791,352,451</b>	<b>100%</b>	<b>674,897,073</b>	<b>100%</b>	<b>598,641,524</b>	<b>100%</b>

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

	2021					
	Stage I		Stage II		Stage III	
	12 - Month ECL	Lifetime ECL	Lifetime ECL	Lifetime ECL	Total	
Current	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	
Especially mentioned	353,727,955	7,907,882	123	361,635,960		
Substandard	-	81,962,403	12,984,715	94,947,118		
Doubtful	-	-	2,501,294	2,501,294		
Loss	-	-	3,293,805	3,293,805		
	-	-	6,916,777	6,916,777		
<b>Gross carrying amount</b>	<b>353,727,955</b>	<b>89,870,285</b>	<b>25,696,714</b>	<b>469,294,954</b>		
<b>ECL allowance</b>	<b>(3,217,821)</b>	<b>(1,488,957)</b>	<b>(5,719,143)</b>	<b>(10,425,921)</b>		
<b>Net loans &amp; advances</b>	<b>350,510,134</b>	<b>88,381,328</b>	<b>19,977,571</b>	<b>458,869,033</b>		

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

	Stage I		Stage II		Stage III	
	12 - Month ECL	Lifetime ECL	12 - Month ECL	Lifetime ECL	Lifetime ECL	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Current	306,300,663	20,517,154	12,410,747	339,228,564		
Especially mentioned	-	55,288,939	616,852	55,905,791		
Substandard	-	-	5,361,423	5,361,423		
Doubtful	-	-	10,170,422	10,170,422		
Loss	-	-	10,176,452	10,176,452		
<b>Gross carrying amount</b>	<b>306,300,663</b>	<b>75,806,093</b>	<b>38,735,896</b>	<b>420,842,652</b>		
<b>ECL allowance</b>	<b>(2,999,343)</b>	<b>(1,964,814)</b>	<b>(4,374,176)</b>	<b>(9,338,333)</b>		
<b>Net loans &amp; advances</b>	<b>303,301,320</b>	<b>73,841,279</b>	<b>34,361,720</b>	<b>411,504,319</b>		

	Stage I		Stage II		Stage III	
	12 - Month ECL	Lifetime ECL	12 - Month ECL	Lifetime ECL	Lifetime ECL	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Current	295,124,957	35,335,410	6,780,529	337,240,896		
Especially mentioned	-	36,608,536	956,169	37,564,705		
Substandard	-	-	16,618,106	16,618,106		
Doubtful	-	-	21,233,214	21,233,214		
Loss	-	-	2,302,959	2,302,959		
<b>Gross carrying amount</b>	<b>295,124,957</b>	<b>71,943,946</b>	<b>47,890,977</b>	<b>414,959,880</b>		
<b>ECL allowance</b>	<b>(4,546,322)</b>	<b>(1,434,582)</b>	<b>(10,912,795)</b>	<b>16,893,699</b>		
<b>Net loans &amp; advances</b>	<b>290,578,635</b>	<b>70,509,364</b>	<b>36,987,184</b>	<b>398,066,183</b>		



**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (Continued)**

**Loss allowance (Continued)**

	2021		2020		2019		Total
	Stage I 12 - Month ECL	Stage II Lifetime ECL	Stage I 12 - Month ECL	Stage II Lifetime ECL	Stage I 12 - Month ECL	Stage II Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Off balance sheet *	69,118,586	-	68,496,958	-	84,977,291	3,184,382	88,161,673
ECL allowance	(71,435)	-	(61,884)	-	(61,614)	(2,109)	(63,723)
<b>Net Carry Amount</b>	<b>69,047,150</b>	<b>-</b>	<b>68,435,074</b>	<b>-</b>	<b>84,915,677</b>	<b>3,182,273</b>	<b>88,097,950</b>

\*Excludes undrawn balances of unexpired overdraft facilities as they are assessed under loans and advances to customer.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Loss allowance (Continued)

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

	2021 (%)		2020 (%)		2019 (%)	
	Gross loans & advances	Impairment provisions	Gross loans & advances	Impairment provisions	Gross loans & advances	Impairment provisions
Stage I	75%	31%	73%	32%	71%	28%
Stage II	20%	15%	18%	21%	17%	5%
Stage III	5%	54%	9%	47%	12%	67%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Profile of financial assets subject to credit risk

	2021 (TZS'000)		2020 (TZS'000)		2019 (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	Loans and advances to customers	All other financial assets subject to credit risk
Stage I	353,727,955	332,508,209	306,300,663	263,409,405	295,124,958	200,589,464
Stage II	89,870,285	-	75,806,093	-	71,943,947	-
Stage III	25,696,714	-	38,735,896	-	47,890,977	-
<b>Gross</b>	<b>469,294,954</b>	<b>332,508,209</b>	<b>420,842,652</b>	<b>263,409,405</b>	<b>414,959,882</b>	<b>200,589,464</b>
Less impairment allowances:	(10,425,921)	(24,791)	(9,338,333)	(16,651)	(16,893,699)	(14,123)
<b>Carrying Amount</b>	<b>458,869,033</b>	<b>332,483,418</b>	<b>411,504,319</b>	<b>263,392,754</b>	<b>398,066,183</b>	<b>200,575,341</b>

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (Continued)**

**Profile of financial assets subject to credit risk**

Analysis of all other financial assets subject to credit risk:

	2021 (TZS'000)	Stage I	Stage II	Stage III	ECL	Net
Balances with Bank of Tanzania	42,420,526	-	-	-	-	42,420,526
Balances due from other banks	108,525,909	-	-	-	(329)	108,525,580
Government securities at FVOCI	94,222,409	-	-	-	(13,990)	94,208,419
Government securities at amortized cost	80,002,986	-	-	-	(10,470)	79,992,516
Other assets (excluding prepayments)	7,336,376	-	-	-	-	7,336,377
	<b>332,458,629</b>				<b>(24,789)</b>	<b>332,483,418</b>
	2020 (TZS'000)	Stage I	Stage II	Stage III	ECL	Net
Balances with Bank of Tanzania	58,027,643	-	-	-	-	58,027,643
Balances due from other banks	69,343,534	-	-	-	(64)	69,343,470
Government securities at FVOCI	63,131,158	-	-	-	(8,568)	63,122,590
Government securities at amortized cost	61,308,433	-	-	-	(8,019)	61,300,414
Other assets (excluding prepayments)	11,598,637	-	-	-	-	11,598,637
	<b>263,409,405</b>				<b>(16,651)</b>	<b>263,392,754</b>
	2019 (TZS'000)	Stage I	Stage II	Stage III	ECL	Net
Balances with Bank of Tanzania	50,146,212	-	-	-	-	50,146,212
Balances due from other banks	28,281,693	-	-	-	(193)	28,281,500
Government securities at FVOCI	33,020,223	-	-	-	(4,213)	33,106,010
Government securities at amortized cost	84,126,877	-	-	-	(9,717)	84,117,160
Other assets (excluding prepayments)	5,014,459	-	-	-	-	5,014,459
	<b>200,589,464</b>				<b>(14,123)</b>	<b>200,575,341</b>

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**Profile of financial assets subject to credit risk (Continued)**

At the end of the reporting period, the total impairment provision for loans and advances was TZS 10,425 million (2020: TZS 9,338 million, 2019: TZS 16,894 million).

(a) *Stage 1*

The portfolio of loans and advances that were classified as stage 1 in 2021, 2020 and 2019 can be analysed as follows: (Amounts are in TZS'000).

	AMANA	CORPORATE	MORTGAGE	PERSONAL	(Ex-staff)	SME	STAFF	Total
<b>31-Dec-2021</b>								
Stage I	47,734,922	186,681,787	4,734,560	21,346,873	420,853	86,151,029	6,657,931	353,727,955
ECL	(691,535)	(817,646)	(92,614)	(239,685)	(198,229)	(1,152,473)	(25,639)	(3,217,821)
<b>Net</b>	<b>47,043,387</b>	<b>185,864,141</b>	<b>4,641,946</b>	<b>21,107,188</b>	<b>222,624</b>	<b>84,998,556</b>	<b>6,632,292</b>	<b>350,510,134</b>
<b>31-Dec-2020</b>								
Stage I	37,412,505	180,009,523	2,392,866	20,417,638	321,020	58,267,497	7,479,614	306,300,663
ECL	(662,747)	(1,174,691)	(90,757)	(214,534)	(81,400)	(747,243)	(27,971)	(2,999,343)
<b>Net</b>	<b>36,749,758</b>	<b>178,834,832</b>	<b>2,302,109</b>	<b>20,203,104</b>	<b>239,620</b>	<b>57,520,254</b>	<b>7,451,643</b>	<b>303,301,320</b>
<b>31-Dec-19</b>								
Stage I	47,918,440	163,785,322	4,128,840	22,414,369	569,343	49,312,659	6,995,984	295,124,957
ECL	(540,885)	(1,888,280)	(246,161)	(1,229,835)	(40,718)	(472,884)	(127,559)	(4,546,322)
<b>Net</b>	<b>47,377,555</b>	<b>161,897,042</b>	<b>3,882,679</b>	<b>21,184,534</b>	<b>528,625</b>	<b>48,839,775</b>	<b>6,868,425</b>	<b>290,578,635</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Profile of financial assets subject to credit risk (Continued)

(b) Stage II

Loans and advances that were classified as stage II in 2021, 2020 and 2019 is analysed as follows: (Amounts are in TZS'000)

	AMANA	CORPORATE	MORTGAGE	PERSONAL	(Ex-staff)	SME	Total
<b>31-Dec-2021</b>							
Gross	2,302,244	75,439,375	1,106,186	302,355	2,196	10,717,929	89,870,285
ECL	(8,985)	(1,111,862)	(144,043)	(7,316)	(550)	(216,201)	(1,488,957)
<b>Net</b>	<b>2,293,259</b>	<b>74,327,513</b>	<b>962,143</b>	<b>295,039</b>	<b>1,646</b>	<b>10,501,728</b>	<b>88,381,328</b>
<b>31-Dec-2020</b>							
Gross	13,703,777	50,378,342	648,629	213,647	12,015	10,849,683	75,806,093
ECL	(43,696)	(1,317,265)	(125,575)	(4,172)	(522)	(473,584)	(1,964,814)
<b>Net</b>	<b>13,660,081</b>	<b>49,061,077</b>	<b>523,054</b>	<b>209,475</b>	<b>11,493</b>	<b>10,376,099</b>	<b>73,841,279</b>
<b>31-Dec-19</b>							
Gross	2,708,615	54,292,641	33,119	77,916	2,597	14,829,059	71,943,947
ECL	(14,137)	(1,211,155)	(580)	(4,677)	(364)	(203,670)	(1,434,583)
<b>Net</b>	<b>2,694,478</b>	<b>53,081,486</b>	<b>32,539</b>	<b>73,239</b>	<b>2,233</b>	<b>14,625,389</b>	<b>70,509,364</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Profile of financial assets subject to credit risk (Continued)

(c) Stage III

The breakdown of the gross amount of loans and advances in stage III in 2021, 2020 and 2019 are as follows: (Amounts are in TZS'000).

	AMANA	CORPORATE	MORTGAGE	PERSONAL	(Ex-staff)	SME	Total
<b>31-Dec-2021</b>							
Stage III	2,927,681	13,955,511	468,802	295,254	537,402	7,512,064	25,696,714
ECL	(423,234)	(2,977,696)	(237,302)	(274,743)	(299,657)	(1,506,511)	(5,719,143)
<b>Net</b>	<b>2,504,447</b>	<b>10,977,815</b>	<b>231,500</b>	<b>20,511</b>	<b>237,745</b>	<b>6,005,553</b>	<b>19,977,571</b>
<b>31-Dec-2020</b>							
Stage III	3,512,662	26,782,113	1,306,498	150,099	1,025,424	5,959,100	38,735,896
ECL	(423,064)	(2,276,591)	(216,645)	(141,237)	(390,964)	(925,675)	(4,374,176)
<b>Net</b>	<b>3,089,598</b>	<b>24,505,522</b>	<b>1,089,853</b>	<b>8,862</b>	<b>634,460</b>	<b>5,033,425</b>	<b>34,361,720</b>
<b>31-Dec-19</b>							
Stage III	2,318,349	39,675,725	1,141,666	64,329	845,481	3,845,427	47,890,977
ECL	(479,826)	(9,049,582)	(332,723)	(57,460)	(411,648)	(581,554)	(10,912,793)
<b>Net</b>	<b>1,838,523</b>	<b>30,626,143</b>	<b>808,943</b>	<b>6,869</b>	<b>433,833</b>	<b>3,263,873</b>	<b>36,978,184</b>

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (Continued)**

**Profile of financial assets subject to credit risk (Continued)**

*Other financial assets stage 1*

	2021 TZS'000	2020 TZS'000	2019 TZS'000
Balances with Bank of Tanzania	42,420,526	58,027,643	50,146,212
Balances due from other banks	108,525,251	69,343,534	28,281,693
Government securities at amortized cost	79,982,046	61,308,433	84,126,877
Government securities at FVOCI	94,194,429	63,131,158	33,020,223
Other assets (excluding prepayments)	7,336,376	11,598,637	5,014,459
<b>Total</b>	<b>332,458,628</b>	<b>263,409,405</b>	<b>200,589,464</b>
<b>ECL</b>	<b>(24,789)</b>	<b>(16,651)</b>	<b>(14,123)</b>
<b>Net</b>	<b>332,483,417</b>	<b>263,392,754</b>	<b>200,575,341</b>

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk (Continued)**

*(vii) Collateral on loans and advances*

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are updated when a loan is individually assessed as impaired.

*(viii) Concentration of credit risk*

The Bank focuses on the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a one-year horizon to ensure that its performance is not negatively impacted by a large sectorial exposure default. Additionally, regular stress tests are performed on the portfolio to ensure that the Bank holds sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely related customers.

Overall, it is the policy of the Bank to limit credit risk exposures and concentrations within the constraints of its capital base. An analysis of concentrations of credit risk at the reporting date is shown below:

	2021 TZS '000	2020 TZS '000	2019 TZS '000
<b>Concentration by sectors</b>			
Business services	73,552,581	67,284,673	56,885,414
Manufacturing	50,811,651	41,308,151	62,272,594
Wholesale and retail trade	203,492,404	179,791,858	164,515,052
Transport and communication	41,352,075	53,735,666	33,909,312
Real estate	38,337,887	30,190,152	31,458,100
Others	61,748,355	48,532,152	65,919,409
<b>Total loans and advances (including staff advances)</b>	<b>469,294,954</b>	<b>420,842,652</b>	<b>414,959,881</b>
Commercial loans	461,733,351	413,397,118	407,998,192
Staff loans	7,561,603	7,445,534	6,961,689
	<b>469,294,954</b>	<b>420,842,652</b>	<b>414,959,881</b>

Credit risk exposures relating to off-balance sheet items are as follows:

	2021 TZS' 000	2020 TZS' 000	2019 TZS '000
Business services	9,130,416	27,997,174	35,868,478
Manufacturing	16,226,430	15,572,038	19,950,059
Wholesale and retail trade	61,054,417	34,384,750	44,051,896
Transport and communication	1,692,677	7,508,570	9,619,577
Others	586,909	3,481,620	4,460,465
	<b>88,690,849</b>	<b>88,944,152</b>	<b>113,950,475</b>



KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(viii) Concentration of credit risk (Continued)

Other financial assets

2021	Financial Institution	Government	Other	Total
Balances with Bank of Tanzania	42,420,526	-	-	42,420,526
Balances due from other banks	108,525,580	-	-	108,525,580
Government securities at FVOCI	-	94,208,419	-	94,208,419
Government securities at amortized cost	-	79,787,849	-	79,787,849
Investment in other securities at amortized cost	-	-	204,667	204,667
Other assets (excluding prepayments)	-	-	7,336,376	7,336,376
	<b>150,946,106</b>	<b>173,996,268</b>	<b>7,541,043</b>	<b>332,483,417</b>
<b>2020</b>				
Balances with Bank of Tanzania	58,027,643	-	-	58,027,643
Balances due from other banks	69,343,470	-	-	69,343,470
Government securities at FVOCI	-	63,122,590	-	63,122,590
Government securities at amortized cost	-	61,300,414	-	61,300,414
Other assets (excluding prepayments)	-	-	11,598,637	11,598,637
	<b>127,371,113</b>	<b>124,423,004</b>	<b>11,598,637</b>	<b>263,392,754</b>
<b>2019</b>				
Balances with Bank of Tanzania	50,146,212	-	-	50,146,212
Balances due from other banks	28,281,500	-	-	28,281,500
Government securities at FVOCI	-	33,016,010	-	33,016,010
Government securities at amortized cost	-	84,117,160	-	84,117,160
Other assets (excluding prepayments)	-	-	5,014,459	5,014,459
	<b>78,427,712</b>	<b>117,133,170</b>	<b>5,014,459</b>	<b>200,575,341</b>

(ix) Fair value of collateral held

The Bank holds collateral against loans and advances to customers in the form of cash, residential, commercial, and industrial property; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit.

The Bank also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the bank's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2021, 31 December 2020 and 31 December 2019. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Credit risk**

*(ix) Fair value of collateral held (Continued)*

Credit impaired assets	Gross exposure TZS'000	Impairment Allowance TZS'000	Carrying amount TZS'000	Fair value of collateral held TZS'000
<b>31-Dec-2021</b>				
Stage I	353,727,955	3,217,821	350,510,134	552,758,712
Stage II	89,870,285	1,488,957	88,381,328	127,347,476
Stage III	25,696,714	5,719,143	19,977,571	46,002,425
<b>Total</b>	<b>469,294,954</b>	<b>10,425,921</b>	<b>458,869,033</b>	<b>726,108,613</b>
<b>31-Dec-2020</b>				
Stage I	306,300,663	2,999,343	303,301,320	497,922,260
Stage II	75,806,093	1,964,814	73,841,279	68,071,674
Stage III	38,735,896	4,374,176	34,361,720	58,209,422
<b>Total</b>	<b>420,842,652</b>	<b>9,338,333</b>	<b>411,504,319</b>	<b>624,203,356</b>
<b>31-Dec-19</b>				
Stage I	295,124,957	4,546,322	290,578,635	464,237,017
Stage II	71,943,947	1,434,583	70,509,364	40,498,837
Stage III	47,890,977	10,912,793	36,978,184	54,518,078
<b>Total</b>	<b>414,959,881</b>	<b>16,893,698</b>	<b>398,066,183</b>	<b>559,253,932</b>

**(b) Liquidity risk**

**Liquidity risk**

Liquidity risk is the risk that the bank, though solvent either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due or can secure them only at excessive costs.

**Management of liquidity risk**

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through short-term loans from treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements. When the bank is subject to a liquidity limit imposed by its local regulator, the bank is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Treasury. Treasury monitors compliance of the bank with local regulatory limits on a daily basis.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(b) Liquidity risk (Continued)**

**Management of liquidity risk (Continued)**

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by asset and liability committee (ALCO). Daily reports cover the liquidity position of the bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Bank of Tanzania (BOT) equal to 6% of customer deposits and 40% for Central Government deposits. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short-term Bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

Details of the customer loans and advances to deposits ratio at 31 December 2021, 2020 and 2019 were as follows:

	2021 TZS '000	2020 TZS '000	2019 TZS' 000
Loans and advances to customers	<u>458,869,033</u>	<u>411,504,319</u>	<u>398,066,183</u>
Deposits from customers	<u>501,259,955</u>	<u>449,299,592</u>	<u>384,814,535</u>
Advances to deposits ratio (%)	0.92	0.88	1.03

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Bank believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The table below summarises the Bank's liquidity risk as at 31 December 2021, 31 December 2020, and 31 December 2019 categorized into relevant maturity rankings based on the earlier of the remaining contractual maturities and in line with how the Bank manages its liquidity. Deposits from customers shown as maturing within 90 days relate to current, savings, call and fixed account balances.

At 31 December 2021	Up to 1	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	TZS' 000	TZS' 000	TZS' 000	TZS' 000	TZS' 000	TZS' 000
Cash and balances with Central Banks	35,284,385	18,245,809	7,995,804	385,889	-	61,911,887
Due from banks	108,525,580	-	-	-	-	108,525,580
Government securities at FVOCI	-	-	-	-	94,208,419	94,208,419
Government securities at amortized cost	-	-	-	31,629,678	48,158,171	79,787,849
Investment in other securities at amortized cost	-	101,945	102,722	-	-	204,667
Loans and advances to customers	54,246,803	38,168,716	75,198,675	211,080,018	80,174,821	458,869,033
Derivative financial instruments	118,250	-	1,071,226	-	-	1,189,476
Other assets (excluding Prepayments)	-	7,336,376	-	-	-	7,336,376
<b>Total financial assets</b>	<b>198,175,018</b>	<b>63,852,846</b>	<b>84,368,427</b>	<b>243,095,585</b>	<b>222,541,411</b>	<b>812,033,287</b>
Deposits from banks	187,405,477	-	-	-	-	187,405,477
Deposits from customers	97,694,130	276,533,083	121,184,222	5,848,520	-	501,259,955
Lease liability	886,957	146,544	2,241,400	5,494,619	1,939,738	10,709,258
Other liabilities (excluding statutory deductions)	-	13,952,198	-	-	-	13,952,198
Borrowings	-	-	5,086,986	5,000,000	-	10,086,986
<b>Total financial liabilities</b>	<b>285,986,564</b>	<b>290,631,825</b>	<b>128,512,608</b>	<b>16,343,139</b>	<b>1,939,738</b>	<b>723,413,874</b>
<b>Liquidity Gap</b>	<b>(87,811,546)</b>	<b>(226,778,979)</b>	<b>(44,144,181)</b>	<b>226,752,446</b>	<b>220,601,673</b>	<b>88,619,413</b>
<b>Off Balance</b>						
Letter of credit	4,027,845	10,281,703	19,881,353	171,236	-	34,362,137
Guarantee and indemnities	3,548,243	4,903,298	15,820,654	10,484,254	-	34,756,449
Undrawn overdraft lines	6,316,633	1,849,441	11,406,188	-	-	19,572,262
<b>Total</b>	<b>13,892,721</b>	<b>17,034,442</b>	<b>47,108,195</b>	<b>10,655,490</b>	-	<b>88,690,848</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (Continued)

At 31 December 2020

	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
Cash and balances with Central Banks	59,945,309	16,987,932	5,502,148	359,791	-	82,795,180
Due from banks	69,343,470	-	-	-	-	69,343,470
Government securities at FVOCI	-	-	-	-	63,122,590	63,122,590
Government securities at amortized cost	-	-	-	31,035,986	30,264,428	61,300,414
Loans and advances to customers	40,259,082	30,970,640	80,034,981	191,522,406	68,717,210	411,504,319
Derivative financial instruments	-	177,105	717,378	-	-	894,483
Other assets (excluding Prepayments)	-	7,410,543	-	-	-	7,410,543
<b>Total financial assets</b>	<b>169,547,861</b>	<b>55,546,220</b>	<b>86,254,507</b>	<b>222,918,183</b>	<b>162,104,228</b>	<b>696,370,999</b>
Deposits from banks	104,654,091	28,243,735	-	-	-	132,897,826
Deposits from customers	88,472,598	265,084,214	89,866,325	5,876,455	-	449,299,592
Lease liability	735,151	144,924	2,176,498	7,384,953	3,174,116	13,615,642
Other liabilities (excluding statutory deductions)	-	13,860,469	-	-	-	13,860,469
Borrowings	-	8,763,658	8,572,197	-	-	17,335,855
<b>Total financial liabilities</b>	<b>193,861,840</b>	<b>316,097,000</b>	<b>100,615,020</b>	<b>13,261,408</b>	<b>3,174,116</b>	<b>627,009,384</b>
<b>Liquidity Gap</b>	<b>(24,313,979)</b>	<b>(260,550,780)</b>	<b>(14,360,513)</b>	<b>209,656,775</b>	<b>158,930,112</b>	<b>69,361,615</b>
<b>Off Balance</b>						
Letter of credit	2,297,662	16,774,391	22,957,043	1,667,471	-	43,696,567
Guarantee and indemnities	105,456	7,036,456	13,881,944	3,776,531	-	24,800,387
Undrawn overdraft lines	2,314,390	9,240,501	8,892,303	-	-	20,447,194
<b>Total</b>	<b>4,717,508</b>	<b>33,051,348</b>	<b>45,731,290</b>	<b>5,444,002</b>	<b>-</b>	<b>88,944,148</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (Continued)

The table below summarises the maturity profiles of the bank's financial liabilities as at 31 December 2019 based on the remaining period of the contractual maturity date. Deposits from customers shown as maturing within 90 days relate to current, savings, call and fixed account balances.

	At 31 December 2019					Over 5 years TZS' 000	TZS' 000
	Up to 1 month TZS' 000	1 - 3 months TZS' 000	3 - 12 months TZS' 000	1 - 5 years TZS' 000			
Cash and balances with Central Banks	58,003,844	2,268,338	6,944,695	386,389	-	67,603,266	
Due from banks	28,281,500	-	-	-	-	28,281,500	
Government securities at FVOCI	-	-	-	-	33,016,010	33,016,010	
Government securities at amortized cost	-	9,810,453	29,315,678	26,047,376	18,943,653	84,117,160	
Loans and advances to customers	42,511,663	21,545,866	81,235,047	184,862,934	67,910,673	398,066,183	
Derivative financial instruments	-	-	881,168	-	-	881,168	
Other assets (excluding Prepayments)	-	5,014,459	-	-	-	5,014,459	
<b>Total financial assets</b>	<b>128,797,007</b>	<b>38,639,116</b>	<b>118,376,588</b>	<b>211,296,699</b>	<b>119,870,336</b>	<b>616,979,746</b>	
Deposits from banks	103,913,084	15,881,168	-	-	-	119,794,252	
Deposits from customers	251,862,145	31,416,578	96,184,318	5,351,494	-	384,814,535	
Lease liability	-	-	2,872,055	2,925,661	6,685,932	12,483,648	
Other liabilities (excluding statutory deductions)	-	11,865,939	-	-	-	11,865,939	
Borrowings	-	8,912,951	10,518,077	5,100,879	-	24,531,907	
<b>Total financial liabilities</b>	<b>355,775,229</b>	<b>68,076,636</b>	<b>109,574,450</b>	<b>13,378,034</b>	<b>6,685,932</b>	<b>553,490,281</b>	
<b>Liquidity Gap</b>	<b>22,6978,222</b>	<b>29,437,520</b>	<b>5,802,138</b>	<b>197,891,665</b>	<b>113,184,404</b>	<b>63,487,465</b>	
<b>Off Balance</b>							
Letter of credit	1,548,096	28,362,996	7,383,839	2,631,206	-	39,925,137	
Guarantee and indemnities	4,196,825	12,258,421	27,196,590	4,584,701	-	48,236,537	
Undrawn overdraft lines	2,463,809	5,546,623	17,778,370	-	-	25,788,802	
<b>Total</b>	<b>8,208,730</b>	<b>46,168,040</b>	<b>52,357,799</b>	<b>7,215,907</b>	<b>-</b>	<b>113,950,476</b>	

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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

	Up to 1 Month TZS' 000	Up to 1-3 Months	Up to 3-12 Months TZS' 000	Total TZS' 000
<b>At 31 December 2021</b>				
Foreign currency derivatives:				
Purchase	5,093,350	-	27,019,410	32,112,760
Sale	(4,975,100)	-	(25,948,184)	(30,923,284)
<b>Net</b>	<b>118,250</b>	<b>-</b>	<b>1,071,226</b>	<b>1,189,476</b>
<b>At 31 December 2020</b>				
Foreign currency derivatives:				
Purchase	-	7,137,105	17,653,378	24,790,483
Sale	-	(6,960,000)	(16,936,000)	(23,896,000)
<b>Net</b>	<b>-</b>	<b>177,105</b>	<b>717,378</b>	<b>894,483</b>
<b>At 31 December 2019</b>				
Foreign currency derivatives:				
Purchase	9,771,500	2,431,729	26,551,632	38,754,861
Sale	(9,786,950)	(2,369,732)	(25,706,684)	(37,863,366)
<b>Net</b>	<b>(15,450)</b>	<b>61,997</b>	<b>844,948</b>	<b>891,495</b>

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance and unrecognised loan commitments are not all expected to be drawn down immediately.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Management of market risk**

All foreign exchange risk within the bank is transferred and sold down to Treasury. Overall authority for market risk is vested in ALCO. Bank risk committee is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

(i) Interest rate risk

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may increase as a result of such changes but may reduce losses in the event that unexpected movement arises.

The Bank closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee is the monitoring body for compliance with the set interest rate gaps.

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The table below shows interest rate sensitivity position of the Bank on 31st December 2021/ 31st December 2020 and 31st December 2019 based on the earlier of maturity. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Bank.

	Weighted interest rates	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
<b>At 31 December 2021</b>								
Cash and balances with Central Bank	0%	-	-	-	-	-	61,911,887	61,911,887
Placements with other banks	4%	76,572,580	-	-	-	-	31,953,000	108,525,580
Loans and advances to customers	14%	54,246,803	38,168,716	75,198,675	211,080,018	80,174,821	-	458,869,033
Government securities at FVOCI	13%	-	-	-	-	94,208,419	-	94,208,419
Government securities at amortized cost	14%	-	-	-	31,629,678	48,158,171	-	79,787,849
Investment in other securities at amortized cost	6%	-	101,945	102,722	-	-	-	204,667
Derivative financial instruments	-	-	-	-	-	-	1,179,244	1,179,244
Other assets (excluding Prepayments)	-	-	-	-	-	-	7,336,378	7,336,378
<b>Total assets</b>		<b>130,819,383</b>	<b>38,270,661</b>	<b>75,301,397</b>	<b>242,709,696</b>	<b>222,541,411</b>	<b>102,380,509</b>	<b>812,023,057</b>
Deposits from banks	4%	187,405,477	-	-	-	-	-	187,405,477
Deposits from customers	5%	97,694,129	116,280,649	121,184,223	5,848,521	-	160,252,433	501,259,955
Lease liability	8.5%	810,799	131,823	1,956,862	4,723,157	1,158,136	-	8,780,777
Other liabilities (excluding statutory deductions)	-	-	-	-	-	-	13,952,198	13,952,198
Borrowings	9.2%	-	-	5,086,986	5,000,000	-	-	10,086,986
<b>Total liabilities</b>		<b>285,910,405</b>	<b>116,412,472</b>	<b>128,228,071</b>	<b>15,571,678</b>	<b>1,158,136</b>	<b>174,204,631</b>	<b>721,485,393</b>
<b>Interest rate sensitivity gap</b>		<b>(155,091,022)</b>	<b>(78,141,811)</b>	<b>(52,926,674)</b>	<b>227,138,018</b>	<b>221,383,275</b>	<b>(71,824,122)</b>	<b>90,537,664</b>

In assessing the interest rate risk and therefore making repricing considerations, the bank reviews the interest rate gap at each maturity profile and analyse major trends at individual account level.



KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

- (c) Market risk (Continued)
- (i) Interest rate risk (Continued)

The table below shows interest rate sensitivity position of the Bank on 31st December 2021/ 31st December 2020 and 31st December 2019 based on the earlier of maturity. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Bank.

	Weighted interest rates	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
<b>At 31 December 2021</b>								
Cash and balances with Central Bank	0%	-	-	-	-	-	61,911,887	61,911,887
Placements with other banks	4%	76,572,580	-	-	-	-	31,953,000	108,525,580
Loans and advances to customers	14%	54,246,803	38,168,716	75,198,675	211,080,018	80,174,821	-	458,869,033
Government securities at FVOCI	13%	-	-	-	-	94,208,419	-	94,208,419
Government securities at amortized cost	14%	-	-	-	31,629,678	48,158,171	-	79,787,849
Investment in other securities at amortized cost	6%	-	101,945	102,722	-	-	-	204,667
Derivative financial instruments	-	-	-	-	-	-	1,179,244	1,179,244
Other assets (excluding Prepayments)	-	-	-	-	-	-	7,336,378	7,336,378
<b>Total assets</b>		<b>130,819,383</b>	<b>38,270,661</b>	<b>75,301,397</b>	<b>242,709,696</b>	<b>222,541,411</b>	<b>102,380,509</b>	<b>812,023,057</b>
Deposits from banks	4%	187,405,477	-	-	-	-	-	187,405,477
Deposits from customers	5%	97,694,129	116,280,649	121,184,223	5,848,521	-	160,252,433	501,259,955
Lease liability	8.5%	810,799	131,823	1,956,862	4,723,157	1,158,136	-	8,780,777
Other liabilities (excluding statutory deductions)	-	-	-	-	-	-	13,952,198	13,952,198
Borrowings	9.2%	-	-	5,086,986	5,000,000	-	-	10,086,986
<b>Total liabilities</b>		<b>285,910,405</b>	<b>116,412,472</b>	<b>128,228,071</b>	<b>15,571,678</b>	<b>1,158,136</b>	<b>174,204,631</b>	<b>721,485,393</b>
<b>Interest rate sensitivity gap</b>		<b>(155,091,022)</b>	<b>(78,141,811)</b>	<b>(52,926,674)</b>	<b>227,138,018</b>	<b>221,383,275</b>	<b>(71,824,122)</b>	<b>90,537,664</b>

In assessing the interest rate risk and therefore making repricing considerations, the bank reviews the interest rate gap at each maturity profile and analyse major trends at individual account level.

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

At 31 December 2020	Weighted interest rates	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	Non-interest bearing		Total TZS' 000
							TZS' 000	TZS' 000	
Cash and balances with Central Bank	0%	-	-	-	-	-	-	82,795,180	82,795,180
Placements with other banks	0%	34,111,990	-	-	-	-	-	35,231,480	69,343,470
Loans and advances to customers	1%	40,259,082	30,970,640	80,034,980	191,522,406	68,717,211	-	-	411,504,319
Government securities at FVOCI	14%	-	-	-	-	63,122,590	-	-	63,122,590
Government securities at amortized cost	13%	-	-	-	31,035,986	30,264,428	-	-	61,300,414
Derivative financial instruments	0%	-	-	-	-	-	-	896,073	896,073
Other assets (excluding Prepayments)	0%	-	-	-	-	-	-	7,410,543	7,410,543
<b>Total assets</b>		<b>74,371,072</b>	<b>30,970,640</b>	<b>80,034,980</b>	<b>222,558,392</b>	<b>162,104,229</b>	<b>126,333,276</b>	<b>696,372,589</b>	
Deposits from banks	6%	104,654,091	28,243,735	-	-	-	-	-	132,897,826
Deposits from customers	4%	88,472,598	107,425,215	89,866,326	5,876,455	-	-	157,658,998	449,299,592
Lease liability	8.5%	733,266	142,250	2,065,213	5,907,929	1,968,561	-	-	10,817,219
Other liabilities (excluding statutory deductions)		-	-	-	-	-	-	13,861,677	13,861,677
Borrowings	10%	-	8,763,658	8,572,197	-	-	-	-	17,335,855
<b>Total liabilities</b>		<b>193,859,955</b>	<b>144,574,858</b>	<b>100,503,736</b>	<b>11,784,384</b>	<b>1,968,561</b>	<b>171,520,675</b>	<b>624,212,169</b>	
<b>Interest rate sensitivity gap</b>		<b>(119,488,883)</b>	<b>(113,604,218)</b>	<b>(20,468,756)</b>	<b>210,774,008</b>	<b>160,135,668</b>	<b>(45,187,399)</b>	<b>72,160,420</b>	

The sensitivity to a change of interest rate by +/- 1%, with all other variables held constant, the profit before tax and equity will be higher or lower by TZS 1.2 billion.

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

ii. Currency risk (Continued)

The Bank takes on exposure to 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 total for both overnight and intra-day positions which are monitored daily, and hedging strategies used to ensure that positions are maintained within the established limits. Foreign exchange risk arises from our non-trading asset and liability positions, denominated in currencies other than the functional currency of the respective entity.

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Bank translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date.

The Bank records all gains or losses on changes in currency exchange rates in profit or loss. The Bank operates wholly within Tanzania and its assets and liabilities are reported in the local currency. The Bank's currency risk is managed within the Bank of Tanzania exposure guideline of 7.5% of core capital. (2020: 7.5% of core capital, 2019: 7.5% of core capital). The Bank's management monitors foreign currency exposure daily. The Bank's foreign currency position equivalent TZS as at 31 December 2021, 31 December 2020 and 31 December 2019 was as follows:

At 31 December 2021	USD	GBP	Euro	Other	Total
Cash and balances with Central Banks	15,745,172	352,242	4,261,212	550,476	20,909,102
Placements with other banks	98,061,996	675,828	7,730,157	276,998	106,744,979
Loans and advances to customers	160,703,945	94	1,287,712	121	161,991,872
Other assets	-	-	-	75,749	75,749
<b>Total On Balance sheet Assets</b>	<b>274,511,113</b>	<b>1,028,164</b>	<b>13,279,081</b>	<b>903,344</b>	<b>289,721,702</b>
<b>Off Balance sheet</b>					
Derivative-Purchases	-	-	-	2,997,459	2,997,459
<b>Total Off Balance Sheet Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,997,459</b>	<b>2,997,459</b>
<b>Total financial assets</b>	<b>274,511,113</b>	<b>1,028,164</b>	<b>13,279,081</b>	<b>3,900,803</b>	<b>292,719,161</b>
<b>LIABILITIES</b>					
Deposits from banks	17,994,490		6,654	4,191	18,005,335
Deposits from customers	214,511,958	689,521	12,041,841	2,242,593	229,485,913
Lease liability	8,253,930				8,253,930
Other liabilities	2,885,113	95,336	1,366,907	643,172	4,990,528
<b>Total On Balance sheet Liabilities</b>	<b>243,645,491</b>	<b>784,857</b>	<b>13,415,402</b>	<b>2,889,956</b>	<b>260,735,706</b>
<b>Off Balance sheet</b>					
Derivative-Sales	33,857,400	-	-	-	33,857,400
<b>Total Off Balance sheet Liabilitie</b>	<b>33,857,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,857,400</b>
<b>Total financial liabilities</b>	<b>277,502,891</b>	<b>784,857</b>	<b>13,415,402</b>	<b>2,889,956</b>	<b>294,593,106</b>
<b>Net statement of financial position exposure</b>	<b>(2,991,778)</b>	<b>243,307</b>	<b>(136,321)</b>	<b>1,010,847</b>	<b>(1,873,945)</b>
Exchange rates during the year were as follows:			USD	GBP	Euro
Opening			2,320	3,170	2,853
Average			2,319	3,193	2,742
Closing			2,314	3,116	2,619

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

ii. Currency risk (Continued)

At 31 December 2020	USD	GBP	Euro	Other	Total
Cash and balances with Central Banks	22,124,335	381,858	4,130,563	937,166	27,573,922
Placements with Banks	55,369,686	500,988	12,725,708	575,863	69,172,245
Loans and advances to customers	153,381,169	178	1,055	19	153,382,421
Other assets	944,659	-	-	22,592	967,251
<b>Total On Balance sheet Assets</b>	<b>231,819,849</b>	<b>883,024</b>	<b>16,857,326</b>	<b>1,535,640</b>	<b>251,095,839</b>
<b>Off Balance sheet</b>					
Derivative-Purchases	232,000	-	-	3,060,008	3,292,008
<b>Total Off Balance Sheet Assets</b>	<b>232,000</b>	<b>-</b>	<b>-</b>	<b>3,060,008</b>	<b>3,292,008</b>
<b>Total financial assets</b>	<b>232,051,849</b>	<b>883,024</b>	<b>16,857,326</b>	<b>4,595,648</b>	<b>254,387,847</b>
<b>LIABILITIES</b>					
Deposits from banks	21,758,676	-	43,027	304	21,802,007
Deposits from customers	184,325,449	866,486	16,401,918	1,879,809	203,473,662
Lease liability	10,060,014	-	-	-	10,060,014
Other liabilities	914,491	-	56	2,167,831	3,082,378
<b>Total on Balance sheet Liabilities</b>	<b>217,058,630</b>	<b>866,486</b>	<b>16,445,001</b>	<b>4,047,944</b>	<b>238,418,061</b>
<b>Off Balance sheet</b>					
Derivative-Sales	23,896,000	-	-	-	23,896,000
<b>Total Off Balance sheet Liabilities</b>	<b>23,896,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,896,000</b>
<b>Total financial liabilities</b>	<b>240,954,630</b>	<b>866,486</b>	<b>16,445,001</b>	<b>4,047,944</b>	<b>262,314,061</b>
<b>Net statement of financial position exposure</b>	<b>(8,902,781)</b>	<b>16,538</b>	<b>412,325</b>	<b>547,704</b>	<b>(7,926,214)</b>

Exchange rates during the year were as follows:

	USD	GBP	Euro
Opening	2,299	3,035	2,582
Average	2,316	2,984	2,654
Closing	2,320	3,170	2,853

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

ii. Currency risk (Continued)

At 31 December 2019	USD	GBP	Euro	Other	Total
Cash and balances with Central Banks	29,965,987	124,718	2,616,483	611,549	33,318,737
Placements with Banks	15,477,218	335,048	10,124,935	9,527	25,946,728
Loans and advances to customers	165,068,679	5,395	9,245	1,362	165,084,681
Other assets	651,247	-	-	29,643	680,890
<b>Total On Balance sheet Assets</b>	<b>211,163,131</b>	<b>465,161</b>	<b>12,750,663</b>	<b>652,081</b>	<b>255,031,036</b>
<b>Off Balance sheet</b>					
Derivative-Purchases	6,897,000	-	-	5,523,344	12,420,344
<b>Total Off Balance Sheet Assets</b>	<b>6,897,000</b>	<b>-</b>	<b>-</b>	<b>5,523,344</b>	<b>12,420,344</b>
<b>Total financial assets</b>	<b>218,060,131</b>	<b>465,161</b>	<b>12,750,663</b>	<b>6,175,425</b>	<b>237,451,380</b>
<b>LIABILITIES</b>					
Deposits from banks	38,095,299	-	71,280	-	38,166,579
Deposits from customers	152,973,820	586,612	12,397,311	1,402,360	167,360,103
Lease liability	11,991,368	-	-	-	11,991,368
Derivatives					
Other liabilities	905,739	-	7,714	2,491,042	3,404,495
<b>Total on Balance sheet Liabilities</b>	<b>203,966,226</b>	<b>586,612</b>	<b>12,476,305</b>	<b>3,893,402</b>	<b>220,922,545</b>
<b>Off Balance sheet</b>					
Derivative-Sales	25,403,950	-	-	-	25,403,950
<b>Total Off Balance sheet Liabilities</b>	<b>25,403,950</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,403,950</b>
<b>Total financial liabilities</b>	<b>229,370,176</b>	<b>586,612</b>	<b>12,476,305</b>	<b>3,893,402</b>	<b>246,326,495</b>
<b>Net statement of financial position exposure</b>	<b>(11,310,045)</b>	<b>(121,451)</b>	<b>274,358</b>	<b>2,282,023</b>	<b>(8,875,115)</b>

Exchange rates during the year were as follows:

	USD	GBP	Euro
Opening	2,301	2,937	2,638
Average	2,309	2,955	2,688
Closing	2,299	3,035	2,582

**KCB BANK TANZANIA LIMITED**  
**REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(c) Market risk (Continued)**

**iii. Analysis of the Bank's sensitivity to changes in exchange rates**

**Sensitivity analysis**

A 10% increase in the rate of the local currency against the following currencies as at 31 December 2021, 31 December 2020 and 31 December 2019 would have increased/ (decreased) profit or loss for revaluation by the amounts as shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

The analysis is performed on the same basis for 2021.

	2021 Currency Carrying Amount	10% Depreciation	10% Appreciation
<b>Assets</b>			
USD	274,511,113	(27,451,111)	27,451,111
GBP	1,028,164	(102,816)	102,816
Euro	13,279,081	(1,327,908)	1,327,908
Other	3,900,803	(390,080)	390,080
	<u>292,719,161</u>	<u>(29,271,916)</u>	<u>29,271,916</u>
<b>Liabilities</b>			
USD	277,502,891	27,750,289	(27,750,289)
GBP	784,857	78,486	(78,486)
Euro	13,415,402	1,341,540	(1,341,540)
Others	2,889,956	288,996	(288,996)
	<u>294,593,106</u>	<u>29,459,311</u>	<u>(29,459,311)</u>
Total increase/(decrease)		187,395	(187,395)
Tax charge at 30%		56,218	(56,218)
Effect on net profit		131,176	(131,176)
Percentage of net profit		0.58%	(0.58%)
Profit Before Tax		22,626,259	22,626,259

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

iii. Analysis of the Bank's sensitivity to changes in exchange rates (Continued)

Sensitivity analysis (Continued)

	2020	10%	10%
	Currency Carrying Amount	Depreciation	Appreciation
<b>Assets</b>			
USD	232,051,849	(23,205,185)	23,205,185
GBP	883,024	(88,302)	88,302
Euro	16,857,326	(1,685,733)	1,685,733
Other	4,595,648	(459,565)	459,565
	<u>254,387,847</u>	<u>(25,438,785)</u>	<u>25,438,785</u>
<b>Liabilities</b>			
USD	240,954,630	24,095,463	(24,095,463)
GBP	866,486	86,649	(86,649)
Euro	16,445,001	1,644,500	(1,644,500)
Others	4,047,944	404,794	(404,794)
	<u>262,314,061</u>	<u>26,231,406</u>	<u>(26,231,406)</u>
Total increase /(decrease)		792,621	(792,621)
Tax charge at 30%		237,786	(237,786)
Effect on net profit		554,835	(554,835)
Percentage of net profit		5.2%	(5.2%)
Profit Before Tax		10,682,958	10,682,958
	2019	10%	10%
	Currency Carrying Amount	Depreciation	Appreciation
<b>Assets</b>			
USD	218,060,131	(21,806,013)	21,806,013
GBP	465,160	(46,516)	46,516
Euro	12,750,663	(1,275,066)	1,275,066
Other	6,175,424	(617,542)	617,542
	<u>237,451,378</u>	<u>(23,745,137)</u>	<u>23,745,137</u>
<b>Liabilities</b>			
USD	229,370,176	22,937,018	(22,937,018)
GBP	586,612	58,661	(58,661)
Euro	12,476,305	1,247,631	(1,247,631)
Others	3,893,402	389,340	(389,340)
	<u>246,326,495</u>	<u>24,632,650</u>	<u>(24,632,650)</u>
Total increase/(decrease)		887,513	(887,513)
Tax charge at 30%		266,254	(266,254)
Effect on net profit		621,259	(621,259)
Percentage of net profit		2.75%	(2.75%)
Profit Before Tax		22,619,464	22,619,464

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(c) Market risk (Continued)**

**iv. Price risk**

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

At 31 December 2021, if the price of the government securities 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 97.2 million higher/lower (2020: TZS 483.8 million and 2019: TZS 4.44 billion).

**(d) Operational risk management**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank operations and are faced by all business units.

The Bank objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a program of regular reviews undertaken by both the Internal Audit and Compliance department. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

**(e) Capital management**

The primary objective of the Bank's capital management is to ensure that the Bank complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

**Regulatory capital**

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Bank of Tanzania. The Bank of Tanzania sets and monitors capital requirements for the banking industry as a whole.



KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (Continued)

(e) Capital management (Continued)

Regulatory capital (Continued)

In implementing current capital requirements, Bank of Tanzania requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains/losses on equity and debt instruments classified as held to collect and sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The capital management policies of the group remain consistent with prior year.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. FINANCIAL RISK MANAGEMENT (Continued)**

**(e) Capital management (Continued)**

**Regulatory capital (Continued)**

The Bank has complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the year.

The Bank's regulatory capital position at 31 December 2021, 31 December 2020 and 31 December 2019 was as follows:

	2021 TZS' 000	2020 TZS' 000	2019 TZS'000
<b>Core capital (Tier 1)</b>			
Share capital	62,669,936	62,669,936	62,669,936
Retained earnings	46,490,737	25,532,962	29,042,602
	<u>109,160,673</u>	<u>88,202,898</u>	<u>91,712,538</u>
Less: deductions from capital			
Prepaid expenses	(2,710,023)	(1,662,677)	(1,237,514)
Deferred tax assets	(3,126,167)	(2,974,433)	(7,358,366)
<b>Total qualifying Tier 1</b>	<u>103,324,483</u>	<u>83,565,788</u>	<u>83,116,658</u>
<b>Supplementary capital (Tier 2)</b>	-	-	-
Fair Valuation Reserve – FVOCI Securities	3,601,619	2,629,441	-
<b>Total capital</b>	<u>106,926,102</u>	<u>86,195,229</u>	<u>83,116,658</u>
<b>Risk weighted assets</b>			
On-balance sheet	476,681,339	419,357,480	368,667,815
Off-balance sheet	57,088,952	53,955,805	68,862,770
Market Risk	4,222,252	2,133,799	3,597,274
Operational Risk	46,706,248	43,340,040	38,885,435
<b>Total risk weighted assets</b>	<u>584,698,791</u>	<u>518,787,124</u>	<u>480,013,294</u>
<b>Capital ratios</b>			
Core capital /total risk weighted assets (BoT minimum: 12.5%)	17.67%	16.11%	17.32%
Total capital /total risk weighted assets (BoT minimum: 14.5%)	18.29%	16.61%	17.32%

**4. USE OF ESTIMATES AND JUDGMENTS**

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

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is set out below.

These disclosures supplement the commentary on financial risk management (see Note 5).

**(a) Allowances for credit losses**

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. USE OF ESTIMATES AND JUDGMENTS**

**(a) Allowances for credit losses (Continued)**

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recognized in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Were the collateral values differing by +/- 10%, the impairment loss would have been TZS 2,214 million (2020: TZS 2,581 million, 2019: TZS 7,839 million) lower or higher respectively. A difference in recovery period of 1 year would result in a TZS 2,697 million (2020: TZS 3,780 million, 2019: TZS 5,973 million) lower or higher impairment loss.

**(b) 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). No potential future cash outflows have not been included in the lease liability as the assessment has taken into account the full term of the leases.

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, no such event or change occurred.

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.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. USE OF ESTIMATES AND JUDGMENTS (continued)**

**(b) Leases (Continued)**

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.

**Determining fair values**

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

**(c) Taxes**

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

**(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.

**COVID-19 impact**

Due to the coronavirus (COVID-19) pandemic, governments across the world declared national lockdowns, which have resulted in extensive travel restrictions and quarantine measures being implemented. Businesses globally have had to limit or suspend their operations and as such, the COVID-19 measures implemented by governments globally have severely impacted a wide range of industries, including the financial sector. Due to the global economic downturn, a significant increase in the volatility of the financial and commodities markets worldwide has been noted.

Due to the unprecedented nature of the COVID-19 pandemic, it is not possible to accurately predict the full extent and duration of its economic impact.

While the specific areas of judgement detailed in these financial statements did not change, given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impact of such a pandemic has resulted in, additional judgements having been applied within those identified areas, which has resulted in changes to the estimates and assumptions that have been applied in the measurement of some of the group's assets and liabilities from the prior period.

Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. USE OF ESTIMATES AND JUDGMENTS (Continued)**

**(e) Intangible assets (Continued)**

**Significant estimates, judgements and assumptions**

The table below provides an overview of the areas where additional judgement has been applied and includes references to the relevant sections in the notes to the annual financial statements, where additional information has been included.

Description
<b>Impairment provisions on advances</b>
<b>Incorporating forward-looking information</b>
Forward-looking information, including a detailed explanation of the scenarios and related probabilities considered in determining the Bank's forward-looking assumptions for the purposes of its Expected Credit Loss (ECL), has been provided. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of the social and economic consequences of COVID-19 will manifest, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.
<b>Significant increase in credit risk</b>
The Bank has not approached the ECL impact of COVID-19 on an overall blanket approach (where COVID-19 is seen as a Significant Increase in Credit Risk (SICR) trigger that will result in the entire portfolio of advances moving into their respective next staging bucket). A consideration was done at customer level to consider the impact of significant increase in credit risk due to COVID – 19.
<b>Loss given default</b>
In determination of loss given default for secured facilities the Bank incorporates collaterals in the model. For the industries which have been impacted by COVID-19 a judgement haircut has been applied on the collateral. This has been considered on a customer-by-customer basis.

**The key statement of financial position items and related disclosures that have been impacted by COVID-19**

In addition to the key areas where additional judgement has been applied, the following balances and related disclosures have also been impacted by COVID-19.

Description	Additional information
<b>Financial instruments</b>	
<b>COVID-19 debt relief measures provided to customers</b>	
Due to the COVID-19 pandemic and resultant impact on the economy, a liquidity crisis was experienced by a large number of customers across the Bank. In order to assist customers, the Bank has provided various relief measures to customers. In the corporate and retail segments, these included the following: Restructure of existing exposures with no change in the present value of the estimated future cash flows; and Restructure of existing exposures with a change in the present value of the estimated future cash flows.  Debt relief measures were provided on a client-by-client basis and the impact was considered on instances where the Bank considered the circumstances to be representative of a significant increase in credit risk	For the impact on the staging of debt relief measures refer to accounting policy note 3 (a) Impairment of financial assets -  There were no modification gains or loss during the period.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. USE OF ESTIMATES AND JUDGMENTS (Continued)**

**COVID-19 impact (Continued)**

<b>Fair value measurement</b>	
The valuation techniques for fair value measurement of financial instruments have been assessed by the Bank level to determine the impact that the market volatility introduced by COVID-19 has had on the fair value measurements of these instruments.	Note 4 Fair Value Measurement
When assessing the fair value measurement of financial instruments for this period, the valuation models have been built to take into consideration the market environment for the respective country.	

**Critical accounting judgements in applying the bank's accounting policies**

Critical accounting judgements made in applying the Bank's accounting policies include:

**Valuation of financial instruments**

The Bank's accounting policy on fair value measurements.

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. USE OF ESTIMATES AND JUDGMENTS (Continued)**

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below as at 31 December 2021, 31 December 2020 and 31 December 2019:

	Level 1 TZS' 000	Level 2 TZS' 000	Level 3 TZS' 000	Total TZS' 000
<b>At 31 December 2021</b>				
Government securities at FVOCI	-	94,208,419	-	94,208,419
Derivative financial instruments	-	-	1,179,244	1,179,244
	<u>-</u>	<u>94,208,419</u>	<u>1,179,244</u>	<u>95,387,663</u>
<b>At 31 December 2020</b>				
Government securities at FVOCI	-	63,122,590	-	63,122,590
Derivative financial instruments	-	-	896,073	896,073
	<u>-</u>	<u>63,122,590</u>	<u>896,073</u>	<u>64,018,663</u>
<b>At 31 December 2019</b>				
Government securities at FVOCI	-	33,016,010	-	33,016,010
Derivative financial instruments	-	-	881,168	881,168
	<u>-</u>	<u>33,016,010</u>	<u>881,168</u>	<u>33,897,178</u>

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**5. FINANCIAL ASSETS AND LIABILITIES**

**a) Accounting classifications and fair values**

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments not measured at fair value.

At 31 December 2021	At amortised cost TZS' 000	Total carrying amount TZS' 000	Level 1 TZS' 000	Level 2 TZS' 000	Level 3 TZS' 000	Fair value TZS' 000
<b>Financial assets</b>						
Cash and balances with Central Bank	61,911,887	61,911,887	-	-	61,911,887	61,911,887
Due from other banks	108,525,580	108,525,580	-	-	108,525,580	108,525,580
Government securities at amortised cost	79,992,516	79,992,516	-	92,419,181	-	92,419,181
Loans and advances to customers	458,869,033	458,869,033	-	-	458,869,033	458,869,033
Other assets (excluding prepayments)	7,336,376	7,336,376	-	-	7,336,376	7,336,376
<b>Total financial assets</b>	<b>716,635,392</b>	<b>716,635,392</b>	<b>-</b>	<b>92,419,181</b>	<b>636,642,876</b>	<b>729,062,057</b>
<b>Liabilities</b>						
Due to other banks	187,405,478	187,405,478	-	-	187,405,478	187,405,478
Deposits from customers	501,259,955	501,259,955	-	-	501,259,955	501,259,955
Items in the course of payment	226,608	226,608	-	-	226,608	226,608
Lease liability	8,780,777	8,780,777	-	-	8,780,777	8,780,777
Other liabilities (excluding statutory deductions)	13,952,198	13,952,198	-	-	13,952,198	13,952,198
Borrowings	10,086,986	10,086,986	-	-	10,086,986	10,086,986
<b>Total financial liabilities</b>	<b>721,712,002</b>	<b>721,712,002</b>	<b>-</b>	<b>-</b>	<b>721,712,002</b>	<b>721,712,002</b>



**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**5. FINANCIAL ASSETS AND LIABILITIES (Continued)**

**a) Accounting classifications and fair values (Continued)**

**At 31 December 2020**

	At amortised cost TZS' 000	Total carrying amount TZS' 000	Level 1 TZS' 000	Level 2 TZS' 000	Level 3 TZS' 000	Fair value TZS' 000
<b>Financial assets</b>						
Cash and balances with Central Bank	82,795,180	82,795,180	-	-	82,795,180	82,795,180
Items in the course of collection	101,314	101,314	-	-	101,314	101,314
Due from other banks	69,343,470	69,343,470	-	-	69,343,470	69,343,470
Government securities at amortised cost	61,300,414	61,300,414	-	71,000,808	-	71,000,808
Loans and advances to customers	411,504,319	411,504,319	-	-	411,504,319	411,504,319
Other assets (excluding prepayments)	7,410,543	7,410,543	-	-	7,410,543	7,410,543
<b>Total financial assets</b>	<b>632,455,240</b>	<b>632,455,240</b>	<b>-</b>	<b>71,000,808</b>	<b>571,154,826</b>	<b>642,155,634</b>
<b>Liabilities</b>						
Due to other banks	132,897,826	132,897,826	-	-	132,897,826	132,897,826
Deposits from customers	449,299,592	449,299,592	-	-	449,299,592	449,299,592
Lease liability	10,817,219	10,817,219	-	-	10,817,219	10,817,219
Cheques in the course of collection and other liabilities	13,860,469	13,860,469	-	-	13,860,469	13,860,469
Borrowings	17,335,855	17,335,855	-	-	17,335,855	17,335,855
<b>Total financial liabilities</b>	<b>624,210,961</b>	<b>624,210,961</b>	<b>-</b>	<b>-</b>	<b>624,210,961</b>	<b>624,210,961</b>

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**5. FINANCIAL ASSETS AND LIABILITIES (Continued)**

**b) Accounting classifications and fair values (Continued)**

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments not measured at fair value.

**At 31 December 2019**

	At amortised cost		Total carrying amount	Fair value		
	TZS' 000	TZS' 000		Level 1	Level 2	Level 3
			TZS' 000	TZS' 000	TZS' 000	TZS' 000
<b>Financial assets</b>						
Cash and balances with Central Bank						
Items in the course of collection	67,603,266		67,603,266	-	67,603,266	67,603,266
Due from other banks	73,094		73,094	-	-	73,094
Government securities at amortised cost	28,281,500		28,281,500	-	28,281,500	28,281,500
Loans and advances to customers	84,117,160		84,117,160	-	86,678,819	86,678,819
Other assets (excluding prepayments)	398,066,183		398,066,183	-	398,066,183	398,066,183
<b>Total financial assets</b>	<b>583,155,662</b>		<b>583,155,662</b>	-	<b>182,563,585</b>	<b>403,153,736</b>
<b>Liabilities</b>						
Due to other banks	119,794,252		119,794,252	-	119,794,252	119,794,252
Deposits from customers	384,814,535		384,814,535	-	-	384,814,535
Lease liability	12,483,648		12,483,648	-	-	12,483,648
Cheques in the course of collection and other liabilities	12,244,479		12,244,479	-	-	12,244,479
Borrowings	24,531,907		24,531,907	-	24,531,907	24,531,907
<b>Total financial liabilities</b>	<b>553,868,821</b>		<b>553,868,821</b>	-	<b>144,326,159</b>	<b>409,542,662</b>
						<b>553,868,821</b>

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. USE OF ESTIMATES AND JUDGMENTS (Continued)**

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below as at 31 December 2021, 31 December 2020 and 31 December 2019:

	Level 1 TZS' 000	Level 2 TZS' 000	Level 3 TZS' 000	Total TZS' 000
<b>At 31 December 2021</b>				
Government securities at FVOCI	-	94,208,419	-	94,208,419
Derivative financial instruments	-	-	1,179,244	1,179,244
	<u>-</u>	<u>94,208,419</u>	<u>1,179,244</u>	<u>95,387,663</u>
<b>At 31 December 2020</b>				
Government securities at FVOCI	-	63,122,590	-	63,122,590
Derivative financial instruments	-	-	896,073	896,073
	<u>-</u>	<u>63,122,590</u>	<u>896,073</u>	<u>64,018,663</u>
<b>At 31 December 2019</b>				
Government securities at FVOCI	-	33,016,010	-	33,016,010
Derivative financial instruments	-	-	881,168	881,168
	<u>-</u>	<u>33,016,010</u>	<u>881,168</u>	<u>33,897,178</u>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL ASSETS AND LIABILITIES

a) Accounting classifications and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments not measured at fair value.

	At 31 December 2021		Fair value hierarchy			
	At amortised cost TZS' 000	Total carrying amount TZS' 000	Level 1 TZS' 000	Level 2 TZS' 000	Level 3 TZS' 000	Fair value TZS' 000
<b>Financial assets</b>						
Cash and balances with Central Bank	61,911,887	61,911,887	-	-	61,911,887	61,911,887
Due from other banks	108,525,580	108,525,580	-	-	108,525,580	108,525,580
Government securities at amortised cost	79,992,516	79,992,516	-	92,419,181	-	92,419,181
Loans and advances to customers	458,869,033	458,869,033	-	-	458,869,033	458,869,033
Other assets (excluding prepayments)	7,336,376	7,336,376	-	-	7,336,376	7,336,376
<b>Total financial assets</b>	<b>716,635,392</b>	<b>716,635,392</b>	-	<b>92,419,181</b>	<b>636,642,876</b>	<b>729,062,057</b>
<b>Liabilities</b>						
Due to other banks	187,405,478	187,405,478	-	-	187,405,478	187,405,478
Deposits from customers	501,259,955	501,259,955	-	-	501,259,955	501,259,955
Items in the course of payment	226,608	226,608	-	-	226,608	226,608
Lease liability	8,780,777	8,780,777	-	-	8,780,777	8,780,777
Other liabilities (excluding statutory deductions)	13,952,198	13,952,198	-	-	13,952,198	13,952,198
Borrowings	10,086,986	10,086,986	-	-	10,086,986	10,086,986
<b>Total financial liabilities</b>	<b>721,712,002</b>	<b>721,712,002</b>	-	-	<b>721,712,002</b>	<b>721,712,002</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL ASSETS AND LIABILITIES (Continued)

a) Accounting classifications and fair values (Continued)

	At 31 December 2020	At amortised cost TZS' 000	Total carrying amount TZS' 000	Level 1 TZS' 000	Level 2 TZS' 000	Level 3 TZS' 000	Fair value TZS' 000
<b>Financial assets</b>							
Cash and balances with Central Bank	82,795,180	82,795,180	82,795,180	-	-	82,795,180	82,795,180
Items in the course of collection	101,314	101,314	101,314	-	-	101,314	101,314
Due from other banks	69,343,470	69,343,470	69,343,470	-	-	69,343,470	69,343,470
Government securities at amortised cost	61,300,414	61,300,414	61,300,414	-	71,000,808	-	71,000,808
Loans and advances to customers	411,504,319	411,504,319	411,504,319	-	-	411,504,319	411,504,319
Other assets (excluding prepayments)	7,410,543	7,410,543	7,410,543	-	-	7,410,543	7,410,543
<b>Total financial assets</b>	<b>632,455,240</b>	<b>632,455,240</b>	<b>632,455,240</b>	<b>-</b>	<b>71,000,808</b>	<b>571,154,826</b>	<b>642,155,634</b>
<b>Liabilities</b>							
Due to other banks	132,897,826	132,897,826	132,897,826	-	-	132,897,826	132,897,826
Deposits from customers	449,299,592	449,299,592	449,299,592	-	-	449,299,592	449,299,592
Lease liability	10,817,219	10,817,219	10,817,219	-	-	10,817,219	10,817,219
Cheques in the course of collection and other liabilities	13,860,469	13,860,469	13,860,469	-	-	13,860,469	13,860,469
Borrowings	17,335,855	17,335,855	17,335,855	-	-	17,335,855	17,335,855
<b>Total financial liabilities</b>	<b>624,210,961</b>	<b>624,210,961</b>	<b>624,210,961</b>	<b>-</b>	<b>-</b>	<b>624,210,961</b>	<b>624,210,961</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL ASSETS AND LIABILITIES (Continued)

b) Accounting classifications and fair values (Continued)

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments not measured at fair value.

	At amortised cost TZS' 000	Total carrying amount TZS' 000	Level			Fair value TZS' 000
			Level 1 TZS' 000	Level 2 TZS' 000	Level 3 TZS' 000	
<b>At 31 December 2019</b>						
<b>Financial assets</b>						
Cash and balances with Central Bank						
Items in the course of collection	67,603,266	67,603,266	-	67,603,266	-	67,603,266
Due from other banks	73,094	73,094	-	-	73,094	73,094
Government securities at amortised cost	28,281,500	28,281,500	-	28,281,500	-	28,281,500
Loans and advances to customers	84,117,160	84,117,160	-	86,678,819	-	86,678,819
Other assets (excluding prepayments)	398,066,183	398,066,183	-	-	398,066,183	398,066,183
	5,014,459	5,014,459	-	-	5,014,459	5,014,459
<b>Total financial assets</b>	<b>583,155,662</b>	<b>583,155,662</b>	-	<b>182,563,585</b>	<b>403,153,736</b>	<b>585,717,321</b>
<b>Liabilities</b>						
Due to other banks	119,794,252	119,794,252	-	119,794,252	-	119,794,252
Deposits from customers	384,814,535	384,814,535	-	-	384,814,535	384,814,535
Lease liability	12,483,648	12,483,648	-	-	12,483,648	12,483,648
Cheques in the course of collection and other liabilities	12,244,479	12,244,479	-	-	12,244,479	12,244,479
Borrowings	24,531,907	24,531,907	-	24,531,907	-	24,531,907
<b>Total financial liabilities</b>	<b>553,868,821</b>	<b>553,868,821</b>	-	<b>144,326,159</b>	<b>409,542,662</b>	<b>553,868,821</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6 INTEREST AND SIMILAR INCOME	2021	2020	2019
	TZS' 000	TZS' 000	TZS' 000
Government securities	18,945,275	15,019,346	14,344,231
Placements with other banks	1,802,587	516,218	410,414
Interest on loans and advances	53,665,417	52,257,392	46,973,719
	<u>74,413,279</u>	<u>67,792,956</u>	<u>61,728,364</u>
<b>7 INTEREST EXPENSE AND SIMILAR CHARGES</b>			
Interest on deposits	20,227,551	17,454,213	14,658,221
Bank deposits	4,418,002	4,755,652	4,531,773
Interest on borrowed funds	1,169,594	1,999,787	2,715,383
Interest on lease liability	805,023	932,587	1,065,093
	<u>26,620,170</u>	<u>25,142,239</u>	<u>22,970,470</u>
<b>8 LOANS AND ADVANCES TO CUSTOMERS</b>			
<b>(a) Loans and advances to customers</b>			
Gross loans and advances to customers	469,294,954	420,842,652	414,959,881
Allowances for impairment (Note 8b)	<u>(10,425,921)</u>	<u>(9,338,333)</u>	<u>(16,893,698)</u>
	<u>458,869,033</u>	<u>411,504,319</u>	<u>398,066,183</u>
<b>(b) Specific allowance for impairment loss</b>			
At 1 January	9,338,333	16,893,698	13,953,040
Allowance made during the year	15,171,708	15,360,213	3,963,183
Write offs during the year	<u>(14,084,120)</u>	<u>(22,915,578)</u>	<u>(1,022,525)</u>
<b>At 31 December</b>	<u>10,425,921</u>	<u>9,338,333</u>	<u>16,893,698</u>
<b>(c) Net Impairment charge on loans and advances</b>			
Allowance made during the year (Note 8 (b))	15,171,708	15,360,213	3,963,183
Recoveries from written off loans	<u>(2,670,400)</u>	<u>(876,937)</u>	<u>-</u>
	<u>12,501,308</u>	<u>14,483,276</u>	<u>3,963,183</u>
<b>(d) Maturity analysis of gross loans and advances to customers:</b>			
Maturing within 1 month	34,580,829	40,259,082	42,511,663
Maturing after 1 month but before 3 months	65,112,442	30,970,640	21,545,866
Maturing after 3 months, but within 1 year	70,194,874	80,034,980	81,235,047
Maturing after 1 year, but within 5 years	219,245,546	191,522,406	184,862,934
Maturing after 5 years	80,161,263	78,055,544	84,804,371
	<u>469,294,954</u>	<u>420,842,652</u>	<u>414,959,881</u>
<b>9 FEES AND COMMISSIONS INCOME</b>			
Ledger fees and fees for services rendered	6,644,044	7,079,178	8,351,018
Fees on loans and advances	<u>3,559,929</u>	<u>3,083,528</u>	<u>3,488,651</u>
	<u>10,203,973</u>	<u>10,162,706</u>	<u>11,839,669</u>
<b>FEES AND COMMISSIONS EXPENSE</b>			
Commission expense	<u>(1,102,981)</u>	<u>(996,245)</u>	<u>(1,007,755)</u>
<b>Net fees and commission</b>	<u>9,100,992</u>	<u>9,166,461</u>	<u>10,831,914</u>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14 INCOME TAX EXPENSE (CONTINUED)	2021 TZS' 000	2020 TZS' 000	2019 TZS' 000
<b>(b) Tax movement</b>			
At 1 January	1,571,906	(412,469)	(370,454)
Tax charge for the year	(7,949,750)	(3,694,129)	(8,350,335)
Tax for previous years	-	-	(853,797)
Tax paid during the year	6,808,923	5,678,504	9,162,116
<b>At 31 December</b>	<b>431,079</b>	<b>1,571,906</b>	<b>(412,469)</b>
<b>15 (a) CASH AND BALANCES WITH BANK OF TANZANIA</b>			
Cash on hand	19,491,361	24,767,537	17,457,054
Statutory Minimum Reserve deposits with Bank of Tanzania	33,073,416	28,793,382	27,784,359
Other current accounts with Bank of Tanzania	9,347,110	29,234,261	22,361,853
	<b>61,911,887</b>	<b>82,795,180</b>	<b>67,603,266</b>
<b>(b) CASH AND CASH EQUIVALENTS</b>			
Cash on hand	19,491,361	24,767,537	17,457,054
Balances with BoT (excluding Statutory Minimum Reserve deposit)	9,347,110	29,234,261	22,361,853
Placements and balance with other banks maturing within 3 months	108,525,580	69,343,470	28,281,500
Balances with mobile network operators	1,568,263	1,784,477	638,951
Cheques in the course of collection	-	101,314	73,094
	<b>138,932,314</b>	<b>125,231,059</b>	<b>68,812,452</b>
<b>16 PLACEMENTS AND BALANCES WITH OTHER BANKS</b>			
** Balances in nostro accounts	31,953,000	35,231,480	24,282,444
Placement	76,572,580	34,111,990	3,999,056
	<b>108,525,580</b>	<b>69,343,470</b>	<b>28,281,500</b>
<b>Placement Maturity</b>			
Maturing within 3 months	76,572,580	34,111,990	3,999,056
	<b>76,572,580</b>	<b>34,111,990</b>	<b>3,999,056</b>
<b>17 GOVERNMENT SECURITIES</b>			
<b><u>Government securities at amortized cost</u></b>			
Maturing within 3 months	-	-	9,810,453
Maturing after 12 months	79,787,849	61,300,414	74,306,707
	<b>79,787,849</b>	<b>61,300,414</b>	<b>84,117,160</b>
<b>Government securities at FVOCI</b>	<b>94,208,419</b>	<b>63,122,590</b>	<b>33,016,010</b>

The Bank holds various fixed income securities issued by the Government of Tanzania. As at 31 December 2021, the bank had pledged treasury bonds of TZS 106,946 million and no treasury bills were pledged (31 Dec 2020: treasury bond 121,194 million and no treasury bills were pledged. 31 Dec 2019: treasury bond TZS 87,935,430,000 and treasury bill TZS 14,655,270,000).

\*\* Balance in Nostro Account 31 Dec 2021 include balance from other group companies (Note 30 (a) ii) TZS 5,115 million (31 Dec 2020 TZS 3,467 million).



KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

18. PROPERTY AND EQUIPMENT

At 31 December 2021:	Leasehold improvements TZS' 000	Motor vehicles TZS' 000	Office equipment furniture and fittings TZS' 000	Computer equipment TZS' 000	Work in Progress TZS' 000	Total TZS' 000
<b>COST</b>						
At 1 January 2021	9,289,311	1,188,065	11,345,556	1,719,488	2,956,592	26,499,012
Additions	139,874	-	1,044,560	418,421	-	1,602,855
Disposals	-	(21,000)	(19,307)	(2,095)	-	(42,402)
Capitalization	-	-	2,956,592	-	(2,956,592)	-
<b>At 31 December 2021</b>	<b>9,429,185</b>	<b>1,167,065</b>	<b>15,327,401</b>	<b>2,135,814</b>	<b>-</b>	<b>28,059,465</b>
<b>DEPRECIATION</b>						
At 1 January 2021	7,524,729	753,046	8,505,471	1,331,143	-	18,114,389
Charge for the year	358,419	190,432	1,377,734	198,480	-	2,125,065
Disposals	-	(21,000)	(11,454)	(663)	-	(33,117)
<b>At 31 December 2021</b>	<b>7,883,148</b>	<b>922,478</b>	<b>9,871,751</b>	<b>1,528,960</b>	<b>-</b>	<b>20,206,337</b>
<b>CARRYING AMOUNT</b>	<b>1,546,037</b>	<b>244,587</b>	<b>5,455,650</b>	<b>606,854</b>	<b>-</b>	<b>7,853,128</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

18 PROPERTY AND EQUIPMENT (CONTINUED)

At 31 December 2020:	Leasehold improvements TZS' 000	Motor vehicles TZS' 000	Office equipment furniture and fittings TZS' 000	Computer equipment TZS' 000	Work in Progress TZS' 000	Total TZS' 000
<b>COST</b>						
At 1 January 2020	9,177,723	1,242,168	10,191,504	1,579,757	-	22,191,152
Additions	111,588	-	1,154,892	139,731	2,956,592	4,362,803
Disposals	-	(54,103)	(840)	-	-	(54,943)
<b>At 31 December 2020</b>	<b>9,289,311</b>	<b>1,188,065</b>	<b>11,345,556</b>	<b>1,719,488</b>	<b>2,956,592</b>	<b>26,499,012</b>
<b>DEPRECIATION</b>						
At 1 January 2020	7,155,077	609,495	7,420,465	1,153,697	-	16,338,734
Disposals	-	(54,103)	(840)	-	-	(54,943)
Charge for the year	369,652	197,654	1,085,846	177,446	-	1,830,598
<b>At 31 December 2020</b>	<b>7,524,729</b>	<b>753,046</b>	<b>8,505,471</b>	<b>1,331,143</b>	<b>-</b>	<b>18,114,389</b>
<b>CARRYING AMOUNT</b>	<b>1,764,582</b>	<b>435,019</b>	<b>2,840,085</b>	<b>388,345</b>	<b>2,956,592</b>	<b>8,384,623</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

18. PROPERTY AND EQUIPMENT (CONTINUED)

	Leasehold improvements TZS' 000	Motor vehicles TZS' 000	Office equipment and furniture and fittings TZS' 000	Software and computer equipment TZS' 000	Total TZS' 000
<b>At 31 December 2019:</b>					
<b>COST</b>					
At 1 January 2019	8,997,687	588,941	9,274,898	1,351,038	20,212,564
Additions	180,036	761,727	1,023,904	252,718	2,218,385
Disposals	-	(108,500)	(107,298)	(23,999)	(239,797)
<b>At 31 December 2019</b>	<b>9,177,723</b>	<b>1,242,168</b>	<b>10,191,504</b>	<b>1,579,757</b>	<b>22,191,152</b>
<b>DEPRECIATION</b>					
At 1 January 2019	6,775,190	551,020	6,570,450	999,255	14,895,915
Disposals	-	(106,292)	(107,511)	(22,253)	(236,056)
Charge for the year	379,887	164,767	957,526	176,695	1,678,875
<b>At 31 December 2019</b>	<b>7,155,077</b>	<b>609,495</b>	<b>7,420,465</b>	<b>1,153,697</b>	<b>16,338,734</b>
<b>CARRYING AMOUNT</b>					
<b>At 31 December 2019</b>	<b>2,022,646</b>	<b>632,673</b>	<b>2,771,039</b>	<b>426,060</b>	<b>5,852,418</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

19. LEASES	2021	2020	2019
	TZS' 000	TZS' 000	TZS' 000
<b>(i) Right-of-use assets</b>			
At start of the year	14,424,039	14,178,516	13,931,263
Additions	308,243	245,523	246,253
Foreign exchange adjustment	(78,418)	-	-
<b>At the end of year</b>	<b><u>14,653,864</u></b>	<b><u>14,424,039</u></b>	<b><u>14,718,516</u></b>
<b>Accumulated Depreciation</b>			
At start of the year	4,643,226	2,290,144	-
Depreciation Charge for the Year	2,399,810	2,353,082	2,290,114
	<b><u>7,043,036</u></b>	<b><u>4,643,226</u></b>	<b><u>2,290,114</u></b>
<b>NBV at the end of year</b>	<b><u>7,610,828</u></b>	<b><u>9,780,813</u></b>	<b><u>11,888,372</u></b>
<b>(ii) Lease liabilities</b>			
At start of the year	10,817,219	12,483,648	13,976,653
Additions	308,243	245,523	247,253
Finance cost	805,023	932,587	1,065,093
Foreign exchange adjustment	(78,418)	-	-
Payment during the year	(3,071,290)	(2,844,539)	(2,805,351)
<b>At the end of year</b>	<b><u>8,780,777</u></b>	<b><u>10,817,219</u></b>	<b><u>12,483,648</u></b>
Current	3,016,662	3,016,662	2,872,055
Non-current	5,764,115	7,800,557	9,611,593
	<b><u>8,780,777</u></b>	<b><u>10,817,219</u></b>	<b><u>12,483,648</u></b>
<b>20 INTANGIBLE ASSETS</b>			
	<b>Capitalized</b>	<b>Work in progress</b>	<b>Total</b>
	<b>TZS' 000</b>	<b>TZS' 000</b>	<b>TZS' 000</b>
<b>COST</b>			
At 1 January 2021	2,978,376	1,231,502	4,209,878
Additions	1,400,700	-	1,400,700
Work in progress capitalized	1,231,502	(1,231,502)	-
<b>At 31 December 2021</b>	<b><u>5,610,578</u></b>	<b><u>-</u></b>	<b><u>5,610,578</u></b>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 January 2021	2,408,585	-	2,408,585
Amortization for the year	588,517	-	588,517
<b>At 31 December 2021</b>	<b><u>2,997,102</u></b>	<b><u>-</u></b>	<b><u>2,997,102</u></b>
<b>Net book value</b>	<b><u>2,613,476</u></b>	<b><u>-</u></b>	<b><u>2,613,476</u></b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

20 INTANGIBLE ASSETS (CONTINUED)

	Capitalized TZS' 000	Work in progress TZS' 000	Total TZS' 000
<b>COST</b>			
At 1 January 2020	2,974,379	-	2,974,379
Additions	3,997	1,231,502	1,235,499
Work in progress capitalized	-	-	-
<b>At 31 December 2020</b>	<b>2,978,376</b>	<b>1,231,502</b>	<b>4,209,878</b>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 January 2020	2,017,874	-	2,017,874
Amortization for the year	390,710	-	390,710
<b>At 31 December 2020</b>	<b>2,408,584</b>	<b>-</b>	<b>2,408,584</b>
<b>Net book value</b>	<b>569,792</b>	<b>1,231,502</b>	<b>1,801,294</b>

	Capitalized TZS' 000	Work in progress TZS' 000	Total TZS' 000
<b>COST</b>			
At 1 January 2019	2,935,454	-	2,935,454
Additions	38,925	-	38,925
Work in progress capitalized	-	-	-
<b>At 31 December 2019</b>	<b>2,974,379</b>	<b>-</b>	<b>2,974,379</b>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 January 2019	1,518,224	-	1,518,224
Amortization for the year	436,650	-	436,650
<b>At 31 December 2019</b>	<b>2,107,874</b>	<b>-</b>	<b>2,107,874</b>
<b>Net book value</b>	<b>956,505</b>	<b>-</b>	<b>956,505</b>

21 DEFERRED TAX

	2021 TZS' 000	2020 TZS' 000	2019 TZS' 000
At 1 January	2,974,433	7,358,366	6,885,383
Increase in deferred tax asset during the year	518,244	(2,310,413)	1,226,982
AFS Reserve - through equity	(416,648)	(2,073,520)	258,683
Prior year adjustment	50,138	-	-
<b>At 31 December</b>	<b>3,126,167</b>	<b>2,974,433</b>	<b>7,358,366</b>

The composition of the deferred tax asset as at 31 December is as follows:

	2021 TZS' 000	2020 TZS' 000	2019 TZS' 000
Accelerated depreciation for tax purpose	341,608	348,792	271,459
Fair value reserve	(1,543,551)	(1,126,903)	946,617
General provision	4,328,110	3,752,544	6,140,290
<b>At 31 December</b>	<b>3,126,167</b>	<b>2,974,433</b>	<b>7,358,366</b>

**KCB BANK TANZANIA LIMITED**  
**REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

22 OTHER ASSETS	2021	2020	2019
	TZS' 000	TZS' 000	TZS' 000
Prepayments	2,710,023	1,662,677	1,237,514
Other receivables	5,450,011	4,477,639	4,967,137
Intercompany receivable	318,102	1,148,427	47,322
Balances with mobile network operators	1,568,263	1,784,477	-
	<u>10,046,399</u>	<u>9,073,220</u>	<u>6,251,973</u>
23 DEPOSITS FROM OTHER BANKS	2021	2020	2019
	TZS' 000	TZS' 000	TZS' 000
Deposits and balances from other banks	180,703,022	126,611,390	107,558,335
Vostro accounts	6,702,455	6,286,436	12,235,917
Current	<u>187,405,477</u>	<u>132,897,826</u>	<u>119,794,252</u>
24. DEPOSITS FROM CUSTOMERS	2021	2020	2019
NATURE	TZS' 000	TZS' 000	TZS' 000
Current accounts	182,594,613	177,116,343	147,892,148
Term deposits	237,464,872	197,291,541	165,839,992
Savings deposits	79,571,542	74,806,518	70,887,971
Cash margin deposits	1,628,928	85,190	194,424
	<u>501,259,955</u>	<u>449,299,592</u>	<u>384,814,535</u>
<b>From private sector and individuals:</b>			
Payable within 1 month	97,694,130	88,472,598	251,862,145
Payable after 1 month, but within 3 months	276,533,083	265,084,214	31,416,578
Payable after 3 months, but within 1 year	121,184,222	89,866,325	96,184,318
Payable after 1 year, but within 5 years	5,848,520	5,876,455	5,351,494
<b>Total other customer deposits</b>	<u>501,259,955</u>	<u>449,299,592</u>	<u>384,814,535</u>
The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2021 was 4.04% (31 December 2020 – 3.71%, 31 December 2019 – 3.3%).			
25 OTHER LIABILITIES	2021	2020	2019
	TZS' 000	TZS' 000	TZS' 000
Accruals	3,636,685	3,923,599	5,905,901
Intercompany payable	1,316,706	2,941,812	960,992
Dividend Payable	1,549,611	1,549,611	5,377,586
Other payables	7,784,704	5,790,507	-
Impairment for Off balance sheet items	71,435	61,884	-
Current	<u>14,359,141</u>	<u>14,267,413</u>	<u>12,244,479</u>
26. SHARE CAPITAL			
<b>Authorised:</b>			
750 million ordinary shares of TZS 100 each	<u>75,000,000</u>	<u>75,000,000</u>	<u>75,000,000</u>
Called up and fully paid:	<u>62,669,936</u>	<u>62,669,936</u>	<u>62,669,936</u>

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**27 NON-DISTRIBUTABLE AND FAIR VALUE RESERVES**

	2021	2020	2019
	TZS' 000	TZS' 000	TZS'000
<b>Non distributable reserve</b>			
At 1 January	7,198,198	560,960	47,010
Additional for the year	<u>(5,711,678)</u>	<u>6,637,238</u>	<u>513,950</u>
	<u><b>1,486,520</b></u>	<u><b>7,198,198</b></u>	<u><b>560,960</b></u>

**Fair Value Reserve**

The fair value reserve represents a gain in the government securities fair value through other comprehensive income due to change in market value.

**28 BORROWINGS**

	2021	2020	2019
	TZS' 000	TZS' 000	TZS' 000
Maturing within one year	5,086,986	17,335,855	19,431,028
Maturing after one year, but within five years	<u>5,000,000</u>	<u>-</u>	<u>5,100,879</u>
	<u><b>10,086,986</b></u>	<u><b>17,335,855</b></u>	<u><b>24,531,907</b></u>

**Reconciliation**

At 1 January	17,335,855	24,531,907	31,660,494
Payments of principal	(6,968,204)	(6,968,204)	(6,968,204)
Payments of interest	(1,450,259)	(2,227,635)	(2,875,765)
Interest charged	1,169,594	1,999,787	2,715,382
At 31 December	<u><b>10,086,986</b></u>	<u><b>17,335,855</b></u>	<u><b>24,531,907</b></u>

The Borrowings include:-

1. A 5-year Loan of TZS 27.9 billion obtained from EIB (European Investment Bank) in 2018 at interest rate of 9.72% Matured in 20 sept 2021.
2. A 4-year loan of TZS 5 billion obtained from TMRC booked in 7-Aug -2018 at interest rate of 10% and A 5-year loan of TZS 5 billion obtained from TMRC booked in 22-March -2021 at interest rate of 8.5%

**29 DERIVATIVE FINANCIAL INSTRUMENTS**

	2021	2020	2019
	TZS' 000	TZS' 000	TZS' 000
Derivative financial instruments - Currency Swaps	<u>1,179,244</u>	<u>896,073</u>	<u>881,168</u>
Notional amount	<u><b>33,784,400</b></u>	<u><b>20,890,615</b></u>	<u><b>37,863,366</b></u>

The disclosure above shows the fair values of derivative financial instruments recorded as assets together with their notional amounts. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument (being a foreign currency). The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**30 RELATED PARTY TRANSACTIONS**

The immediate and ultimate parent company for the Bank is KCB Group Plc.

(a) Balances due from group	2021	2020	2019
(i) Expenses incurred on behalf of group	TZS' 000	TZS' 000	TZS' 000
KCB Bank Kenya Limited	<u>318,102</u>	<u>248,318</u>	<u>47,322</u>
 (b) Nostro balances from other group companies			
<b>(i) Balances due from group companies</b>			
KCB Bank Kenya Limited	4,066,797	2,054,227	2,747,073
KCB Bank Uganda Limited	230,159	337,071	335,363
KCB Bank Rwanda Limited	302,084	438,287	4,843,158
KCB Bank South Sudan Limited	88,440	88,669	87,934
KCB Bank Burundi Limited	427,614	548,865	687,604
	<u>5,115,094</u>	<u>3,467,119</u>	<u>8,701,132</u>
 (c) Balances due to group			
<b>(i) Expenses payable to Group</b>			
KCB Bank Kenya Limited	<u>1,316,706</u>	<u>2,941,812</u>	<u>3,110,480</u>
 (d) Vostro balances from other group companies			
<b>(i) Balances due to group companies</b>			
KCB Bank Kenya Limited	10,792,181	16,273,071	25,638,950
KCB Bank Uganda Limited	8,586,674	8,326,111	13,700,330
KCB Bank Rwanda Limited	12,287,461	370,550	607,822
KCB Bank South Sudan Limited	340,375	172,614	153,498
KCB Bank Burundi Limited	22,476	53,547	122,965
	<u>32,029,167</u>	<u>25,195,893</u>	<u>40,223,565</u>
 (e) Deposits and loans and advances with related parties			
<b>Loans</b>			
Directors	496,099	177,052	159,576
Senior management	1,322,568	1,224,555	1,773,233
	<u>1,818,667</u>	<u>1,401,607</u>	<u>1,932,809</u>
 <b>Movement in loans to key management personnel during the year is as follows:</b>			
<b>At 1 January</b>	1,401,607	1,932,808	1,807,254
Loans issued during the year	878,926	287,048	586,956
Loans repayments during the year	(461,866)	(818,249)	(461,402)
<b>At 31 December</b>	<u>1,818,667</u>	<u>1,401,607</u>	<u>1,932,808</u>
 Interest income earned on the loans	<u>104,659</u>	<u>108,369</u>	<u>121,552</u>



KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 RELATED PARTY TRANSACTIONS (CONTINUED)

	2021 TZS' 000	2020 TZS' 000	2019 TZS' 000
<b>Deposits</b>			
Directors	32,343	60,263	40,782
Senior management	175,156	111,028	77,062
	<u>207,499</u>	<u>171,291</u>	<u>117,843</u>

Movement in deposit by key management personnel during the year is as follows:

At 1 January	171,291	117,844	335,825
Deposit received during the year	5,589,653	6,920,078	2,367,606
Deposit withdrawn during the year	(5,553,445)	(6,866,631)	(2,585,588)
At 31 December	<u>207,499</u>	<u>171,291</u>	<u>117,843</u>

Interest expense paid on the deposits	<u>5,682</u>	<u>4,337</u>	<u>6,805</u>
---------------------------------------	--------------	--------------	--------------

(f) Senior management compensation

Short term benefits	3,058,870	3,356,668	3,147,972
Post-employment pension	284,092	285,807	283,334
Medical benefits	4,946	54,861	48,875
	<u>3,347,909</u>	<u>3,697,335</u>	<u>3,480,181</u>

(g) Directors' emoluments	<u>410,086</u>	<u>383,533</u>	<u>428,820</u>
---------------------------	----------------	----------------	----------------

Legal contingencies

KCB Bank Tanzania Limited is defending several legal suits primarily based on breach of contract, mandate and defamation as filed by customers, ex-employees and third parties. Whilst liability is not admitted, it may incur claims if defence against the actions is unsuccessful. Based on legal advice, the directors do not expect the outcome of the actions to have a material effect on the Bank's financial position.

Interest rates charged in respect of staff loans are at a concessionary rate when compared to what would be charged in an arm's length transaction. However, adjustment to reflect the value of the loans if they were issued at market interest rates is recorded as a prepaid expense and amortised over the duration of the loans. The secured loans granted are secured over property of the respective borrowers.

No impairment losses have been charged against balances outstanding during the year with key management personnel, and no specific allowance has been 31 December 2021 (2020: Nil).

The contractual amounts of the Banks' off-balance sheet financial instruments that commit it to extend credit to customers are as follows;

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

<b>31 CONTINGENT LIABILITIES AND COMMITMENTS</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>TZS' 000</b>	<b>TZS' 000</b>	<b>TZS' 000</b>
<b>Commitments</b>			
Outstanding import letters of credit	34,362,137	43,696,567	39,925,136
Outstanding guarantees and indemnities	34,756,449	24,800,391	48,236,537
Undrawn balances of unexpired overdraft lines	19,572,263	20,447,194	25,788,802
	<u><b>88,690,848</b></u>	<u><b>88,944,152</b></u>	<u><b>113,950,475</b></u>

**32. COMPARATIVES**

Where deemed appropriate, classification for the comparative numbers has been adjusted to align with current year's presentation.

**33. SUBSEQUENT EVENTS**

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

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT**

**APPENDICIES TO THE FINANCIAL STATEMENTS**

**SEGMENT REPORTING**

Segment information is presented in respect of the bank's business segments. The primary format, business segments, is based on the bank's management and internal reporting structure.

Business segments pay and receive interest to and from the treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

**Business segments**

The Bank comprises of the following main business segments:

Corporate banking which includes loans, deposits and other transactions, balances with corporate customers and balances with central treasury.

Retail banking includes loans, deposits and other transactions and balances with retail customers.

Islamic banking includes loans, deposits and other transactions and balances with retail customers. The following terms are used in the financial statements with the meaning specified:

**(i) Murabaha**

An Islamic financing transaction which represents an agreement whereby the Bank buys a commodity/good and sells it to a counterparty based on a promise received from that counterparty to buy the commodity according to specific terms and conditions. The selling price comprises of the cost of the commodity/good and a pre-agreed upon profit margin.

**(ii) Diminishing Musharaka**

An Islamic financing transaction whereby the bank will enter into agreement to jointly purchase an asset with another party and income will be received by the bank relating to that proportion of the asset owned by the bank at any point in time. The other party to the agreement will make separate payments to purchase additional proportion of the asset from the bank thereby reducing the bank's effective share.

**(iii) Amana Deposit**

An Islamic financing transaction as classified under the following categories:-

- Amana Savings Account- It is an Islamic financing transaction whereby a customer can put money aside for future use in Sharia compliant manner.
- Amana Current Account- It is an Islamic financing transaction operating under a non-interest bearing account with a cheque writing facility that enables the customer to carry out day to day transaction.

**Income from Islamic financing and investing activities**

- Murabaha income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding;
- Diminishing Musharaka income is accounted for on the basis of the reducing balance on a time apportioned basis that reflects the effective yield on the asset.

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

APPENDICES TO THE FINANCIAL STATEMENTS (CONTINUED)

SEGMENT REPORTING (Continued)

(ii) Non-Shariah compliant income

The Islamic window does not, as a policy, engage in any activities that involve usury. However, any non-Sharia compliant income earned by the Islamic window, due to circumstances beyond its control, is transferred to the welfare and charitable fund to be used for charitable activities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Bank management committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2021

	Corporate banking TZS'000	Retail banking TZS'000	Treasury TZS'000	Islamic banking TZS'000	Total TZS'000
Net interest income/Profit Margin	18,973,414	8,636,995	14,909,910	5,272,791	47,793,109
Net fee and commission income	3,763,932	4,150,191	-	1,186,868	9,100,992
Other income	-	5,273,770	7,488,739	-	12,762,509
Operating expenses	(19,248,704)	(12,892,382)	(10,233,422)	(4,655,844)	(47,030,351)
<b>Segment profit before tax</b>	<b>3,488,642</b>	<b>5,168,574</b>	<b>12,165,228</b>	<b>1,803,815</b>	<b>22,626,259</b>

For the year ended 31 December 2020

Net interest income/Profit Margin	20,791,778	8,028,775	8,563,233	5,266,930	42,650,717
Net fee and commission income	4,291,953	3,978,253	-	896,254	9,166,461
Other income	-	889,308	6,700,927	-	7,590,235
Operating expenses	(20,573,041)	(10,577,248)	(12,519,278)	(5,054,888)	(48,724,455)
<b>Segment profit before tax</b>	<b>4,510,691</b>	<b>2,319,088</b>	<b>2,744,883</b>	<b>1,108,297</b>	<b>10,682,958</b>

KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT

APPENDICES TO THE FINANCIAL STATEMENTS (CONTINUED)

SEGMENT REPORTING (Continued)

Statement of profit or loss and other comprehensive income (Continued)

For the year ended 31 December 2019	Corporate banking TZS'000	Retail banking TZS'000	Treasury TZS'000	Islamic banking TZS'000	Total TZS'000
Net interest income/Profit Margin	20,755,047	7,931,149	7,507,489	3,629,302	39,822,987
Net fee and commission income	5,723,429	3,742,144		1,366,341	10,831,914
Other income	(16,604,993)	1,644,828	7,904,636		9,549,464
Operating expenses	9,873,483	(8,284,821)	(9,587,441)	(3,107,646)	(37,584,901)
Segment profit before tax	<u>9,873,483</u>	<u>5,033,300</u>	<u>5,824,684</u>	<u>1,887,997</u>	<u>22,619,464</u>

Statement of financial position

At 31 December 2021	Corporate banking TZS'000	Retail banking TZS'000	Treasury TZS'000	Islamic banking TZS'000	Total TZS'000
Total assets	273,568,187	143,145,131	366,845,859	52,581,971	836,141,148
Total liabilities	209,273,257	283,881,599	166,110,973	62,626,508	721,892,336
Shareholders' funds & long term debts	-	-	-	-	114,248,812
	209,273,257	283,881,599	166,110,973	62,626,508	836,141,148
At 31 December 2020					
Total assets	260,585,997	104,233,539	301,806,621	56,023,491	722,649,648
Total liabilities	191,873,333	229,652,205	154,423,333	48,670,241	624,619,112
Shareholders' funds & long-term debts	-	-	-	-	98,030,536
	191,873,333	229,652,205	154,423,333	48,670,241	722,649,648

**KCB BANK TANZANIA LIMITED  
REPORTING ACCOUNTANT'S REPORT  
APPENDICES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**SEGMENT REPORTING (Continued)**

**Statement of financial position (Continued)**

<b>At 31 December 2019</b>	<b>Corporate banking TZS'000</b>	<b>Retail banking TZS'000</b>	<b>Treasury TZS'000</b>	<b>Islamic banking TZS'000</b>	<b>Total TZS'000</b>
Total assets	244,562,741	103,129,871	245,767,102	50,886,301	<b>644,346,015</b>
Total liabilities	136,204,426	199,966,018	169,973,795	48,137,051	554,281,290
Shareholders' funds & long term debts	-	-	-	-	90,064,725
	<u>136,204,426</u>	<u>199,966,018</u>	<u>169,973,795</u>	<u>48,137,051</u>	<u><b>644,346,015</b></u>

## Key ratios

	2021	2020	2019
Earnings before interest and taxes to interest expenses (interest cover) <i>** Earnings before interest and taxes is calculated as profit before tax adding back interest expense on borrowings (long term debt)</i> <i>** For this purpose, interest expense is exclusively on borrowings</i>	20.35	6.34	9.33
Funds from operation to total Debt percentage <i>** Calculated as a ratio of cash generated from operating activities to Borrowings</i>	279%	427%	114%
Free cash flow to total Debt (debt repayment cover) <i>** Calculated as a ratio of cash and cash equivalents at the year end to Borrowings</i>	13.77	7.22	2.78
Total free cash flow to short-term debt obligations <i>** Calculated as a ratio of cash and cash equivalents at year end to Borrowings maturing in less than a year</i>	27.31	7.22	3.51
Net profit margin <i>** Calculated as a ratio of Profit before tax to (Interest income + non-interest income + Other income)</i>	26%	14%	30%
Post-tax return (before financing) on Capital Employed <i>** Calculated as a ratio of Post tax return (before financing) is defined as the profit after tax</i>	14%	5%	17%
Total Debt (Total borrowing) to Capital Employed <i>** Calculated as a ratio of total Borrowings to (Share capital + Retained earnings)</i>	9%	20%	27%
Total long-term Debt to Capital Employed ** <i>Calculated as a ratio of Borrowings to (Share capital + Retained earnings)</i> <i>NB: Borrowing maturing after one year, but within five year</i>	5%	Nil%	6%



**KPMG**  
**Certified Public Accountants**  
2nd Floor, The Luminary  
Haile Selassie Road, Masaki  
P O Box 1160  
Dar es Salaam, Tanzania

Telephone +255 22 2600330  
Fax +255 22 2600490  
Email [info@kpmg.co.tz](mailto:info@kpmg.co.tz)  
Internet [www.kpmg.com/eastafrica](http://www.kpmg.com/eastafrica)

## **INDEPENDENT REPORTING ACCOUNTANT’S REPORT ON FORECAST FINANCIAL INFORMATION TO THE DIRECTORS OF KCB BANK TANZANIA LIMITED**

### *Introduction*

We have undertaken a reasonable assurance engagement in respect of the forecast financial information of Islamic Banking segment of KCB Bank Tanzania Limited (“KCB Sahl, KCB and/or Bank”) set out on pages 83 to 84, which comprise the forecast statement of financial position as at 31 December 2022, 31 December 2023 and 31 December 2024 and the forecast statement of comprehensive income, for the year ending 31 December 2022, 31 December 2023 and 31 December 2024 and statement of cash flows for the twelve-month period ending 31 December 2022 and the assumptions to the forecast financial information (the “Forecast Information”), as required by the Capital Markets and Securities Act of 1994 and subject to the Laws of Tanzania and of the Guidelines for the issue of corporate bonds and commercial paper from the Capital Markets and Securities, 2019.

We have also undertaken a limited assurance engagement in respect of the directors of KCB Bank Tanzania Limited (“Director’s”) assumptions used to prepare and present the Forecast Information, disclosed on pages 83 to 84 of the Forecast Information as required by the Capital Markets and Securities Act of 1994 and subject to the Laws of Tanzania and of the Guidelines for the issue of corporate bonds and commercial paper from the Capital Markets and Securities, 2019.

### *Directors’ responsibility for the Forecast Information and for the assumptions used to prepare the Forecast Information*

The Directors are responsible for the preparation and presentation of the Forecast Information and for the reasonableness of the assumptions used to prepare the Forecast Information as set out on pages 83 to 84 to the Forecast Information in accordance with the requirements of the Capital Markets and Securities Act of 1994 and subject to the Laws of Tanzania and of the Guidelines for the issue of corporate bonds and commercial paper from the Capital Markets and Securities, 2019. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Forecast Information on the basis of those assumptions that is free from material misstatement, whether due to fraud or error.

### *Inherent limitations*

Actual results are likely to be different from the Forecast Information since anticipated events frequently do not occur as expected and the variation may be material. Consequently, readers are cautioned that the Forecast Information may not be appropriate for purposes other than described in the purpose of the report paragraph below.

### *Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.





## INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON FORECAST FINANCIAL INFORMATION TO THE DIRECTORS OF KCB BANK TANZANIA LIMITED (CONTINUED)

### *Part A – Limited assurance engagement on the reasonableness of the Directors' assumptions*

#### *Reporting Accountant's responsibility*

Our responsibility is to express a limited assurance conclusion on whether anything has come to our attention that causes us to believe that the assumptions do not provide a reasonable basis for the preparation and presentation of the Forecast Information in accordance with the Capital Markets and Securities Act of 1994 and subject to the Laws of Tanzania and of the Guidelines for the issue of corporate bonds and commercial paper from the Capital Markets and Securities, 2019, based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE 3400), *The Examination of Prospective Financial Information* (ISAE 3400), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Directors' assumptions provide a reasonable basis for the preparation and presentation of the Forecast Information.

A limited assurance engagement undertaken in accordance with ISAE 3400 involves assessing the source and reliability of the evidence supporting the Directors' assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgement and included inquiries, observations of processes performed, inspection of documents, analytical procedures, evaluating the reasonableness of best-estimate assumption and agreeing or reconciling with underlying records.

Our procedures included evaluating the Directors' best-estimate assumptions on which the Forecast Information is based for reasonableness.

The procedures performed in a limited assurance engagement are less in extent than for, and vary in nature from, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Directors' assumptions provide a reasonable basis for the preparation and presentation of the Forecast Information.

#### *Limited assurance conclusion on the reasonableness of the Directors' assumptions*

Based on the procedures we have performed and evidence we have obtained, nothing has come to our attention that causes us to believe that the Directors' assumptions do not provide a reasonable basis for the preparation and presentation of the Forecast Information.



**INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON FORECAST FINANCIAL INFORMATION TO THE DIRECTORS OF KCB BANK TANZANIA LIMITED (CONTINUED)**

***Part B – Reasonable assurance engagement on the Forecast Information***

*Reporting Accountant's responsibility*

Our responsibility is to express an opinion based on the evidence we have obtained about whether the Forecast Information is properly prepared and presented on the basis of the Directors' assumptions disclosed on pages 83 to 84 to the Forecast Information in accordance with the Capital Markets and Securities Act of 1994 and subject to the Laws of Tanzania and of the Guidelines for the issue of corporate bonds and commercial paper from the Capital Markets and Securities, 2019. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE 3400), *The Examination of Prospective Financial Information* (ISAE 3400), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether such Forecast Information is properly prepared and presented on the basis of the Directors' assumptions disclosed pages 83 to 84 to the Forecast Information in accordance with the Capital Markets and Securities Act of 1994 and subject to the Laws of Tanzania and of the Guidelines for the issue of corporate bonds and commercial paper from the Capital Markets and Securities, 2019.

A reasonable assurance engagement in accordance with ISAE 3400 involves performing procedures to obtain evidence that the Forecast Information is properly prepared and presented on the basis of the assumptions and in accordance with the Capital Markets and Securities Act of 1994 and subject to the Laws of Tanzania and of the Guidelines for the issue of corporate bonds and commercial paper from the Capital Markets and Securities, 2019. The nature, timing and extent of procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error, of the forecast information. In making those risk assessments, we considered internal control relevant to the Bank's preparation and presentation of the Forecast Information.

Our procedures included:

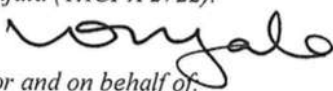
- Inspecting whether the Forecast Information is properly prepared on the basis of the assumptions;
- Inspecting whether the Forecast Information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions; and
- Inspecting whether the forecast statement of financial position as at 31 December 2022, 31 December 2023 and 31 December 2024 and statement of comprehensive income, and the forecast statement of cash flows for the twelve months ending 31 December 2022 are prepared on a consistent basis with the historical financial statements, using appropriate accounting policies.

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

*Unqualified opinion on the Forecast Information*

In our opinion, the Forecast Information, as at 31 December 2022, 31 December 2023 and 31 December 2024 and forecast statement of cash flows for the twelve months ending 31 December 2022, is properly prepared and presented on the basis of the assumptions and in accordance with the Capital Markets and Securities Act of 1994 and subject to the Laws of Tanzania and of the Guidelines for the issue of corporate bonds and commercial paper from the Capital Markets and Securities, 2019.

*The engagement partner responsible for the engagement resulting in this Reporting Accountants' Report is Vincent Onjala (TACPA 2722).*



For and on behalf of:

**KPMG**

**Certified Public Accountants(T)**

**P. O. Box 1160**

**Dar es Salaam, Tanzania**

Date: ..... *22 September 2022* .....

## KCB BANK TANZANIA LIMITED

### Forecast Islamic banking window Income Statement, Statement of Financial position, and Statement of Cashflows

#### Income Statement

	2023 TZS'000	2024 TZS'000	2025 TZS'000
Profit income	7,881,000	9,457,000	11,159,000
Profit expenses	(1,473,000)	(2,062,000)	(2,681,000)
Profit expense on Sukuk	(656,000)	(1,313,000)	(1,313,000)
Net profit income	5,752,000	6,082,000	7,165,000
Net fees and commission	2,193,000	2,741,000	3,290,000
<b>Total income</b>	<b>7,945,000</b>	<b>8,823,000</b>	<b>10,455,000</b>

#### Statement of Financial position

	2023 TZS'000	2024 TZS'000	2025 TZS'000
Total deposits	65,758,000	72,334,000	83,184,000
Sukuk	15,000,000	15,000,000	15,000,000
<b>Total liabilities</b>	<b>80,758,000</b>	<b>87,334,000</b>	<b>98,184,000</b>
<b>Total assets</b>	<b>73,000,000</b>	<b>80,300,000</b>	<b>92,345,000</b>

Assumptions on which the forecast segment financial information for the 3 years is based on:

#### Statement of profit or loss and other comprehensive income

- Islamic Banking industry continues to experience double digit growth globally between 15%-25% per year as knowledge-gap decreases with more banks expected to offer the services.
- Main financing products driving assets include Murabaha (Cost-Plus Financing) and Commodity Murabaha (Tawarruq) which make up more than 95% of credits availed to customers. These mostly consist of asset backed financing, stock purchases, and working capital financing.
- Profit expense is expected to rise at a similar average historical rate of 51% over the next 3 years as KCB Sahl seeks to attract funding from investors and depositors looking for profit returns. This in turn will increase the absolute values of Term Deposits and Savings Accounts which may comprise 40-50% of total deposits.
- KCB is expected to issue Sukuk in the fourth quarter of the year ending 31 December 2022 at 8.75% profit rate, hence profit expense for the year ending 31 December 2022 is estimated to be TZS 328.5 million.

#### Statement of financial position

- Deposits at KCB Sahl had an average growth of 20% over the last 3 years while its Assets had average growth of 10%. Funds raised through Sukuk and other product initiatives are expected to maintain or surpass the historical deposit growth which in turn will allow aggressive growth of the Asset side in pipeline for KCB Sahl.
- Total Deposits of TZS 62.6 billion at KCB Sahl were comprised of 64% Current Accounts, 20% Term Deposits, and 16% Savings Accounts as at 31 December 2021. Energy, Construction, Transport, and Public Institutions were the main drivers of deposit growth in 2021.

## KCB BANK TANZANIA LIMITED

### Forecast Islamic banking window Income Statement, Statement of Financial position, and Statement of Cashflows (Continued)

Assumptions on which the forecast segment financial information for the 3 years is based on (continued):

#### Statement of financial position (Continued)

- Total Assets of TZS 52.6 billion at KCB Sahl as at 31 December 2021 comprised of financing activities in different sectors in Tanzania with Transport & Communications (44%) and Trade & Commerce (40%) making up a large portion of credits availed. Other sectors include Individuals (9%), Manufacturing (4%), Petroleum & Gas (2%), Mining (1%), Education (0.88%), and Agriculture (0.22%).

#### Statement of profit or loss and other comprehensive income

	2023 TZS'000
Net Income before tax	7,945,000
Profit charged on long term borrowing	657,000
<b>Cashflow from operating profits before working capital changes</b>	<b>8,602,000</b>
<b>Changes in operating assets and liabilities</b>	
Increase in Assets	(20,418,000)
Increase in deposits	3,131,000
<b>Net cash flow from operating activities</b>	<b>(8,685,000)</b>
Cash flow from investing activities	-
Cash flow from financing activities	
Proceeds from borrowings - SUKUK	15,000,000
Profit paid on borrowings	(657,000)
	<b>14,343,000</b>
<b>Net cash from financing activities</b>	<b>5,658,000</b>

---

Legal  
Opinion

11

## Legal Opinion

Ref: CRB AL/KCB SUKUK/2022/1

Date: 1<sup>st</sup> August, 2022

The Directors,  
KCB Bank Tanzania Limited,  
Harambee Plaza Building,  
Ali Hassan Mwinyi Road and Kaunda Drive,  
P.O Box 804,  
Dar es Salaam,  
Tanzania.

### LEGAL OPINION IN RESPECT OF TANZANIA SHILLINGS TEN BILLION (TZS. 10,000,000,000) UNRATED, UNSECURED, SUBORDINATED AND NON-CUMULATIVE 3 YEAR FURSA SUKUK TO BE ISSUED BY KCB BANK TANZANIA LIMITED

1. We, CRB AFRICA LEGAL, are a firm of duly admitted advocates practising in the United Republic of Tanzania, and we are competent to give an opinion (being "this Opinion") in connection with the proposed issue by KCB Bank Tanzania Limited ("the Issuer") of Tanzania Shillings Ten Billion (TZS 10,000,000,000 Fursa Sukuk ("the Sukuk") upon the terms and conditions ("the Conditions") spelt out in the Master Mudaraba Sukuk Agreement ("the Mudaraba Agreement") dated 01<sup>st</sup> August 2022 between the Issuer and the Sukuk Certificate Holders ("the Certificate Holders"), Wadiah Yad Dhamanah contract between the Issuer and Investment Manager and pursuant further to the Information Memorandum ("the IM") dated 01<sup>st</sup> August 2022 issued by the Issuer relating to the Sukuk.
2. We have, for purposes of this Opinion reviewed copies the following:-
  - a) the IM;
  - b) the Mudaraba Agreement and the Conditions spelt out therein;
  - c) the agreement dated 03<sup>rd</sup> January 2022 (or an engagement letter) between the Issuer and Vertex International Securities Limited as Sponsoring Broker ("the Sponsoring Broker");
  - d) the Authorised Selling Agents Agreement between the Issuer, Receiving Bank and Authorised Selling Agents;
  - e) the agreement (or an engagement letter) dated 03<sup>rd</sup> January 2022 between the Issuer and CIFCA as the Shari'ah Advisors;
  - f) the agreement (or an engagement letter) dated 03<sup>rd</sup> January 2022 between the Issuer and NMB PLC as the fiscal agent and registrar ("Fiscal Agent and Registrar");

**PARTNERS:** Charles R.B Rwechungura (Advocate/Managing Partner), (Rugambwa C. J. Pasha (Advocate/Principal Partner)

**SENIOR ASSOCIATE:** Pladius Mwombeki (Advocate),

**JUNIOR ASSOCIATE:** Richard Mchwampaka (Advocate), Emmanuel Kyashama (Advocate)

**LEGAL OFFICERS:** Ruqaiyyah Mushi, Sophiamary Chacha, Beatha Telli



- g) the agreement (or an engagement letter) dated 03<sup>rd</sup> January 2022 between the Issuer and FIMCO Limited as the lead arranger ("the Lead Arranger");
  - h) the agreement (or engagement letter) dated 03<sup>rd</sup> January 2022 between the Issuer and KPMG Tanzania as the reporting accountant ("the Reporting Accountant");
  - i) the statutory records of the Issuer at the office of the Registrar of Companies in Dar es Salaam as reflected in the BRELA official search report dated 08 December 2021 and at the offices of the Company Secretary of the Issuer;
  - j) the Capital Adequacy Guidelines issued by the Bank of Tanzania in Circular No. 3 (Guidelines for Measuring Capital Adequacy) as amended from time to time ("the BoT Guidelines");
  - k) the Guidelines for the Issue of Corporate Bonds and Commercial Paper dated September 1999 issued by the Capital Markets and Securities Authority as amended from time to time ("the CMSA Guidelines");
  - l) the laws relating to insolvencies in Tanzania generally;
  - m) the Memorandum and Articles of Association and the Certificate of registration of the Issuer;
  - n) a certified copy of the extract of the resolution of the Directors of the Issuer dated 15<sup>th</sup> October, 2021, approving the issuing of the Sukuk;
  - o) the agreement between the Issuer and KCB Sahl Banking dated 01<sup>st</sup> August 2022 ("the Wadiah Yad Dhamanah Contract") whereby the Issuer appointed KCB Sahl Banking as the Investment Manager in relation to the Sukuk;
  - p) letters from all advisors of the Issuer confirming their approval to have their names specified in the IM and undertaking not to withdraw such approvals.
  - q) copies of the Annual Returns of the Issuer for the years ended April 2018, April 2019, April 2021, and April 2022.
3. Words and expressions defined in the Mudaraba Agreement and the IM have the same meanings when used in this Opinion.

**4. On the basis of the foregoing, our findings and opinion are as follows:-**

**4.1. Corporate Status of the Issuer:**

- (a) The Issuer is a limited liability company duly registered under the Companies Act (Cap.212 R.E 2002) of the laws of the United Republic of Tanzania having Certificate of Incorporation No 31740;
- (b) The Issuer licensed to carry on business as a bank in the United Republic of Tanzania under the Banking and Financial Institutions Act (Cap. 342 R.E 2002) ("the BAFIA").
- (c) The Issuer has mandate under Clause 3(q) of its Memorandum of Association to issue the Sukuk or to cause the issuance of the Sukuk in the manner contemplated under the Master Mudaraba Sukuk Agreement and the IM.
- (d) The Issuer has obtained approval from the Bank of Tanzania to issue the Sukuk, and has obtained all internal corporate approvals for the issuing of the Sukuk, and to issue



the IM, to execute the Master Mudaraba Sukuk Agreement and all other documents necessary for the issuing of the Sukuk.

- (e) The Issuer has no insolvency proceedings (which include those relating to bankruptcy, liquidation, administration, administrative receivership and reorganisation) in force, or has been commenced, in relation to the Company in any jurisdiction.

#### 4.1.1 Material Litigation

After a thorough review and having made reasonable inquiry with the Issuer's in-house legal team, we confirm that, except for the material litigation disclosed under Schedule 1 (*Summary of Material Litigation*) as provided by the Issuer, there is no other litigation which is material to which Issuer is a party.

#### 4.1.2 Material Assets

- (a) As it is provided for under paragraph 3(6)(2) of Part II of the Capital Markets and Securities (Prospectus Requirements) Regulations "**Regulations**", we confirm that, on the basis of the information communicated to us by the Issuer, we confirm that the Bank has no immovable/landed property located in Tanzania.
- (b) The Issuer has, however, good and enforceable ownership titles of nine (9) vehicles. The particulars of relevant properties are set forth under Schedule 2 (*Vehicles Owned by KCBT*).

#### 4.1.3 Material Agreements

Material contracts or agreements entered by the Issuer within two years immediately preceding the publication of the prospectus and provided to us by the Issuer are as follows:

- (a) Mortgage pre-finance loan agreement between the Tanzania Mortgage Refinance Company Limited (as Lender) and Issuer (as Borrower) for the purpose of financing mortgage loans. The agreement was executed on 31st December, 2021.
- (b) Mortgage pre-finance loan agreement between the Tanzania Mortgage Refinance Company Limited (Lender) and Issuer (Borrower) for the purpose of financing mortgage loans. The agreement was executed on 9th August, 2022.

Schedule 3 (*Summary of Material Contracts*) provides for the list of above stated material contracts and their brief summary in accordance with paragraph 9 of Part II of the Regulation.

Having relied on communications made to us by the Issuer and to the best of our knowledge subject to the material contracts stated above, there are no other material contracts or agreements entered into by the Issuer.

#### 4.2. Corporate Status of KCB Sahl Banking ("KCB Sahl"):

KCB Sahl is a special purpose unit within the organizational set up of the Issuer with no independent corporate existence but dedicated to offering, exclusively, Shariah compliant





financial services and the management of Shariah compliant funds of the Issuer under the auspices of the Issuer and has been duly appointed as the Investment Manager.

#### 4.3. Compliance with Tanzanian law

##### (a) Maturity period of the Bonds and Redemption conditions:

The minimum maturity period of corporate bonds under Tanzanian law is one (1) year or more, and there is no statutory upper limit to the period. This is in accordance with the CMSA Guidelines.

In compliance with CMSA Guidelines, the Conditions prescribe 07<sup>th</sup> October 2025 as the date when the Sukuk will be due for redemption.

We opine and confirm that under the Conditions:

- (i) the intended holders of the Sukuk will have no right to demand repayment of their principal amounts earlier than Three (3) years and one (1) day from the date of purchasing the Sukuk; and
- (ii) the Issuer will not have the right to redeem earlier than one (1) year and one (1) day from the date of issue pursuant to Condition 7 (purchase of Mudharaba Sukuk and Redemption) and only with the consent of the Bank of Tanzania.

The above provisions in the Conditions are enforceable under Tanzanian law

##### (b) Subordination of the Sukuk:

The Conditions governing the Sukuk contain provisions which rank the Sukuk as being: -

- (i) superior to the claims of ordinary shareholders;
- (ii) pari-passu without preference amongst Sukuk holders; and
- (iii) subordinate to and rank inferior to all other debts of the Issuer including depositors and any Tier 2 Capital instruments.

In our opinion, Condition 3 is enforceable under Tanzanian law.

##### (c) Remedies to the Sukukholders:

In the event of the Issuer defaulting in the payment of principal and profits owed to the Sukuk holders under the Conditions of the Sukuk, the only remedies available to the Sukuk holders are:

- instituting proceedings for the liquidation or winding-up of the Issuer, in which case they can recover only after the unsubordinated creditors and the depositors have been satisfied in full; and
- commencing judicial proceeding against the issuer for the collection of sums due but unpaid.



**(d) Subordination of Debts in liquidation:**

Under Tanzanian law, in the event of the liquidation or winding-up of a limited liability entity, creditors of such a company are ranked first on the basis of statutory law and, secondly, on the basis of the instruments/contracts under which they are claiming. Pursuant to the provisions of the Companies Act (Cap. 212) and the Bankruptcy Act (Cap. 25), there is a category of debts which are ranked pari-passu amongst themselves but in priority to all other debts. These include, subject to the limits specified, government taxes, wages and workmen's compensation. They are known as preferred debts. All the other debts are subordinated to the preferred debts and, as amongst themselves, the law prima- facie treats them as equal ranking, unless, in accordance with the relevant debt instruments, some of them were specifically ranked subordinate. Thus, secured creditors, notably mortgagees and debenture holders, will be ranked superior to unsecured creditors, and any subordinated debts will be treated as subordinate to all other debts which the relevant instruments specify as being prior-ranking to the subordinated debt.

The subordination of the Sukuk in the manner provided for under the Conditions is effective and enforceable under Tanzanian law.

**CONSENT**

We hereby consent to the inclusion of this Legal Opinion in the Information Memorandum to be issued by the Issuer, in the form and text in which it is included. We confirm that we have not, prior to the date of the Information Memorandum, withdrawn our consent to the issue of the Information Memorandum containing this Legal Opinion

Yours Sincerely

**CRB AFRICA LEGAL**

**Charles R.B Rwechungura**  
Managing Partner.

## SCHEDULES

### Schedule 1: Summary of Material Litigation

No.	CASE NUMBER	PARTIES	DESCRIPTION	ESTIMATED VALUE OF CLAIM/LOSS (TZS)	RISK FACTOR (%)	PROBABLE
1	High Court of Tanzania, Land Division at Dar es Salaam, Land Case No. 320/2017.	Mariam Omary Zahoro Vs KCB Bank and Huduma Ginners Limited and others	The Applicant alleges that she is an administratrix of the estate of the late Zahoro Omary. She filed this case on the allegation that the title deed was stolen from their custody and the same was subsequently mortgaged to the Bank without the knowledge and or consent of the beneficiaries to the estate she therefore prays for the court to nullify the mortgage (issued sometime in 2009) and the subsequent transactions. The Bank had sold the property in 2016 following default by the Borrower (Huduma Ginners). The Judgment was issued in favour of plaintiff. The Bank has appealed against the decision.	241,990,599	80%	193,592,479
2	High Court of Tanzania Land Division, at Dar es Salaam, Land Case No. 5 of 2019	Nichoderm Bethelehem v/s KCB Bank Tanzania Limited.	The Bank had issued a loan in 2014 to Maimuna Mpanda whereby the property issued as security for loan was in the name of the Plaintiff (Nichoderm Bethelehem). The Plaintiff upon receipt of the default notice, alleged that the Bank's intended Auction was unlawful as he never consented for his	224,222,313	50%	112,111,156



			property to be used as collateral Plaintiff prays for nullification of the mortgage.			
3	High Court of Tanzania Commercial division Commercial case no. 130 of 2013	Nasra Said Vs. KCB Bank Tanzania Limited	The Plaintiff prays for a declaration against the defendants that the sale of matrimonial property was illegal, also an order to restrain the 1 <sup>st</sup> and 2 <sup>nd</sup> defendants from evicting the plaintiff and his family from the Matrimonial Property. Judgment was delivered in favour of Nasra Said, the Bank has filed the Notice of Appeal, though the Bank is yet to be supplied with the proceedings, judgment for appeal purpose.	79,476,439	50%	39,738,219
4	High Court of Tanzania, DSM District Registry, Misc Land Application No. 391/2021 arising from Land case No. 44 of 2015	KCB Bank Tanzania Ltd vs Rosemary Homanje, Philemon Homanje and Remmy Augustino Kwayu	The Plaintiffs claimed among others that Certificate of title mortgaged to the Bank in favour of the 1 <sup>st</sup> , (Humphrec Insurance Brokers) was fraudulently created, and that the Mortgagor had no right to dispose the same in any manner whatsoever. Judgment was delivered on 22/12/2020 in favour of the Plaintiff and against the Bank. The Bank has filed an appeal.	371,862,358	75%	278,896,768

5	the Resident Magistrate's Court of Kivukoni at Kinondoni. Civil Case No. 81 of 2020.	Levi Ignas Kaduma Vs KCB Bank Tanzania Limited and Sensitive Auction Mart	This case emanates from the mortgage created by Humphrec Insurance in favour of the Bank, who defaulted to service the facility and the collateral was auctioned the Plaintiff became the highest bidder and deposited the sum TZS 26,000,000/=. The original title deed was discharged to him, however transfer to his name is yet to be completed due to the existence of caveat and the case above. The Plaintiff has filed this case for reimbursement of his money and damages. Prior to this, a Lady by the name of Rosemary Homanje filed Land Case No 44 of 2015, which is pending at the high Court of Tanzania, Dar es Salaam District Registry.	95,000,000	75%	71,250,000
6	in the High Court of Tanzania (Commercial Division) at Dar es Salaam Com Case No. 144/2021	Avit Raphael Bureta T/A Kanana Motors General Supply Vs KCB Bank Tanzania Limited	The Plaintiff is the customer to the Bank, his facility having been secured by the landed property comprising of CT No. 108986, LO No. 333149 Plot No. 2095, Block D Mbezi Beach area within Kinondoni Municipality. The Plaintiff claims for general damages caused due to delay by the Bank of releasing his title.	350,000,000	10%	35,000,000

7	District Court of Kinondoni, Civil Case No. 162 of 2022	Winstone Churchil Katwaza Vs KCB Bank Tanzania Limited and Nkaya Company Limited	The Plaintiff prays for among other orders, refund of the purchase price amounting to TZS 145,000,000, and TZS 100,000,000 being general damages for the injuries suffered having bought, through a public auction, landed property comprising of CT No. 114770 Plot No. 517 located at Jangwani sea breeze. transfer of the property could not proceed due to another case filed by the administratrix of the estate of the late Gaitani which ultimately nullified the mortgage.	245,000,000.00	80%	196,000,000
---	---	--	--	----------------	-----	-------------

**Schedule 2 (Vehicles Owned by KCBT).**

Asset-No	Asset-Description	BRANCH	Registration No	Date Placed in Service	Age in Years	Cost (TZS)
1229027	1229027-Toyota RAV4	STONE TOWN	Z 408 HD	22/12/2016	5.5	30,000,000
1306163	1306163-MD-New Landcruiser Station Wagon VXR- Automatic	MD'S OFFICE	T 603 DPW	30/01/2019	3.5	398,627,190
1306175	1306175-New RAV 4 Station Wagon VXR- Automatic	SAMORA	T 604 DPW	30/01/2019	3.5	110,912,356
1314074	1314074-New RAV 4 Station Wagon Comfort Auto 2.0 L	ARUSHA TFA	T 689 DRA	22/07/2019	3	125,893,908
1314075	1314075-New RAV 4 Station Wagon Comfort Auto 2.0 L	OYSTERBAY	T 688 DRA	22/07/2019	3	125,893,908
1384236	1384236-TFA, Mwanza, Moshi and Morogoro Branch--Hilux D/Cabin 2GD 2 4L 4WD std	MWANZA	T 318 DYT	25/02/2022	0.5	105,289,020
1384237	1384237-TFA, Mwanza, Moshi and Morogoro Branch--Hilux D/Cabin 2GD 2 4L 4WD std	MOROGORO	T 350 DYT	25/02/2022	0.5	105,289,020
1384238	1384238-TFA, Mwanza, Moshi and Morogoro Branch--Hilux D/Cabin 2GD 2 4L 4WD std	MOSHI	T 351 DYT	25/02/2022	0.5	105,289,020

1384239	1384239-TFA, Mwanza, Moshi and Morogoro Branch--Hilux D/Cabin 2GD 2 4L 4WD std	ARUSHA MAIN	T 349 DYT	25/02/2022	0.5 Yr	105,289,020
---------	---	----------------	-----------	------------	--------	-------------

### Schedule 3 (Summary of Material Contracts)

#### 1. Tanzania Mortgage Refinance Company Limited (TMRC) – First Contract

<b>Description of agreement and Facility and financial obligation</b>	Mortgage pre-finance loan for the purpose of financing mortgage loans.
<b>Parties</b>	Tanzania Mortgage Refinance Company Limited (as Lender)  KCB Bank Tanzania Limited (as Borrower)
<b>Signed by all parties, and date of execution</b>	Yes, Renewed 31 <sup>st</sup> December 2021
<b>Duration, Expiry and Renewal</b>	March 2026
<b>Events of Default (if relevant)</b>	<p>Penalties which includes a) In the event that the Borrower fails to convert at least 33% at the expiration of the first year or 66% at the expiration of the second year or any amount remaining at the maturity of the loan shall be given notice of re-calling the loan; b) A penalty of 2% over and above weighted average interbank borrowing rate over n years shall be levied on the amount un-applied to qualifying mortgage loans at the end of each conversion period (year n) according to the pre-agreed conversion rate; c) failure to pay the penalty will be regarded as default and the borrower shall be locked out from participating in borrowing until such time the default is corrected.</p> <p>Failure by the Borrower to pay to Lender any principal monies and/or interest or other monies falling due for 3 consecutive installments.</p> <p>The discontinuance of the mortgage lending or any material part thereof without written approval from Lender.</p> <p>The passing of a resolution or the making of an order for</p>



	<p>the winding up of the Borrower</p> <p>Any default by the Borrower in observing or fulfilling any material obligation to be observed or fulfilled by it under the agreement or abrogation of the terms of the agreement.</p>
<b>Consequences in the event of Breaches</b>	<p>The obligations of the Lender shall be cancelled; and/or by written notice the pre-finance loan or part of it due and payable after failure to pay 3 consecutive installments, whereupon the Borrower shall forthwith repay the same together with all interest accrued thereon and all other charges payable hereunder under the Lender shall be entitled to recover repayment from the Borrower through a summary suit proceedings and the Borrower hereby agrees not to contest the summary proceedings for unreasonable reasons. Should the Borrower decide to contest the summary proceedings, then it shall first pay 50% of the amounts claimed by the Lender.</p>
<b>Security (including guarantees, sponsor support, subordinations)</b>	<p>Portfolio of Treasury Bonds with a coverage ratio of at least 133% and minimum remaining tenor of 34 months from disbursement date</p>
<b>Governing Law</b>	<p>Laws of the United Republic of Tanzania</p>
<b>Other unusual/noteworthy provisions (including rights of first refusal)</b>	<p>None</p>

## 2. Tanzania Mortgage Refinance Company Limited (TMRC) – Second Contract

<b>Description of agreement and Facility and financial obligation</b>	<p>Mortgage pre-finance loan for the purpose of financing mortgage loans.</p>
<b>Parties</b>	<p>Tanzania Mortgage Refinance Company Limited (as Lender)</p> <p>KCB Bank Tanzania Limited (as Borrower)</p>
<b>Signed by all parties, and date of execution</b>	<p>Renewal Process, renewal date: 9<sup>th</sup> August 2022</p>
<b>Duration, Expiry and Renewal</b>	<p>Maturity Date: 9<sup>th</sup> August 2027</p>
<b>Events of Default (if relevant)</b>	<p>Penalties which includes a) In the event that the Borrower fails to convert at least 33% at the expiration of the first year or 66% at the expiration of the second year or any amount remaining at the maturity of the loan shall be</p>



	<p>given notice of re-calling the loan; b) A penalty of 2% over and above weighted average interbank borrowing rate over n years shall be levied on the amount un-applied to qualifying mortgage loans at the end of each conversion period (year n) according to the pre-agreed conversion rate; c) failure to pay the penalty will be regarded as default and the borrower shall be locked out from participating in borrowing until such time the default is corrected.</p> <p>Failure by the Borrower to pay to Lender any principal monies and/or interest or other monies falling due for 3 consecutive installments.</p> <p>The discontinuance of the mortgage lending or any material part thereof without written approval from Lender.</p> <p>The passing of a resolution or the making of an order for the winding up of the Borrower</p> <p>Any default by the Borrower in observing or fulfilling any material obligation to be observed or fulfilled by it under the agreement or abrogation of the terms of the agreement.</p>
<p><b>Consequences in the event of Breaches</b></p>	<p>The obligations of the Lender shall be cancelled; and/or by written notice the pre-finance loan or part of it due and payable after failure to pay 3 consecutive installments, whereupon the Borrower shall forthwith repay the same together with all interest accrued thereon and all other charges payable hereunder under the Lender shall be entitled to recover repayment from the Borrower through a summary suit proceedings and the Borrower hereby agrees not to contest the summary proceedings for unreasonable reasons. Should the Borrower decide to contest the summary proceedings, then it shall first pay 50% of the amounts claimed by the Lender.</p>
<p><b>Security (including guarantees, sponsor support, subordinations)</b></p>	<p>Portfolio of Treasury Bonds with a coverage ratio of at least 105.3% and minimum remaining tenor of 36 months from disbursement date</p>
<p><b>Governing Law</b></p>	<p>Laws of the United Republic of Tanzania</p>
<p><b>Other unusual/noteworthy provisions (including rights of first refusal)</b></p>	<p>None</p>

---

Wadiah Yad Dhamanah  
Contract

**APPENDIX**



## WADIAH YAD DHAMANAH – TERMS AND CONDITIONS

1. The term Wadiah is derived from the verb “wada’a” which can literally mean to entrust. In its simplest terms it means “something placed under somebody who is not the owner to keep.” There are two basic types of Wadiah:

- Wadiah Yad Amanah refers to safekeeping in form of trust only without allowance for use of the underlying funds or assets under custody.
- Wadiah Yad Dhamanah refers to safekeeping in form of guarantee and allowance to utilize the underlying funds or assets under custody.

2. The contract between KCB Bank Tanzania Limited (hereinafter KCBT) and KCBT Sahl Banking (hereinafter Sahl) is based on Wadi`ah Yad Dhamanah, whereby KCBT hands over its specific funds or assets to Sahl for safekeeping in form of guarantee with permission to invest the said funds or assets in a Shari`ah compliant manner to generate a profit.

3. In this Wadiah Yad Dhamanah Contract, KCBT is a safekeeping depositor (Mudi`) and Sahl is a custodian (Wadi`) for safekeeping and investing the funds or assets received from KCBT.

4. The Wadi` who is not the fund owner shall have the permission to act on behalf of the Mudi` or have legal authority over the fund placed in custody.

5. The effect of this permission is that, Wadi` as a custodian guarantees the fund placed in custody.

6. Sahl will utilize the fund by investing together with other deposits from Sahl deposit pool and return profit earned to KCBT on a quarterly basis.

7. Sahl will not charge fees on this Wadi` ah Yad Dhamanah contract.

8. Sahl will retain its share of revenue or any income from the fund placed in custody.

9. Sahl shall ensure proper management and protection of the fund placed in custody and shall act in the interest of the Mudi` of the fund.

10. During the period of the contract, the Wadi` is responsible to discharge the safekeeping task accordingly.

11. In the case of loss or damage to the fund placed in custody and invested as a result from Wadi`s misconduct, negligence, or breach of specified terms, the Wadi` shall be held liable.

12. Sahl shall not entrust the fund placed in its custody to a third party without the permission of the Mudi`.

13. This is an irrevocable contract whereby the contract shall not be terminated unilaterally by any of the contracting parties.



- 14. The Wadi' shall return the fund placed in custody to the Mudi' upon the request of the safekeeping depositor or according to the agreed terms under the Master Mudarabah Sukuk Agreement.
- 15. Upon dissolution or completion of the Wadiah Yad Dhamanah contract, the fund placed in custody shall be returned to the Mudi' by the Wadi'.
- 16. This contract ends upon maturity date agreed between KCBT and Sahl under the Master Mudarabah Sukuk Agreement.
- 17. In the event that the Mudi' does not claim the fund placed in custody after the maturity period, the fund shall continue to be treated under Wadiah Yad Dhamanah contract.

**Signatories to this document are:**

Name.....COSMAS I. KIMARU

(Managing Director-KCBT)

Signature.....

Date.....26/09/2022

Name.....AMOUR MURO

(Head-KCBT Sahl Banking)

Signature.....

Date.....26/9/2022

---

Master Mudaraba  
Sukuk Agreement

**APPENDIX**

**2**



# Master Mudaraba Sukuk Agreement

Dated 01st of November 2022

---

**SUKUK HOLDERS**  
as Rabbul Maal and

**KCB BANK TANZANIA LIMITED**  
as Mudarib

## **MASTER MUDARABA SUKUK AGREEMENT**

### **relating to**

TZS 10,000,000,000 Unrated, Unsecured, Subordinated and Non-Cumulative  
Mudaraba Sukuk issued by KCB Bank Tanzania Limited

This **Mudaraba Agreement** (this “**Agreement**”) is dated 01st of November 2022 and made **between:**  
**(1) KCB Bank Tanzania Limited**, in its capacity as Issuer and Mudarib (the **Mudarib**) and  
**(2) Fursa Sukuk holders** in their capacities, as Rabul Maal (the “**Rabbul-Maal**”);

**Recitals:**

**(A) KCB Bank Tanzania Limited** has issued TZS 10,000,000,000 Mudaraba Sukuk (the “Fursa Sukuk”) with a green shoe option to issue an additional TZ 5,000,000,000 in case of oversubscription to Sukuk Holders. The Sukuk are backed-up by KCB Sahl Unrated Assets (the **Assets**).

**(B)** Pursuant to the Conditions (as defined herein), the Mudarib is authorized by the Sukuk holders to invest the proceeds of the Sukuk as Unrestricted Mudaraba in accordance with this Agreement.

**(C)** The Mudarib has invited the Rabbul Maal (as capital provider and Rabbul Maal) to invest with it in accordance with the Information Memorandum

**(D)** This Agreement constitutes the Mudaraba contract (the “**Mudaraba**”) between the Mudarib and the Rabbul Maal and sets out the rights, obligations, terms and conditions of this agreement between the Rabbul Maal and the Mudarib in relation thereto.

**It is agreed** as follows:

**1 Definitions and Interpretation**

**1.1 Definitions**

Except as otherwise expressly provided in this Agreement, capitalized terms used in this Agreement shall have the meanings given to such terms in the Conditions. In addition, the following terms shall have the meanings given below:

“**Additional Tier 1 Capital**” means core capital (as defined in the Banking and Financial Institutions Act, 2006) qualifying and approved by the BOT as, additional Tier 1 capital

“**Applicable Regulatory Capital Requirements**” means any requirements contained in the Capital Regulations for the maintenance of capital from time to time, as issued by the BoT, applicable to the Mudarib, including transitional rules and waivers granted in respect of the foregoing;

“**Assets**” means the consolidated gross assets of the Mudarib as shown in the latest audited or (as the case may be) auditor reviewed consolidated balance sheet of the Mudarib, but adjusted for subsequent events in such manner as the Directors, the Auditors or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of the Mudarib) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

“**Auditors**” means, at any time, the statutory independent auditors to the Mudarib at the relevant time or such other auditor as may be appointed for the purpose of this Agreement;

“**Bank Event**” has the meaning given to it in the Clause 5 (Bank Events);

“**BoT**” has the meaning of The Bank of Tanzania established pursuant to the Bank of Tanzania Act, 2006 of the Laws of Tanzania

“**Business Day**” means a day, other than Saturday and Sunday or public holiday, on which registered banks settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Tanzania;

“**Business Portfolio**” means the general Shari’ah compliant banking activities of the Mudarib’s KCB Sahl;



**‘Capital Event’** means Capital Event means a sale or disposition of any of the Company's capital assets, the receipt of insurance and other proceeds derived from the involuntary conversion of Company property, the receipt of proceeds from a refinancing of Company property, or a similar event with respect to Company property or assets;

**“Capital Regulations”** means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the United Republic of Tanzania from BoT;

**“Conditions”** means the terms and conditions set out under the Master Mudaraba Sukuk Agreement governing and regulating the Sukuk;

**“Delegates”** means representatives of the Sukuk holders (if they so wish to form such as team of delegates);

**“Directors”** means the executive and non-executive directors of the Mudarib who make up its board of directors;

**“Dispute”** has the meaning given to it in Clause 19.1 (Arbitration);

**“Dissolution Distribution Amount”** the final payments made by Mudarib to Sukuk holders as a return of their principals at the maturity of the Sukuk;

**“Dissolution Event”** any unexpected event that may call upon the Mudarib to dissolve the Sukuk prematurely;

**“Dissolution Notice”** means a general notice to be given to all Sukuk holders that the Sukuk has entered a dissolution period;

**“Expected Mudaraba Profit Rate”** means, on a per annum basis, the rate (expressed as a percentage) of the value of each Sukuk.

**“Final Mudaraba Profit”** has the meaning given to it in Clause 4.1(a) (*Final Mudaraba Profit on Mudaraba End Date*);

**“Financial Regulator”** means BoT or such other governmental authority which assumes or performs the functions of BoT, as at the Issue Date, or such other successor authority exercising primary banking supervision, in each case with respect to prudential matters in relation to the Mudarib;

**“First Mudaraba Profit Distribution Date”** means the date when the Mudarib will distribute the first payment to Sukuk holders;

**“General Mudaraba Pool”** means the general Mudaraba pool of the Mudarib's KCB Sahl comprising: (i) proceeds of all current savings and investment deposit accounts with the KCB Sahl; (ii) any other source of funds included in the general Mudaraba pool from time to time;

**“Indemnity Payment”** has the meaning given to it in Clause 9.2 (*Costs, Compensation and Indemnity*);

**“Issuer”** means KCB Bank Tanzania Limited its capacity as Originator and Issuer of the Fursa Mudaraba Sukuk;

**“Liabilities”** means the consolidated gross liabilities of the Mudarib's KCB Sahl as shown in the latest audited or (as the case may be) auditor reviewed consolidated balance sheet of KCB Sahl;

**“Mudaraba Accounts”** means, in respect of each Mudaraba Profit Distribution Period, the accounts of the Mudaraba Sukuk holders prepared by (or on behalf of) the Mudarib;

**“Mudaraba Assets”** has the meaning given to it in Clause 3.1(c) (Mudaraba Assets);

**“Mudaraba Capital”** means the capital amount contributed to the Mudaraba by the Rabbul Maal, which shall be an amount not exceeding TZS 15,000,000,000 on the date of this Agreement (or any addition thereof) and which may be subject to change after the date of this Agreement;

**“Mudaraba End Date”** has the meaning given to it in Clause 2.1(b) (Term of the Mudaraba);

**“Mudaraba Profit”** means the profit (if any) earned from the Mudaraba, as reflected in the Mudaraba Accounts;

**“Mudaraba Profit Distribution Date”** means the first date after elapsing of six (6) consecutive calendar months from the issue date in each year, starting on (and including) the First Mudaraba Profit Distribution Date;

**“Mudaraba Profit Distribution Period”** means the period beginning on (and including) the date of this Agreement and ending on final dissolution date of the Sukuk);

**“Mudaraba Term”** means the period commencing on the date of this Agreement and ending on the Mudaraba End Date;

**“Ordinary Shares”** means the common shares of the Mudarib;

**“Outstanding Payments”** means, in relation to any amounts payable on redemption of the Sukuk, an amount representing accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption occurs to the date of redemption plus Additional Amounts thereon, if any;

“Parties” means the parties to this Agreement;

**“Periodic Distribution Amount”** means, in relation to the Sukuk and a Periodic Distribution Period, the amount of profit distribution payable in respect of that Sukuk for that Periodic Distribution;

“Principal Paying Agent” means CRDB Bank PLC;

**“Proceedings”** has the meaning given to it in Clause 19.2 (*Waiver of Judgment Interest*); “Profit Equalization Reserve” means a reserve to be created in KCB Sahl as reserve of the Mudaraba profit share of the Mudarib to cater for any shortfalls in periodic distribution; “Profit Margin” means 8.75 per cent. per annum;

“Rabbul Maal Final Mudaraba Profit” has the meaning given to it in Clause 4.1(b) (*Final Mudaraba Profit on Mudaraba End Date*);

“Rabbul Maal Mudaraba Profit” has the meaning given to it in Clause 4.2(b) (*Mudaraba Profit*);

**“Registrar”** means CRDB Bank PLC selected and appointed by the Mudarib for the purposes of performing any of the functions expressed to be performed by the Registrar pursuant to this Agreement, the Conditions and the Information Memorandum;

**“Relevant Jurisdiction”** means the United Republic of Tanzania;

**“Required Liquidation Amount”** means:

a) the Mudaraba Capital; and

(b) subject to a Non-Payment Event not having occurred and being continuing and provided that a Non-Payment Event will not occur as a result of such payments, the Rabbul Maal Final Mudaraba Profit (being an amount equal to the Periodic Distribution Amount payable on the redemption of the Sukuk in full);

**“Senior Creditors”** means creditors of the Mudarib (including payment obligations to the Mudarib’s depositors and, for this purpose, holders of any instrument issued by, or other obligation of, the Mudarib which ranks senior to the claims of the Rabbul Maal in respect of the Relevant Obligations) other than creditors in respect of obligations, the claims in relation to which rank or are expressed to rank pari passu with, or junior to, the claims of the Rabbul Maal in respect of the Relevant Obligations;

**“Senior Obligations”** means all unsubordinated payment obligations of the Mudarib (including payment obligations to the Mudarib’s depositors) and all subordinated payment obligations (if any) of the Mudarib except Pari Passu Obligations and Junior Obligations;

**“Solvency Conditions”** has the meaning given to it in Clause 2.4(a) (*Status*);

**“Solvent”** means that (i) the Mudarib is able to pay its debts as they fall due and (ii) the Mudarib’s Assets exceed its Liabilities;

**“Taxes”** has the meaning given to it in Clause 4.8 (*Taxation*);

**“Tax Event”** means the Mudarib or the Rabbul Maal (as the case may be) would, as a result of a Tax Law Change, in making any payments under the Mudaraba Agreement (in the case of the Mudarib) on the next due date for a payment of Mudaraba Profit or the Sukuk (in the case of the Rabbul Maal) on the next due date for payment of a Periodic Distribution Amount (as the case may be) (whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), be required to pay Additional Amounts (and such requirement cannot be avoided by the Mudarib or the Rabbul Maal (as the case may be) taking reasonable measures available to it);

**“Tax Law Change”** means any change in, or amendment to, the laws, published practice or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after 26 January 2021;

**“Tax Laws”** means Tax laws of Tanzania;

**“Tier 1 Capital”** means core capital (as defined in the Banking and Financial Institutions Act, 2006);

**“Tier 2 Capital”** means supplementary capital (as defined in the Banking and Financial Institutions Act, 2006);

**“TZS”** means the lawful currency of the United Republic of Tanzania;

**“Unrestricted Mudaraba”** means Rabbul Maal gives full freedom to Mudarib to undertake whatever Shari-ah compliant business he deems fit.

**“Wadiah Yad Dhamanah Agreement”** means the safekeeper of a property (assets) is entitled to take genuine efforts to trade or use of the asset to generate income but when required to submit the property to its owner either wholly or partly, he is required to do so and is responsible for any harm or damage to the property.

## 2. Term and Purpose of Mudaraba

### 2.1 Term of the Mudaraba

**(a)** The Rabbul Maal hereby offers to enter into this Mudaraba Agreement with the Mudarib who hereby accepts the same subject to the terms and conditions of this Agreement. The Rabbul Maal hereby appoints KCB Bank Tanzania Limited as Mudarib and the Mudarib accepts its appointment as Mudarib in accordance with this Agreement. For the avoidance of doubt, the Rabbul Maal hereby confirms that, by signing the application form for the allocation of the Sukuk, it shall have agreed to be bound by the Conditions (as defined).

**(b)** The Mudaraba will commence on the date of the payment of the Mudaraba Capital to the Mudarib and will end on the date (being the “Mudaraba End Date”) on which the Sukuk are redeemed in whole but not in part in accordance with the Conditions, following the constructive liquidation of the Mudaraba in accordance with the terms of this Agreement.

### 2.2 Mudaraba Treatment

#### **(a) Mudaraba End Date Liquidation**

The Mudarib shall liquidate the Mudaraba on the Mudaraba End Date (by way of a final constructive liquidation or mandatory liquidation, as the case may be, and, in doing so, shall, subject to return to the Rabbul Maal all amounts due and payable to the Rabbul Maal in accordance with this Agreement. After payment in full of the amounts due and payable to the Rabbul Maal pursuant to the terms of this Agreement, the Rabbul Maal will have no further right or claim to any assets of the Mudarib.

#### **(b) Payments to Other Creditors**

The Rabbul Maal irrevocably undertakes and agrees that:

**(i)** the Mudarib shall be entitled (in its capacity as Mudarib or otherwise) to utilize the Mudaraba Assets (and the proceeds thereof) to make payments in respect of the claims of Senior Creditors or to cover losses of the Mudaraba and such entitlement shall apply at any time before an order has been made, or an effective resolution has been passed, for the winding-up, dissolution or liquidation (or other analogous event) of the Mudarib; and

**(ii)** payments of Rabbul Maal Mudaraba Profit (if any) or Rabbul Maal Final Mudaraba Profit shall be done *pari passu* with that of Mudarib.

### 2.3 Objective

The objective of the Mudaraba is to create a pool of Mudaraba Assets of the Mudarib’s KCB Sahl to be invested as the Mudaraba Capital on an unrestricted co- mingling basis by the Mudarib’s appointed Mudaraba Investment manager in its Business Portfolio carried out through the General Mudaraba Pool and to earn profit. The Rabbul Maal and the Mudarib acknowledge that the Rabbul Maal has no obligation to monitor the Mudaraba or any investment by the Mudarib of the Mudaraba Capital.

## 2.4 Status

**(a)** Except upon the occurrence and continuation of any Winding-Up) the Relevant Obligations are conditional upon the following (together, the “**Solvency Conditions**”):

**(i)** the Mudarib (in its capacity as Mudarib or otherwise) being Solvent at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable;

**(ii)** the Mudarib (in its capacity as Mudarib or otherwise) being capable of making payment of the Relevant Obligations and any other payment that is due to be made on the relevant date to a creditor in respect of all Senior Obligations and all Pari Passu Obligations and still be Solvent immediately thereafter; and

**(iii)** the total share capital (including, without limitation, retained earnings) of the Mudarib being greater than zero at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations that are due and payable.

**(b)** Upon the occurrence and continuation of any Winding-Up Proceeding, the Relevant Obligations will (i) constitute Additional Tier 1 Capital of the Mudarib, (ii) constitute direct, unsecured, conditional and subordinated obligations of the Mudarib, (iii) rank subordinate and junior to all Senior Obligations but not further or otherwise, (iv) rank pari passu with all other Pari Passu Obligations which, for the avoidance of doubt, includes and shall continue to include the Mudarib's (in its capacity as Mudarib or otherwise) obligations under the Existing Tier 1 capital and (v) rank in priority only to all Junior Obligations.

**(c)** The Rabbul Maal irrevocably waives its rights to the extent necessary to give effect to the subordination provisions of this Clause 2.4 (Status). In order to give effect to such subordination provisions, each of the Rabbul Maal and the Mudarib agrees that if a Winding-Up Proceeding shall have occurred and be continuing, any amounts that would be due and payable to the Rabbul Maal (including any amounts standing to the credit of the Mudaraba Profit Equalization Reserve) will be applied:

**(i)** first, to the payment in full of each claim in respect of a Senior Obligation (including any amount in respect of a claim accruing after the date of commencement of such Winding-Up Proceeding); and

**(ii)** thereafter, to the payment, equally and rate, of each amount owing in respect of the Relevant Obligations and all Pari Passu Obligations.

**(d)** The Rabbul Maal shall not be permitted to exercise or claim any right of set-off in respect of any amount owed to it by the Mudarib arising under or in connection with the Relevant Obligations and the Rabbul Maal shall be deemed to have waived all such rights of set-off to the fullest extent permitted by law.

## 3. Mudaraba Capital and Assets

### 3.1 Mudaraba Assets

The Mudarib acknowledges and agrees that:

- (a)** the Rabbul Maal has on the date of this Agreement paid (an amount equal to Sukuk bought) to the Mudarib for same day value to such account as the Mudarib has designated to the Rabbul Maal prior to the date of this Agreement;
- (b)** such amount constitutes the Mudaraba Capital of Sukuk holders; and
- (c)** the Mudaraba Capital will, following investment of the Mudaraba Capital in the General Mudaraba Pool, constitute pro rata undivided assets in the General Mudaraba Pool (the "**Mudaraba Assets**").

### 3.2 Co-mingling

The Mudarib is authorized to co-mingle any of its KCB Sahl own Shari'ah compliant assets from time to time with the Mudaraba Assets during the Mudaraba Term, provided that prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit the Mudarib shall deduct a proportion of any profit earned for its own account. For the purpose of such calculation the proportion deducted shall be equal to the ratio of the value of the co-mingled assets (including the Mudaraba Assets).

### 3.3 Mudaraba Sukuk

The Rabbul Maal irrevocably undertakes and agrees that:

- (a)** This Agreement evidences the Rabbul Maal's contribution of Mudaraba Capital to the Mudaraba General Pool.
- (b)** such amount constitutes the Mudaraba Capital of Sukuk holders; and
- (c)** The Parties acknowledge and agree that the Mudarib, in its capacity as Issuer, has issued Sukuk to the Sukuk holders and that the Sukuk:
  - (i) represent an undivided equal ownership interest in the Mudaraba Assets; and

## 4. Mudaraba Profit

### 4.1 Final Mudaraba Profit on Mudaraba End Date

Subject to Clause 4.5 (Non-Payment Event), Clause 4.6 (Final Mudaraba Profit on the Mudaraba End Date and Incentive Payment) and Clause 2.2 (**Mudaraba Treatment**), the Mudarib shall on the Mudaraba End Date:

(a) distribute Mudaraba Profit amounts for the final Mudaraba Profit Distribution Period (the "Final Mudaraba Profit") (if any) between the Parties, in accordance with the profit-sharing ratio set out in Clause 4.3 (*Distribution of Mudaraba Profit*); and

(b) pay to the Rabbul Maal its share of the Final Mudaraba Profit (if any) (to be paid from the proceeds of the final (the "**Rabbul Maal Final Mudaraba Profit**").

### 4.2 Mudaraba Profit

the Mudarib shall, on each Mudaraba Profit Distribution Date, on the basis of a constructive liquidation of the Mudaraba by the Mudarib:

(a) distribute the Mudaraba Profit for the relevant Mudaraba Profit Distribution Period (if any) between the Parties; and

(b) pay to the Rabbul Maal its share of the Mudaraba Profit (if any) (the "**Rabbul Maal Mudaraba Profit**"), in accordance with the profit-sharing ratio set out in Clause 4.3 (*Distribution of Mudaraba Profit*).

### 4.3 Distribution of Final Mudaraba Profit

The Final Mudaraba Profit (in each case, if any) will be distributed in a profit rate of 8.75% of Sukuk face value along with the return of Sukuk principals.

### 4.4 Mudaraba Profit Equalization Reserve

the Mudarib shall, on each Mudaraba Profit Distribution Date, on the basis of a constructive liquidation of the Mudaraba by the Mudarib:

(a) The Parties agree that:

(i) if the Mudarib's Mudaraba Sukuk investment manager (at its sole discretion but subject as provided in Clause 4.1 (Final Mudaraba Profit on Mudaraba End Date) and Clause 4.2 (Mudaraba Profit), as applicable) elects to make a payment of Mudaraba Profit and determines that the payable profit amount is greater than the then applicable Periodic Distribution Amount, the amount of any excess shall be credited to a reserve account (the "**Mudaraba Profit Equalization Reserve**");

(ii) the reserve: (A) shall be recorded by the Mudarib through a book-entry ledger account; (B) will not be required to be maintained in a separate defined bank account; and (C) shall be reflected in the Mudaraba Accounts; and

(iii) the Mudarib's Mudaraba Sukuk investment manager shall be entitled to deduct amounts standing to the credit of the Mudaraba Profit Equalization Reserve (at its sole discretion) at any time prior to the Mudaraba End Date and to use such amounts for its own purposes, provided that such amounts shall be repaid by it to the Mudaraba Profit Equalization Reserve if so required to fund a shortfall pursuant to Clause 4.4(b) (*Mudaraba Profit Equalization Reserve*).

(b) If the Mudarib (at its sole discretion but subject as provided in Clause 4.1 (Final Mudaraba Profit on Mudaraba End Date) and Clause 4.2 (Mudaraba Profit), as applicable) elects to make a distribution of Mudaraba Profit, or Final Mudaraba Profit is otherwise payable pursuant to this Agreement, and if the Rabbul Maal Mudaraba Profit or the Rabbul Maal Final Mudaraba Profit (as applicable) payable to the Rabbu Maal on any Mudaraba Profit Distribution Date, or the Mudaraba End Date in the case of the Rabbul Maal Final Mudaraba Profit, is less than the then applicable Periodic Distribution Amount, the Mudarib:

(i) shall utilize any amount available in the Mudaraba Profit Equalization Reserve (after re-crediting amounts to it pursuant to Clause 4.4(a)(iii) (*Mudaraba Profit Equalization Reserve*), if applicable) to make payments to the Rabbul Maal in order to cover such shortfall.

#### 4.5 Non-Payment Event

A non-payment event may occur if any of the following events occur (each, a "**Non-Payment Event**"), the Mudarib shall not pay Mudaraba Profit (and, as a result, Rabbul Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rabbul Maal Final Mudaraba Profit) on any relevant Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Rabbul Maal shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

(a) the amount equal to the then applicable Periodic Distribution Amount to be paid by the Mudarib out of the Rabbul Maal Mudaraba Profit or Rabbul Maal Final Mudaraba Profit, as applicable (the "**Relevant Rabbul Maal Mudaraba Profit Amount**"), when aggregated with any distributions or amounts payable by the Mudarib (whether as Mudarib or otherwise) on the same date (or otherwise due and payable on such date) on any other obligations in respect of Pari Passu Obligations, exceeds, on the relevant date for payment of the Relevant Rabbul Maal Mudaraba Profit Amount, the Mudarib's Distributable Profits; or

(b) the Mudarib (whether as Mudarib or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of (or such payment would cause a breach of) the Applicable Regulatory Capital Requirements (including any payment restrictions due to a breach of any capital buffers imposed on the Mudarib by the BoT); or

(c) the BoT orders that (i) the Mudarib not to pay the Relevant Rabbul Maal Mudaraba Profit Amount to the Rabbul Maal on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (ii) the Rabbul Maal not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date, in each case, on account of the Mudarib making a net loss during the relevant financial period or for any other reason as it may deem necessary; or

(d) the Solvency Conditions are not satisfied (or would no longer be satisfied if the



#### 4.6 Final Mudaraba Profit on the Mudaraba End Date and Incentive Payment

The Parties agree that, on the Mudaraba End Date, the Mudarib will calculate and distribute the Final Mudaraba Profit (if any).

#### 4.7 Mudaraba Accounts

- (a) the Mudaraba Accounts shall be created within the KCB Sahl to track funds from and due to Sukuk holders
- (b) The Mudaraba Accounts shall be prepared by the Mudarib's Mudaraba Sukuk fund manager so as to represent fairly the financial condition of the Sukuk Mudaraba Investment for the period to which the Mudaraba Agreement shall be in place.

#### 4.8 Taxation

All payments under this Agreement by the Mudarib to the Rabbul Maal shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed, levied, collected, withheld or assessed by the tax regulator ("**Taxes**"), unless such withholding or deduction is required by law.

In such event, and/or if Additional Amounts are payable by the Rabbul Maal in respect of the Sukuk in accordance with Condition 4.8 (Taxation), the Rabbul Maal and the Mudarib will pay such Taxes and/or additional amounts by payment to the Transaction Account for same day value in the principle of profit and loss sharing.

### 5 Bank Events

- 5.1 Notwithstanding any of the provisions in this Clause 5 (Bank Events), the right to institute winding-up, bankruptcy, liquidation or analogous proceedings against the Mudarib is limited to circumstances where a Bank Event has occurred. Pursuant to Clause 2.4 (Status), any Mudaraba Capital, Rabbul Maal Final Mudaraba Profit, Indemnity Payment and any other Relevant Obligations in respect of the Mudaraba will not be payable if the Solvency Conditions are not satisfied. Also, in the case of any Rabbul Maal Mudaraba Profit or Rabbu Maal Final Mudaraba Profit, such Rabbul Maal Mudaraba Profit or Rabbul Maal Final Mudaraba Profit will not be payable if a Non-Payment Event or (in the case of Rabbul Maal Mudaraba Profit only) a Non-Payment Election occurs. Accordingly, no default will have occurred or be deemed to have occurred in each such circumstance.
- 5.2 If a Bank Event occurs and a Dissolution Notice is delivered pursuant to Clause 5.1 (Bank Events), the Mudaraba will be liquidated and the Rabbul Maal may at its discretion:
  - (a) institute any steps, actions or proceedings for the winding-up of the Mudarib; and/or
  - (b) prove in the winding-up of the Mudarib; and/or
  - (c) institute any steps, actions or proceedings for the bankruptcy of the Mudarib; and/or
  - (d) claim in the liquidation of the Mudarib; and/or
  - (e) take such other steps, actions or proceedings which, under the laws of the United Republic of Tanzania, has an analogous effect to the events referred to in Clauses 5.2(a) to 5.2(d) (Bank Events),

(in each case for all amounts of Mudaraba Capital, Dissolution Mudaraba Capital, any Indemnity Payment, Rabbul Maal Mudaraba Profit, Rabbul Maal Final Mudaraba Profit and/or other amounts due to the Rabbul Maal on termination of this Agreement in accordance with this Agreement and the other Transaction Documents), provided that the Rabbul Maal may not take any steps, actions or proceedings against the Mudarib with respect to any sum that the Mudarib has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Rabbul Maal has failed to pay that amount to Sukuk holders in accordance with the Conditions.

**5.3** Without prejudice to Clause 5.2 (Bank Events), the Rabbul Maal may, at its discretion and without further notice, institute such steps, actions or proceedings against the Mudarib as it may think fit to enforce any term or condition binding on the Mudarib under this Agreement or any other Transaction Document (other than for the payment of Mudaraba Capital, Dissolution Mudaraba Capital, any Indemnity Payment, Rabbul Maal Mudaraba Profit or Rabbul Maal Final Mudaraba Profit), provided that the Mudarib shall not by virtue of the institution of any such steps, actions or proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with this Agreement. Nothing in this Clause 5.3 (Bank Events) shall, however, prevent the Rabbul Maal from taking such steps, actions or proceedings as described in Clause 5(Bank Events) in respect of any payment obligations of the Mudarib arising from this Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

**5.4** No remedy against the Mudarib shall be available to the Rabbul Maal for all or any amounts of Mudaraba Capital, Dissolution Mudaraba Capital, any Indemnity Payment, Rabbul Maal Mudaraba Profit, Rabbul Maal Final Mudaraba Profit and/or other amounts due to the Rabbul Maal on termination of this Agreement in accordance with this Agreement and the other Transaction Documents, or in respect of any breach by the Mudarib of any of its other obligations under or in respect of this Agreement or the other Transaction Documents, other than as provided in Clauses 5.2 and 5.3 (Bank Events).

The Rabbul Maal may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment.

## 6. Representations

The Mudarib represents and warrants to the Rabbul Maal on the date of this Agreement that (in its capacity as Mudarib or otherwise):

**(a)** it has been duly established and is validly existing under the laws of the United Republic of Tanzania with full power and authority to conduct its business;

**(b)** the execution of this Agreement has been duly authorized by it and, upon due execution, issue and delivery the same will constitute its legal, valid, binding and enforceable obligations, subject to any qualifications contained in any legal opinion delivered to the Rabbul Maal in connection with this Agreement; and

**(c)** the execution of this Agreement has been duly authorized by it and, upon due execution, issue and delivery the same will constitute its legal, valid, binding and enforceable obligations, subject to any qualifications contained in any legal opinion delivered to the Rabbul Maal in connection with this Agreement; and

## 7. Undertaking and Acknowledgement

### 7.1 Mudarib's Undertaking

**(a)** The Mudarib undertakes that it will (to the extent not already obtained) obtain all necessary authorizations, consents, approvals, resolutions, licenses, exemptions, filings, notarizations or registrations required

**(b)** The Mudarib undertakes to comply with the provisions of the Conditions applicable to it (as Mudarib or otherwise).

### 7.2 Acknowledgement

The Mudarib hereby acknowledges that pursuant to this Agreement, the Issuer has appointed the Delegate to act as Sukuk Holders representative to carry out, exercise and enforce all of the Rabbul Maal's rights, interests and benefits under this Agreement in accordance with its terms and the terms of the Declaration of Trust. The provisions of this Clause 7.2 (Acknowledgement) are intended to confer third party rights on the Delegate and shall survive the termination of this Agreement.

## 8 Mudarib's Responsibilities, Standards and Payment

### 8.1 Responsibilities

**(a)** The Mudarib shall ensure that the Mudaraba Capital is invested in income generating or yielding assets (whether by appreciation, monetary return or otherwise) in the General Mudaraba Pool. The Parties' commercial intention is that the expected rate of return from the Mudaraba Assets should be not less than the Expected Mudaraba Profit Rate of 8.75% of Sukuk's face value. For the avoidance of doubt, the Rabbul Maal acknowledges that there is no guarantee of any return from the Mudaraba Assets. The Mudarib shall exercise such rights, powers and discretions as arise under this Agreement (together with any other incidental rights, powers, authorities and discretions), and shall take such action as it deems appropriate, in each case:

**(i)** in accordance with material applicable laws;

**(ii)** with the degree of skill and care that it would exercise in respect of its own assets; and

**(iii)** in a manner that is not repugnant to Shari'ah.

**(b)** The Mudarib shall not be responsible for any losses to the Mudaraba Capital suffered by the Rabbul Maal unless such losses are caused by: (i) the Mudarib's breach of this Agreement; or (ii) the Mudarib's gross negligence, willful misconduct or fraud.

**(c)** Following the investment of the Mudaraba Capital, the Mudarib shall ensure, in conjunction with its Shari'ah Advisory Board, that the Mudaraba Capital remains, at all times, compliant with the principles of Shari'ah.

## 8.2 Existing Business

Nothing in this Agreement will prevent the Mudarib from carrying on its own business in the manner which it thinks fit, unless, by so doing, it would render itself unable to perform its obligations under this Agreement in the manner contemplated in this Agreement.

## 9 Costs, Compensation and Indemnity

- 9.1** Each Party will bear and pay all costs and expenses incurred by it in connection with its entry into this Agreement.
- 9.2** If the Rabbul Maal suffers an actual loss as a result of any breach by the Mudarib of any of its obligations under this Agreement (including the Liquidation Condition), or through the Mudarib's gross negligence, willful misconduct or fraud, the Mudarib shall fully indemnify, and pay on demand, the Rabbul Maal for such loss (an "Indemnity Payment"). Any obligation to pay under this Clause 10.2 (Costs, Compensation and Indemnity) shall be subordinated in accordance with Clause 2.4 (Status). Any other losses are to be borne solely by the Rabbul Maal.

## 10 Registrar and Paying Agent

The Mudarib shall procure that the Registrar and Paying Agent promptly notifies the Parties of all rates and amounts to be determined by the Registrar as soon as practicable after the time of determination, but in any event no later than the second Business Day thereafter, of any such rates or amounts.

## 11 Counterparts

This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

## 12 Calculations and Payments

### 12.1 Determinations by Registrar and Paying Agent

Any certification or determination by the Registrar and Paying Agent of a rate or amount under this Agreement (including the Applicable Rate) shall, save in the case of manifest error, be final and binding on the Mudarib and the Rabbul Maal.

### 12.2 Payments

Notwithstanding any other provision of this Agreement:

**(a)** all amounts of Rabbul Maal Mudaraba Profit shall be paid to the Rabbul Maal on the Business Day preceding the relevant Mudaraba Profit Distribution Date; and

**(b)** all amounts of Rabbul Maal Final Mudaraba Profit and Dissolution Mudaraba Capital shall be paid to the Rabbul Maal on the Business Day preceding the Mudaraba End Date, provided that in each case such amounts paid to the Transaction Account shall be in an amount equal to, but not exceeding, the amounts due under the Sukuk.

## 13 General

**13.1** No relaxation, forbearance, indulgence, failure or delay on the part of the Rabbul Maal in exercising (nor any omission to exercise) any right, power, privilege or remedy accruing to it under this Agreement shall impair any such right, power, privilege or remedy or, unless expressly agreed by the Parties, be construed as a waiver thereof or an acquiescence in any default or affect or impair any right, power or privilege or remedy any other or subsequent default nor shall any single or partial or prior exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any other rights or remedies provided by law.

The rights, liabilities and/or obligations created by this Agreement shall continue to be valid and binding for all purposes notwithstanding any change in name or change by amalgamation, reconstruction, re-organization, restructuring or otherwise which may be made in the constitution of any Party.

**13.2** No amendment, modification or termination of any provision of this Agreement shall be effective unless the same shall be (i) approved by the Shari'ah Supervisory Board of the Mudarib and (ii) in writing and signed or executed by the Parties.

**13.2** No waiver of, or consent to any departure by the Mudarib from, any provisions of this Agreement shall be effective unless the same shall be in writing and signed or executed by the Rabbul Maal and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given.

**13.4** The Mudarib agrees that notwithstanding anything to the contrary contained herein:

**(a)** no payment of any amount whatsoever shall be made by the Rabbul Maal or any of its directors, officers, employees or agents on its behalf except to the extent funds are available therefor from the Mudaraba Assets;

**(b)** no recourse shall be had for the payment of any amount due and owing hereunder or under any other Transaction Document, whether for the payment of any fee, indemnity or other amount under, or any other obligation or claim arising out of or based upon, this Agreement or any other Transaction Document, against the Rabbul Maal to the extent the Mudaraba Assets have been exhausted, following which all obligations of the Rabbul Maal shall be extinguished;

**(c)** it will not petition for, institute, or join with any other person in instituting proceedings for, the re-organization, arrangement, liquidation, bankruptcy, winding-up or receivership or other proceedings under any bankruptcy or similar law against the Rabbul Maal or any of its directors, officers, agents, shareholders or affiliates as a consequence of such shortfall or otherwise;

**(d)** no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Rabbul Maal arising under or in connection with the Sukuk or the Transaction Documents by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of the Rabbul Maal in their capacity as such. The obligations of the Rabbul Maal under the Transaction Documents are corporate or limited liability obligations of the Rabbul Maal and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services provider of the Rabbul Maal (in each of their respective capacities as such), save in the case of their willful default or actual fraud. References in this Agreement to "willful default" or "actual fraud" mean a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant party; and

(e) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction in respect of any sums due under this Agreement or any part thereof. No collateral is or will be given for the payment obligations under this Agreement, or any of the other Transaction Documents or the Sukuk.

#### 14 Entire Agreement

This Agreement sets out the entire agreement between the Parties and supersedes any previous agreement between them in relation to the subject matter of this Agreement.

#### 15 Severability

To the extent permitted by applicable law, if a provision of this Agreement is or becomes illegal, invalid or unenforceable in a court of law in the United Republic of Tanzania, that will not affect the legality, validity or enforceability in:

- (a) that jurisdiction of any provision of this Agreement; or
- (b) any other jurisdiction of that or any other provision of this Agreement.

#### 16 Notices

##### 16.1 Addresses

Any communication under this Agreement shall be given by letter, fax, electronic communication or telephone, in the case of notices to the Mudarib, to it at:

KCB Bank Tanzania Limited,  
Harambee Plaza Building,  
Ali Hassan Mwinyi Road and Kaunda Drive, P.O. Box 804,  
Dar es Salaam - Tanzania

Tel: +255 22 2160000 / 2199100  
Email: Fursa.sukuk@tz.kcbbankgroup.com  
Attention: The Managing Director

##### 16.2 Effectiveness

Any such communication shall take effect, in the case of a letter, at the time of delivery with postage stamp and receipt, in the case of a fax, when the relevant delivery receipt is received by the sender, in the case of an electronic communication, when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication or, in the case of a telephone communication, when made; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Agreement which is to be sent by fax or electronic communication will be written legal evidence.

### 16.3 Confirmations

Any communication by telephone shall be confirmed by letter, fax or electronic communication but failure to send or receive such confirmation shall not invalidate the original communication.

### 17 Shari'ah Compliance

Each of KCB Sahl Banking and KCB Bank Tanzania Limited hereby agrees that it has accepted the Shari'ah compliant nature of the Sahl Fursa Sukuk Transaction Documents to which it is a party and, to the extent permitted by law, further agrees that:

- (a)** it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) is ultra vires or not compliant with the principles of Shari'ah;
- (b)** it shall not take any steps or bring any proceedings in any forum to challenge the Shari'ah compliance of the Transaction Documents to which it is a party; and
- (c)** none of its obligations under the Transaction Documents to which it is a party shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Transaction Documents to which it is a party are not compliant with the principles of Shari'ah.

### 18 Governing Law

This Agreement (including the provisions of Clause 19 (Dispute Resolution)) and any non-contractual obligations arising out of or in connection with this Agreement, are governed by, and shall be construed in accordance with the laws of the United Republic of Tanzania.

### 19 Dispute Resolution

#### 19.1 Arbitration

Any dispute, claim, difference or controversy arising out of, relating to or having any connection with this Agreement, including this Clause 19.1 (Arbitration), (including a dispute, claim, difference or controversy as to its existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising from or in connection with it) (a "Dispute") shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules (the "Rules"), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Clause 20.1 (Arbitration). For these purposes:

- (a)** the seat of arbitration shall be anywhere in the United Republic of Tanzania;
- (b)** there shall be three arbitrators, each of whom shall be disinterested in the arbitration and shall be an attorney experienced in international securities transactions. The

parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the presiding arbitrator of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly, shall each nominate one arbitrator. If one party or both fails to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the Arbitral Tribunal. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the Tribunal; and

**(c)** the language of the arbitration shall be English and Kiswahili.

### 19.2 Waiver of Judgment Interest (Usury)

**(d)** Each Party agrees that if any arbitration is commenced in relation to a Dispute and/or any proceedings relating to a Dispute ("Proceedings") are brought by or on behalf of a Party to this Agreement, it will (i) not claim interest (Usury) under, or in connection with, such arbitration and/or Proceedings; and (ii) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of such arbitration and/or a court as a result of such Proceedings. This is because, Sukuk being Shari'ah compliant, it must be devoid of any interest (usury).

**(e)** For the avoidance of doubt, nothing in this Clause 19.2 (Waiver of Judgment Interest) shall be construed as a waiver of rights in respect of any Mudaraba Profit, Final Mudaraba Profit, Periodic Distribution Amounts payable under the Sukuk, Rabbul Maal Mudaraba Profit, Rabbul Maal Final Mudaraba Profit, Indemnity Payment, Outstanding Payments or profit of any kind howsoever described payable by the Mudarib (in any capacity) or the Rabbul Maal (in any capacity) pursuant to the Transaction Documents and/or the Conditions, howsoever such amounts may be described or re-characterized by any court or arbitral tribunal.

### 19.3 Waiver of Immunity

The Mudarib agrees that, to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and any other legal or arbitral proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or any of its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings or Disputes. Further, the Mudarib irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings or Disputes.

## 20 Contracts (Rights of Third Parties)

Other than as provided in Clause 7.2 (Acknowledgement), a person who is not a party to this Agreement has no right under this Contract to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act. The Parties to this Agreement may agree to vary or rescind this Agreement without the consent of any third party.

**In witness** whereof, the Parties have executed this Agreement on the date first mentioned above.





**Signatories to this Master Mudaraba Agreement**

Trustee for Rabbul Maal  
(Delegate)

By \_\_\_\_\_ (Name)

Designation:  
\_\_\_\_\_

Mudarib  
KCB Bank Tanzania Limited

By: \_\_\_\_\_ Name:  
Managing Director

By: \_\_\_\_\_ Name:  
Head of KCB Sahl Banking

---

Application Form

3

**APPENDIX**



# KCB BANK TANZANIA LIMITED

## APPLICATION FORM FOR FURSA SUKUK

PLEASE COMPLETE IN CAPITAL/ BLOCK LETTERS USING BLACK/BLUE INK

### A. CDS ACCOUNT NUMBER (MANDATORY) (IF NOT AVAILABLE, PLEASE FILL CDS ACCOUNT OPENING FORM)

CDS Account Number (No leading zeros)

(L/LC/FI/FC)

Agent Name:

### B. PAYMENT DETAILS

Amount Applied for (TZS)

Mode of Payment:

Please Tick Where Applicable

- Cash:
- Cheque:
- Mobile Money:
- TISS/EFT:

Bank Name (Abbreviated) (for EFT/TISS/Cheque Payments)

Branch Name

### C. APPLICANT DETAILS

(i) Application Status: (Tick your status as applicable below)

Applicant Type: Individual

Joint

Residence:

Citizenship:

Tanzanian

International

Corporate

(ii) First Applicant (Primary) Details: (Names as per ID/Passport)

First Name and Other Names (Leave space between names)

Middle Name

Surname (Last Name)

Citizen Identity Card/ Passport Number (Copy of Citizen Identity Card / Passport must be attached)

Country of Issue

(iii) Second Applicant (If Joint) Details: (Names as per ID/Passport)

Surname (Last Name)

First Name and Other Names (Leave space between names)

Citizen Identity Card/ Passport Number (Copy of Citizen Identity Card / Passport must be attached)

Country of Issue

(iv) Company name / QII / Corporate (As per Certificate of Registration/ Incorporation) A copy of the certificate must be attached

Registration / Incorporation Number

Country of Registration / Incorporation

For Nominee Applicants Only (Tick the status as applicable below)

Citizenship of Beneficial Sukuk holder

Tanzanian

Other East Africans

International

Nominee Account Name

Nominee Reference Number (Mandatory)



# KCB BANK TANZANIA LIMITED

(v) Full Mailing Address and Contact Details for All Applicants (if applicable)

P.O. Box (Mandatory)

Street Address

City/Town

Country

Telephone Number (Landline) International Format

Mobile Number (International Format) **Mandatory**

Email Address (Personal)

Fax Number (International Format)

### D. RECEIPT OF REFUND AND FUTURE PAYMENTS

- 1. Send refund if any via:  EFT through the authorised collecting agent  Electronic funds Transfer to the bank below
- 2. Send future profits & principal through:  Electronic Funds Transfer to the bank below (as per CDS account details if not, please include updated bank details below)

Please provide bank details for EFT/SWIFT Transfers

(New bank details must be confirmed either by attaching a voided cheque or attaching a bank statement)

Name of Bank (abbreviated)

Beneficiary Name

Name of Branch

Account Number

Swift Code (if outside Tanzania)

Country

### E. SIGNATURES: (COMPULSORY FOR ALL APPLICANTS)

Signature 1

Signature 2

Company Seal / Stamp

Date (DD/MM/YYYY) e.g. 31/01/2000

TEAR HERE

### F. INVESTOR'S RECEIPT

Payment Reference:

Name (Separate Names by one box)

Amount Paid (TShs)

CDS Account Number (No leading zeros)

(LI/LC/FI/FC)

Selling Agent's Name/KCB Teller's Name

Selling Agent/KCB Branch Stamp & Signature

Date



## APPLICATION FORM FOR FURSA SUKUK

### UNRATED, UNSECURED, SUBORDINATED AND NON-CUMULATIVE MUDARABA SUKUK OF TZS 10 BILLION

#### APPLICATION FORM

This Application Form relates to the Sukuk issuance amounting to TZS 10 billion. Prospective applicants should read the Information Memorandum and the Master Mudaraba Sukuk Agreement before completing this form

Offer for subscription of Sukuk for the minimum of TZS 500,000.

OFFER OPENS: 09<sup>th</sup> November 2022

OFFER CLOSES: 05<sup>th</sup> December 2022

1. Please refer to the instructions on Page 4 before completing this Application Form.
2. This form, once duly completed should be submitted, together with TZS Banker's cheque, TZS Direct Debit slip or Deposit Cash in favour of "FURSA SUKUK", to CRDB Bank "CRDB", Account Name: **FURSA SUKUK COLLECTION ACCOUNT**, Account number: **01DI010677000** or KCB Bank "KCB", Branch: Lumumba Branch, Account Name: **FURSA SUKUK COLLECTION ACCOUNT**, Account Number: **3390977090**.

#### APPLICANT'S DECLARATION

By signing the Application Form overleaf I/We the applicant(s) therein state that:-

- I/We the undersigned, confirm that, I/We have read the terms and conditions as set out in the Information Memorandum and Master Mudaraba Sukuk Agreement and agree to be bound by its contents.
- I/We have full legal capacity to contract and, having read the Information Memorandum and Master Mudaraba Sukuk Agreement hereby irrevocably apply for and request you to accept my/our application for the under mentioned application amount, or any lesser amount that may, in your sole discretion, be allotted to me/ us subject to the Terms and Conditions of the Fursa Sukuk.
- I/We authorise CRDB to enter my/ our name in the register of members of Sukuk holders and to credit my CDS account with the Sukuk allocated to me/us and remit any refunds due to me/us via Electronic Funds Transfer or Cheque in accordance with the Terms and Conditions contained in the Information Memorandum.
- I/We declare that the source of funds does not originate from interest, alcohol, gambling or pork related businesses.
- In consideration of your agreeing to accept this Application Form, I/we agree that, this application shall be irrevocable and shall constitute a contract which shall become binding to me/us upon dispatch by post or hand delivery.



## GENERAL INSTRUCTIONS ON COMPLETION OF THE APPLICATION FORM

1. Please complete the Application Form in capital letters using black/blue ink. Ensure each letter is written clearly within each of the boxes provided. Incorrectly completed Application Forms will be rejected.
2. When completing this Application Form please bear in mind that Sukuk may not be applied for in the name(s) of a trust that has not been incorporated or a deceased's estate.
3. Trustees of unincorporated trusts, individual partners or executors may apply for Sukuk in their own name(s). Registered or incorporated trusts may apply in the registered or incorporated name. Limited liability partnerships may apply in their registered names.
4. Any alteration to the Application Form (other than deletion of alternatives) must be authenticated by the full signature of the Applicant(s) or Authorised Collecting Agent.
5. The Authorised Collecting Agent must sign against the company's official stamp.
6. Banker's cheque payments must be made payable in favour of " KCB BANK TANZANIA FURSA SUKUK" and crossed "Account Payee Only".
7. Your Application Form must be received in its entirety, duly signed and accompanied with the necessary evidence of payment or banker's cheque or Letter of Undertaking.
8. The completed Application Form may be mailed or hand delivered to the Authorised Collecting Agents.
9. Applications can only be made through the Issuer, Authorised Collecting Agents, the Lead Arranger, the Sponsoring Broker, the Receiving Bank and the Registrar as listed in the Information Memorandum.
10. The allocation process has been outlined in the Information Memorandum. No person can make any promises contrary to the allocation criteria.

## APPLICATION AND ALLOTMENT INSTRUCTIONS

### 1. ELIGIBLE INVESTORS

Eligible Investors include:

- a) Tanzanian citizens resident in or outside Tanzania or East African Community (EAC) nationality;
- b) Foreign nationals whether living in or outside Tanzania;
- c) Companies, financial institutions (banks), microfinances, takaful companies, Sukuk issuers, bodies corporate or other legal entities incorporated or established in or outside Tanzania (to the extent permitted by their constitutive documents and existing regulations, as the case may be);
- d) Mutual Funds, Social Security / Provident / pension / gratuity funds / trusts, (subject to the terms of the Trust Deed and existing regulations); and
- e) Branches in Tanzania of companies and bodies corporate incorporated outside Tanzania.

### 2. COPIES OF THE INFORMATION MEMORANDUM

Copies of the Information Memorandum and applications forms can be obtained from the registered



office of KCB Bank Tanzania Limited, the Lead Arranger, the Sponsoring Broker and the Registrar/Receiving Bank. The Information Memorandum and the Application Forms can also be downloaded from the following websites:

- <https://tz.kcbgroup.com/kcb-sahl-tz/fursa-sukuk>
- <https://www.fimco.co.tz>
- <https://www.vertex.co.tz>

3. The applicants are required to complete the relevant sections of the application in order to get the Securities in scrip-less form.
4. Name(s) and address(es) must be written in full block letters, in Kiswahili or English, and should not be abbreviated.
5. All applications must bear the name and signature corresponding with that recorded with the applicant's banker and as it appears in National Identification Card (NIDA), Driving License or Passport. In case of difference of signature with the bank and computerized National Identity Card or passport, the signatures should be affixed on the application form.

#### 6. APPLICATIONS MADE BY INDIVIDUAL INVESTORS

- a) In case of individual investors, a photocopy of the NIDA (in case of resident Tanzanians) or Passport (in case of non-resident Tanzanians) as the case may be, should be enclosed and the number of NIDA / Passport should be written against the name of the applicant.
- b) Original NIDA/Passport/, along with a photocopy must be produced for verification to the banker to the issue and the applicant's banker (if different from the Banker to the issue) at the time of presenting an application. The photocopy will, after verification, be retained by the branch along with the application.

#### 7. APPLICATIONS MADE BY INSTITUTIONAL INVESTORS

- a) Applications made by companies, corporate bodies, mutual funds, provident / pension / gratuity funds / trusts and other legal entities must be accompanied by a photocopy of their memorandum and articles of association or equivalent instrument / document and Board of Director's resolution. Where applications are made by virtue of power of attorney, the same should also be submitted along with the application.
- b) Photocopies of the documents mentioned in paragraph (a) above must be produced for verification to the Banker to the Issue and the applicant's banker (if different from the banker to the issue) at the time of presenting the application. The copies, will after verification, be retained by the bank branch along with the application.

#### 8. ADDITIONAL INSTRUCTIONS FOR INVESTORS

- a) Applicants may submit multiple applications as long as each of them independently meets the terms and conditions of the sukuk. If multiple applications are received from a single applicant with different details, applications from such applicant will be considered null and void and no allotment will be made to such applicant. In the case of joint accounts, one application may be submitted in the name of each joint account holder. Joint application in name of more than two persons will not be accepted. In case of joint application each applicant must sign the application, form and submit copies of their NIDA / Passports. The



securities will be credited to the Sukuk holder's account mentioned on the face of the form and where any amount is refundable, in whole or in part, the same will be refunded by cheque or other by means through the bank where the application was submitted, to the person named first on the application form, without any profit or return. Please note that application will be considered as a single application for the purpose of allotment of securities.

- c) Subscription money must be paid by cheque drawn on applicant's own bank account or pay order / bank draft payable to one of the Bankers to the Issue in favor of "KCB BANK TANZANIA FURSA SUKUK" and crossed "A/C PAYEE ONLY".
- d) For the application made through pay order / bank draft, it would be permissible for a Banker to the Issue to deduct the bank charges while making refund of subscription money to unsuccessful applicants through pay order / bank draft individually for each application.
- e) The applicant should have at least one bank account with any of the commercial banks. The applicants not having a bank account at all (non-account holders) are not allowed to submit application for subscription of securities.
- f) Applications are not to be made by minors and / or persons of unsound mind.
- g) Applicants should ensure that the bank branch, to which the application is submitted, completes the relevant portion of the application form.
- h) Applicants should retain the portion of their application forms as provisional acknowledgment of submission of their applications. This should not be construed as an acceptance of the application or a guarantee that the applicant will be allotted the number of securities for which the application has been made.
- i) Making of any false statements in the application or willfully embodying incorrect information therein shall make the application fictitious and the applicant or the bank shall be liable for legal action.
- j) Banker to the issue is not prohibited to recover any charges from the subscribers for collecting subscription applications. Hence, the applicants are advised not to pay any extra charges to the Bankers to the issue.
- k) It would be permissible for a Banker to the issue to refund subscription money to unsuccessful applicants having an account in its bank by crediting such account instead of remitting the same by cheque, pay order or bank draft. Applicants should, therefore, not fail to give their bank account numbers.

#### **9. ADDITIONAL INSTRUCTIONS FOR FOREIGN / NON-RESIDENT INVESTORS**

- a) In case of foreign investors who are not individuals, applications must be accompanied with a letter on applicant's letterhead stating the legal status of the applicant, place of incorporation and operations and line of business. A copy of Memorandum of Association or equivalent document should also be enclosed, if available. Where applications are made by virtue of Power of Attorney, the same must be lodged with the applications. Copies of these documents can be attested by the Bank Manager in the country of applicant's residence.
- b) Foreign / Non-resident investors should follow the payment instructions given in para 10 of this form.

#### **10. FACILITIES AVAILABLE TO FOREIGN/NON-RESIDENT TANZANIA INVESTORS**

(I) A Tanzania national resident outside Tanzania, (II) A foreign national, whether living in or outside Tanzania and (III) A firm (including a partnership) or trust or mutual fund registered and functioning outside Tanzania, excluding entities owned or controlled by a foreign government, provided the issue price, is paid in foreign exchange through normal banking channel by remittance from abroad or out of foreign currency account maintained by the subscriber/purchaser in Tanzania and the





purchase price (whether negotiated privately or otherwise) is not less than the price quoted on the DSE.

Non-residents who wish to subscribe Sukuk out of the general public portion may contact any of the bankers to the issue (retail portion) for taking instructions regarding payment of subscription money against Sukuk offered to general public / retail investors. List of bankers to the issue for retail portion is available on title page of this Information Memorandum.

The Sukuk issued to non-resident investors shall be intimated by the Bank to the designated Authorized Dealer, along with the documents prescribed in the Manual within 30 days of issue.

Payments made by non-residents shall be supported by proof of receipt of foreign currency through normal banking channels. Such proof shall be submitted along with the Application by the non-residents.

---

Pricing Supplement

4

**APPENDIX**

## UNRATED, UNSECURED, SUBORDINATED AND NON-CUMMULATIVE MUDARABA SUKUK (“SUKUK”) OF UP TO TANZANIA SHILLINGS TEN BILLION (TZS 10,000,000,000)

This Pricing Supplement is issued to provide details of the issuance of the Sukuk by KCB Bank Tanzania Limited (KCB Tanzania) (“Issuer”) pursuant to a Three (3) years Sukuk issuance of up to Tanzania Shillings Ten Billion (TZS 10,000,000,000/-) (“Fursa Sukuk”) with a greenshoe option to issue up to an additional Tanzanian Shillings Five Billion (TZS 5,000,000,000/-). In this Pricing Supplement, unless the context otherwise requires and save as specifically defined in this Pricing Supplement, words and expressions defined in the Information Memorandum dated 09th November 2022 (“IM”) shall have the same meanings when used in this Pricing Supplement.

This Pricing Supplement is to be read in conjunction with the terms and conditions of the Sukuk (the “Conditions”) set out in the Information Memorandum dated 09th November 2022 and the Master Mudaraba Sukuk Agreement. Unless otherwise defined in this Pricing Supplement, capitalised terms used herein have the same meaning as in the Conditions. Full information on the Issuer and the offer of the Sukuk is only available on the basis of a combination of this Pricing Supplement and the IM (as may be supplemented from time to time).

This Pricing Supplement does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation, and no action is being taken to permit an offering of the Sukuk or the distribution of this Pricing Supplement in any jurisdiction where such action is required.

<b>1. Description of the Sukuk</b>	
Issuer	KCB Bank Tanzania Limited
Investment Manager	KCB Sahl Banking
Issue	Unrated, fixed, unsecured, subordinated, non-cumulative Mudaraba Sukuk issued to finance Sahl Banking assets portfolio.
Issue Size	TZS 10,000,000,000 with a greenshoe option of up to Tanzanian TZS 5,000,000,000 in case of oversubscription.
Utilization of Proceeds	<p>The funds so raised will be utilized in KCB Sahl Banking financing and investment activities in line with its business strategy.</p> <p>The proceeds of the Issue shall be commingled with other Shari’ah compliant funds and shall be invested in the General Pool of KCB Sahl banking under Mudaraba contract with Sukuk holders who will be owners of Sukuk funds (Rabbul Maal) and KCB Sahl banking who will be the Investment Manager.</p>
Issue Title/Name	Fursa Sukuk
Form & Denomination	Issued in denominations and multiples of TZS 100,000
Minimum Investment Amount	TZS 500,000
Currency	Tanzanian Shillings
Tenure	Three years
Face Value	TZS 100

Issue Price	At par value		
Issue Date	16 <sup>th</sup> December 2022		
Redemption Date	16 <sup>th</sup> December 2025		
Registrar and Transfer Agent	CRDB Bank PLC (Al Barakah Banking)		
Issuer Rating	Not Rated		
Instrument Rating	Not Rated		
Seniority of Claim / Subordination	In case of liquidation, the claim of the Sukuk Holders shall be:  (i) superior to the claims of ordinary shareholders; (ii) pari-passu without preference amongst Sukuk holders; and subordinate to and rank inferior to all other debts of the Issuer including deposits and any Tier 2 Capital instruments;		
<b>2. Profit Distribution</b>			
Expected Profit Rate	8.75 % per annum.		
Profit Sharing Ratio	Issuer	12.50%	
	Sukuk holders	87.50%	
Profit Payment Basis	Actual/365 days		
Profit Payment Frequency	Quarterly basis		
Profit Payment Date	March, June, September and December in each year up to and including the Maturity date (16 <sup>th</sup> December 2025)		
<b>3. Redemption</b>			
Principal Redemption	Applicable at Sukuk maturity;		
Call Option	Not Applicable		
Early Redemption	Not Applicable		
<b>4. Offer Timetable</b>			
Application Lists Open	09 <sup>th</sup> November 2022		
Application Lists Closes	05 <sup>th</sup> December 2022		
Date of Allocation	16 <sup>th</sup> December 2022		
Announcement Date	19 <sup>th</sup> December 2022		
Settlement Date	20 <sup>th</sup> December 2022		
Dispatch of Sukuk Depository Receipt	22 <sup>nd</sup> December 2022		
Listing Date	05 <sup>th</sup> January 2023		
<b>5. General Information</b>			
Board approval of the issuance of Sukuk	15 <sup>th</sup> October 2021		
Allotment Policy	All retail applications shall be considered equally for purposes of allotment. In the event of oversubscription, retail allotment will be on a pro rata basis. Allotment for institutional investors will be on a case-by-case basis. The basis of allotment shall be approved by the Capital Markets and Securities Authority and notified to subscribers. Applicants will be informed of the reasons for rejection of an application;		
	BANK NAME	KCB BANK	CRDB BANK



	Account Name	Fursa Sukuk Collection Account	Fursa Sukuk Collection Account
	Account Number	3390977090	01DI010677000
Taxation	Profit paid to Sukuk holders will not be subjected to withholding tax.		
Material Change	Save as disclosed in the Information Memorandum as read together with this applicable Pricing Supplement, there has been no significant change in the Issuer's financial position since the date of the Issuer's last audited financial statements.		
Responsibility Statement	The Issuer and the Board of Directors accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Information Memorandum referred to above, contains all information that is material in the context of the issue of the Sukuk.		

---

Authorized  
Collecting Agents

5

**APPENDIX**

## Appendix 5: Authorised Collecting Agents

<p><b>FIMCO Limited</b> Suite 205 – Jangid Plaza, 2nd Floor Plot No. G6, Chaburuma Road Ali Hassan Mwinyi Road Dar es Salaam, Tanzania Tel : +255 22 292 627/+255 767 211 690 E-mail: <a href="mailto:info@fimco.co.tz">info@fimco.co.tz</a> Website : <a href="http://www.fimco.co.tz">www.fimco.co.tz</a></p>	<p><b>Vertex International Securities Limited</b> Zambian High Commission Building Ohio St./Sokoine Drive Tel: 255 22 2116382 Fax: 255 222110387 E-mail: <a href="mailto:vertex@vertex.co.tz">vertex@vertex.co.tz</a>, <a href="mailto:operations@vertex.co.tz">operations@vertex.co.tz</a> Website: <a href="http://www.vertex.co.tz">www.vertex.co.tz</a></p>
<p><b>Orbit Securities Company Limited</b> P.O Box 70254, Dar es Salaam 4th Floor, Golden Jubilee Towers, Ohio Street, Tel: 255 22 2111758, Fax: 255 22 2113067 E-mail: <a href="mailto:orbit@orbit.co.tz">orbit@orbit.co.tz</a></p>	<p><b>Core Securities Ltd</b> P.O Box 76800, Dar es Salaam First Floor – Karimjee Jivanjee Building, Sokoine Drive, Tel: +255 22 2123103, Fax: +255 22 2122562 E-mail: <a href="mailto:info@coresecurities.co.tz">info@coresecurities.co.tz</a> Website: <a href="http://www.coresecurities.co.tz">www.coresecurities.co.tz</a></p>
<p><b>Tanzania Securities Limited</b> P.O Box 9821, Dar es Salaam 2nd Floor, Jangid Building, Ally Hassan Mwinyi Road Tel: 255 (22) 2112807, Fax: 255 (22) 2112809 Mob: +255 718 799997 / +255 713244758 E-mail: <a href="mailto:info@tanzaniasecurities.co.tz">info@tanzaniasecurities.co.tz</a> Website: <a href="http://www.tanzaniasecurities.co.tz">www.tanzaniasecurities.co.tz</a></p>	<p><b>TIB Rasilimali Limited</b> P.O Box 9154, Dar es Salaam Ghana Avenue Tel: 255 22 2111711, Fax: 255 22 2122883 Mob: +255 713 777818 / +255 784 777818 / +255 754283185 E-mail: <a href="mailto:invest@rasilimali.tib.co.tz">invest@rasilimali.tib.co.tz</a></p>
<p><b>SOLOMON Stockbrokers Limited</b> P.O Box 77049, Dar es salaam Ground Floor - PPF House, Tel: 255 22 2124495/2112874, Fax: 255 22 2131969 Mob: +255 714 269090/+255 764 269090 E-mail: <a href="mailto:solomon@simbanet.net">solomon@simbanet.net</a>, <a href="mailto:Solomonstockbrokersltd@gmail.com">Solomonstockbrokersltd@gmail.com</a> Website: <a href="http://www.solomon.co.tz">www.solomon.co.tz</a></p>	<p><b>SMART Stockbrokers (T) Ltd</b> P. O Box 1056878, Dar es Salaam, 1st Floor, Masdo House, Samora Avenue, Tel: +255 22 2133607 E-mail: <a href="mailto:info@smartstockbrokers.co.tz">info@smartstockbrokers.co.tz</a></p>
<p><b>Zan Securities Limited</b> Viva Tower, 2nd Floor, Unit-15, Bibi Titi Road P.O Box 5366, Dar es salaam Tel: +255 22 2126415, Fax: 255 22 2126414 Mob: +255 786 344767, +255 755 898425 E-mail: <a href="mailto:info@zansec.com">info@zansec.com</a></p>	<p><b>ARCHCO Limited</b> P.O Box 38028 Dar es Salaam, 2nd Floor, Wing C, NIC Life House, Sokoine Drive/Ohio Street Tel. +255 22 732922396 Fax +255 22 732928489</p>
<p><b>E. A. Capital Ltd</b> 3<sup>rd</sup> Floor, Accacia Building, Kinondoni Road P.O Box 20650, Dar es salaam Tel +255 779740818 / +255784461759 E-mail: <a href="mailto:EC@EACAPITAL-TZ.COM">EC@EACAPITAL-TZ.COM</a></p>	<p><b>Optima Corporate Finance Limited</b> P.O Box 4441, Dar es Salaam 1st Floor, Togo Tower, Kinondoni Tel: +255 684856648 E-mail: <a href="mailto:gichohi@optimacorporate.co.tz">gichohi@optimacorporate.co.tz</a></p>



<p><b>Victory Financial Services Limited</b> ATC Building Ohio Street/Garden Avenue P.O Box 8706, Dar es Salaam Tel: +255 22 211 2691 Email: <a href="mailto:info@vfsl.co.tz">info@vfsl.co.tz</a> Website: <a href="http://www.vfsl.co.tz">www.vfsl.co.tz</a></p>	<p><b>Exodus Advisory Services Limited,</b> 10th Floor, Mwanga Tower Plot No. 1&amp;50, Block 45A New Bagamoyo Road, P. O. Box 80056, Dar es Salaam. Tel: + 255 22 292 3810 Email: <a href="mailto:info@exodusadvisory.co.tz">info@exodusadvisory.co.tz</a> Website: <a href="http://www.exodusadvisory.co.tz">www.exodusadvisory.co.tz</a></p>
<p><b>Global Alpha Capital Limited,</b> PSSSF Millenium Tower1, Ali Hassan Mwinyi Road, P. O. Box 70166, Dar es Salaam Tel: +255784786188/+255763631999 Email: <a href="mailto:info@alphacapital.co.tz">info@alphacapital.co.tz</a> Website: <a href="http://www.alphacapital.co.tz">www.alphacapital.co.tz</a></p>	<p><b>STANBIC BANK (T) LIMITED</b> Stanbic Centre, 99A Kinondoni Road P. O. Box 72647, Dar es Salaam, Tanzania. Tel: +255 22 266 6430/480 Fax: +255 22 266 6301 Website: <a href="http://www.stanbicbank.co.tz">www.stanbicbank.co.tz</a></p>



