NMB
Close to you

ANNUAL REPORT 2018

Getting Ahead

Simplifying Banking, Simplifying Life

ANNUAL REPORT 2018

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Simplifying Banking, Simplifying Life

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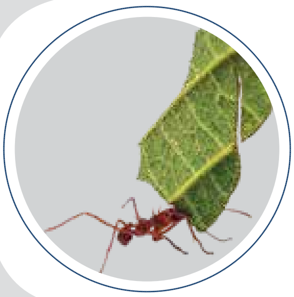

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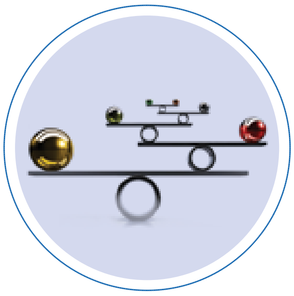


ADDRESSES & CONTACT DETAILS

LIST OF ABBREVIATIONS

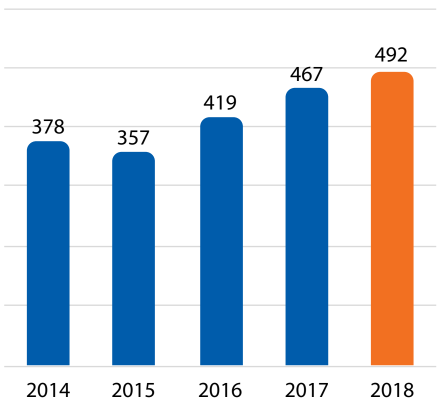
AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
ALM	Assets and Liabilities Management
BARCC	Board Audit, Risk and Compliance Committee
BIA	Basic Indicator Approach
BOT	Bank of Tanzania
CSR	Corporate Social Responsibility
DSE	Dar es Salaam Stock Exchange
EAD	Exposure at Default
ECL	Expected Credit Losses
EIB	European Investment Bank
EPS	Earnings per Share
FMO	Financierings-Maatschappij voor Ontwikkelingslanden N.V
FVOCI	Fair Value through Other Compre-hensive Income
FVTPL	Fair Value through Profit or Loss
IASB	International Accounting Standards Board
ICT	Information and Communication Technology
IESBA	International Ethics Standards Board for Accountants
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
LC	Letter of Credit
LDR	Loans to Deposits Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LTFR	Long-term Funding Ratio
MSE	Micro and Small Enterprises
NHIF	National Health Insurance Fund
OCI	Other Comprehensive Income
PAT	Profit After Tax
PD	Probability of Default
POCI	Purchased or Originated Credit-Impaired
QR	Quick Response
SICR	Significant Increase in Credit Risk
SME	Small and Medium Enterprises
SMR	Statutory Minimum Reserve
SPPI	Solely Payments of Principal and Interest
SPV	Special Purpose Vehicles
SWL	Salaried Workers' Loan
TMRC	Tanzania Mortgage Refinance Company Limited
TZS	Tanzanian Shillings
UJVC	Upanga Joint Venture Company
USD	United States Dollars
USSD	Unstructured Supplementary Service Data

Our Business

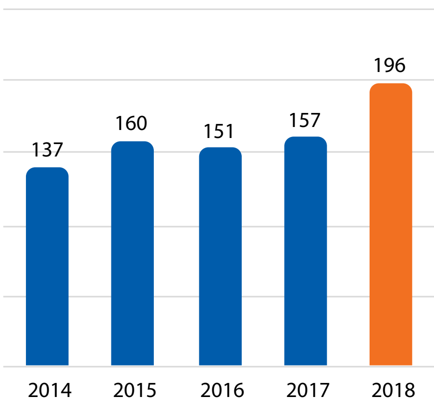
We are passionate, we use our energy, skills and resources to deliver the best sustainable results.

FINANCIAL HIGHLIGHTS FOR THE YEARS 2014 - 2018

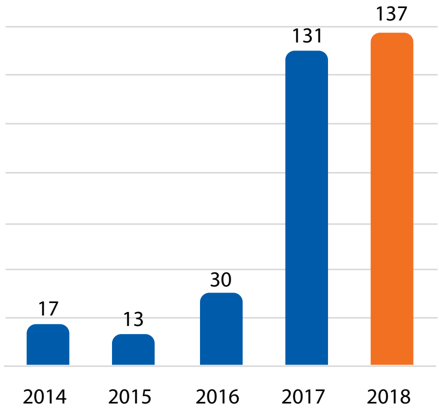
Net Interest Income
TZS Billions



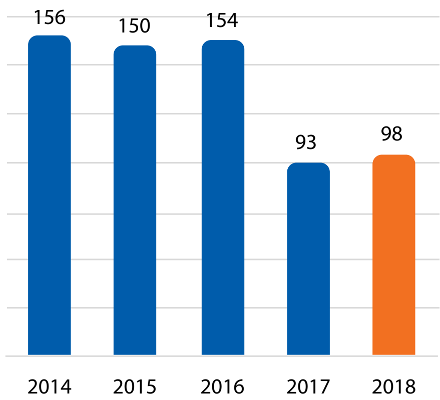
Non Interest Income
TZS Billions



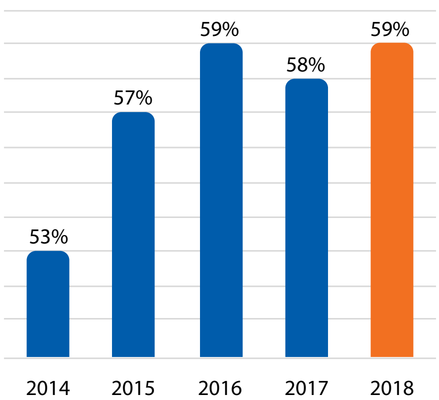
Impairment Loss on Loans & Advances
TZS Billions



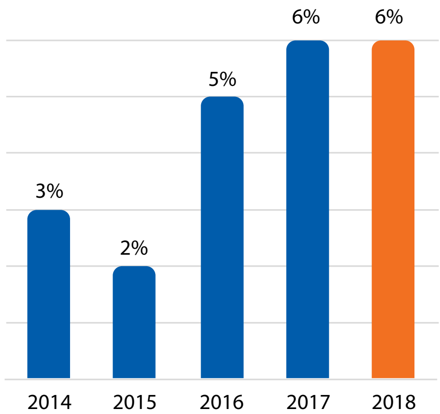
Profit After Tax
TZS Billions



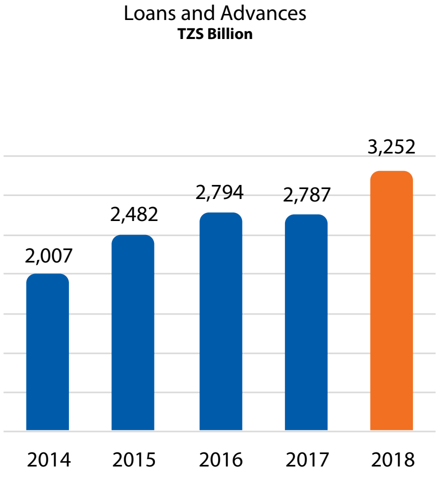
Cost to Income Ratio
(%)

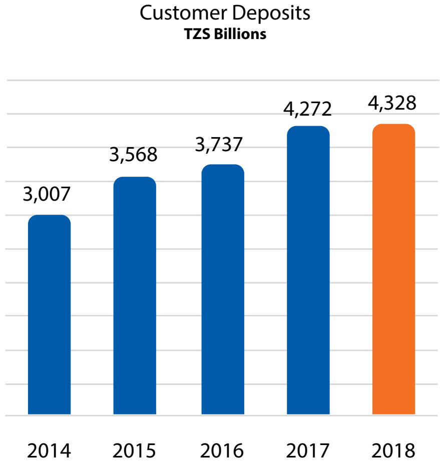


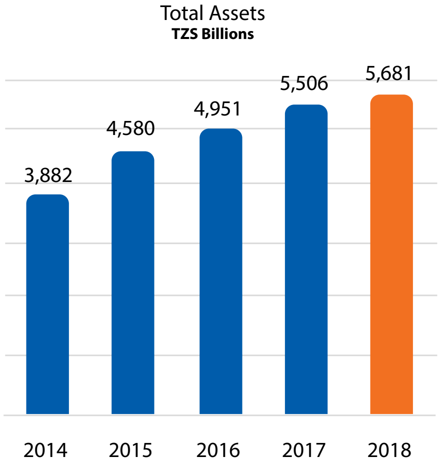
NPL Ratio
(%)

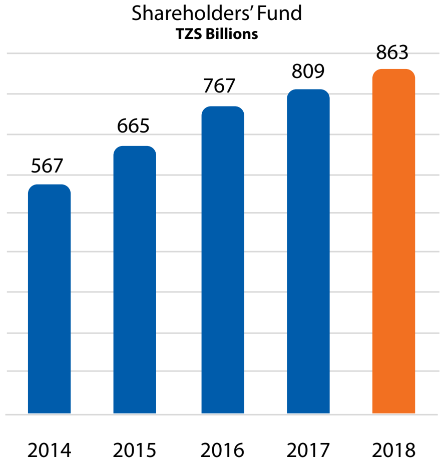


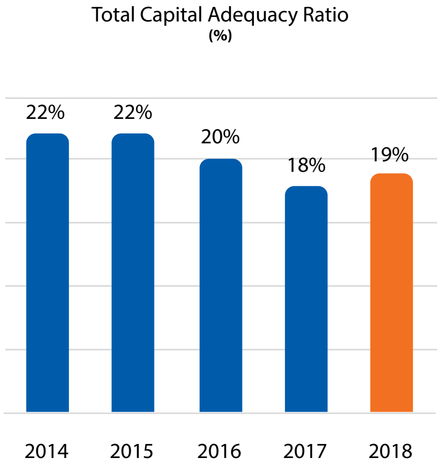
FINANCIAL HIGHLIGHTS FOR THE YEARS 2014 - 2018

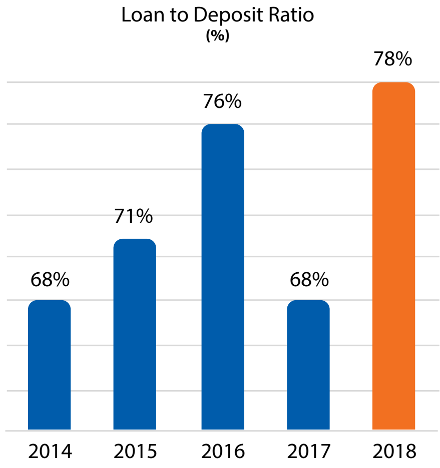






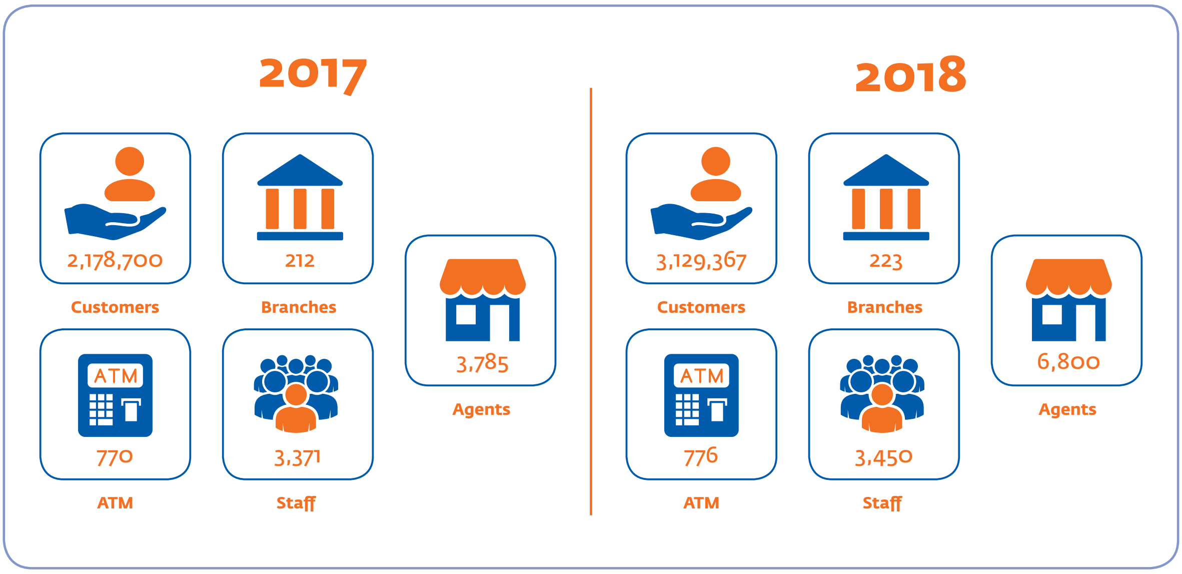






FINANCIAL HIGHLIGHTS FOR THE YEARS 2014 - 2018

		2014	2015	2016	2017	2018
Profitability						
Profit After Tax	Tzs Million	155,623	150,288	153,825	93,494	97,663
Capital Adequacy						
Tier 1 capital	Tzs Million	523,312	592,195	664,960	694,490	711,199
Risk Weighted Assets (RWA)	Tzs Million	2,459,642	2,932,574	3,519,618	4,114,144	4,321,532
Key Ratios		**2014**	**2015**	**2016**	**2017**	**2018**
Return on average shareholders' equity		27%	23%	20%	12%	11%
Return on average assets		4%	4%	3%	2%	2%
Capital Adequacy Ratios						
Tier 1 Capital ratio		21%	20%	19%	17%	17%
Tier1+Tier2 Capital ratio		22%	22%	20%	18%	19%
Dividend per share		104	104	104	64	66
Earnings per share		311	300	308	187	195



SHARE PERFORMANCE

Share performance	Formulae		2014	2015	2016	2017	2018
Basic and diluted earnings per share	PAT/ Number of shares in issue	Tzs	311	300	308	187	195
Dividends per share	Total dividend / Number of shares in issue	Tzs	104	104	104	64	66
Closing share price	as per DSE	Tzs	3,400	2,500	2,750	2,750	2,340
Number of shares in issue		Millions	500	500	500	500	500
Dividend cover (times)	Basic diluted earnings per share / dividend per share	Times	2.99	2.89	2.96	2 .92	3.05
Net asset value per share	Net assets / Number of shares issue	Tzs	1,134	1,331	1 ,534	1,618	1,726
Dividend yield : ordinary dividend	Dividend per share / closing price at DSE	%	3%	4%	4%	2%	3%
Earnings yield : ordinary dividend	PAT/closing of share price	%	9%	12%	11%	7%	8%
Price to Book ratio	Closing share price / Net asset value per share	Times	3.00	1.88	1.79	1 .70	1.36
Price: Earnings ratio: ordinary shares	Closing share price / Basic diluted earnings per share	Times	10.9	8.3	8.9	14.7	12.0
Market capitalisation	Closing share price times No. shares in issue	Tzs Millions	1,700,000	1,250,000	1,375,000	1,375,000	1,170,000
Net Assets	Audited financials	Tzs Millions	567,221	665,429	767,208	808,769	863,054
Volume of shares transacted	DSE	Millions	12.1	3.9	33.1	0.3	0.1
Exchange weighted share price	DSE	Tzs	3,955	3,571	2,193	2,341	1,980

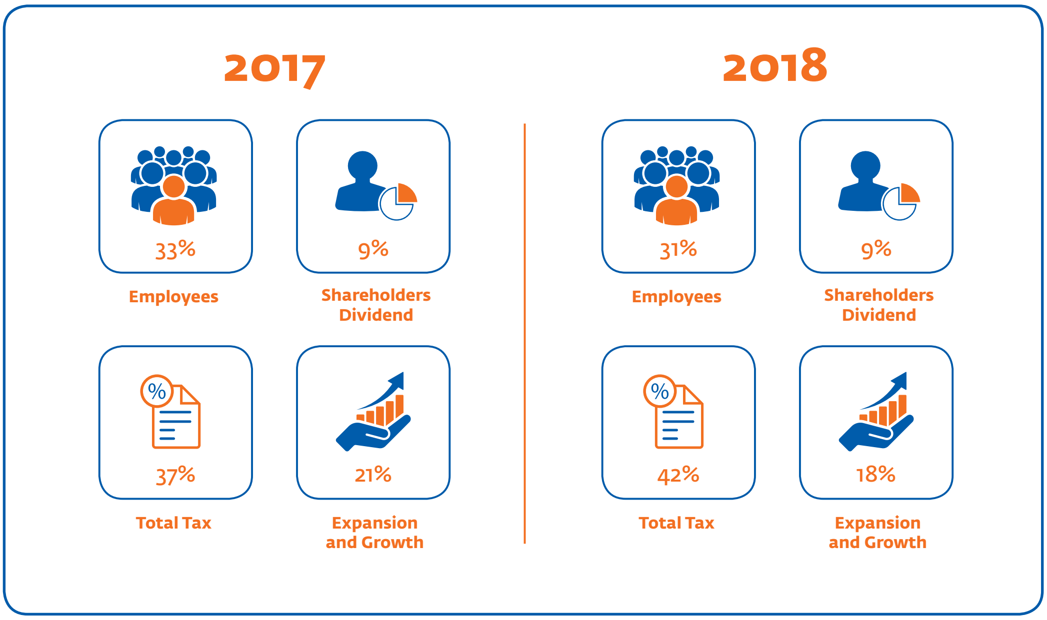
Summary

DSE - Dar es Salaam Stock Exchange

VALUE ADDED STATEMENT

Value added is the wealth the bank has been able to create by providing clients with quality, value added service.

Tzs 'Millions	2018	2017
Value added		
Income earned by providing banking services	**834,235**	**763,786**
Interest expense paid to third party funding	(23,895)	(19,013)
Interest expense paid to other depositors	(85,720)	(101,278)
Fee and commission expense	(36,721)	(19,543)
Loan Impairment charge	(137,305)	(130,996)
Total cost of banking services	**(283,641)**	**(270,830)**
Value added by banking services	**550,594**	**492,956**
Other operating expenses	(150,778)	(143,704)
Net Value added from banking services	**399,816**	**349,252**
Value allocated		
To Employees:		
Salaries and other benefits	124,228	116,299
To Shareholders:		
Dividend to other shareholders	22,512	21,830
Dividend to Government	10,488	10,170
To Government		
Corporate Tax	68,480	61,072
PAYE	35,543	32,517
Skills development levy	6,378	5,871
Excise Duty	20,292	15,578
VAT on services	36,062	28,183
Other taxes	2,031	1,241
Total Taxes	**168,787**	**144,462**
To expansion and growth		
Depreciation, deferred tax and retained earnings	73,802	56,491
	399,816	**349,252**



Awards and Recognition

International recognition by winning the following awards :

- ***Best Bank in Tanzania***
  by Euromoney Awards for Excellence
- ***Best Retail and Best Commercial Bank in Tanzania***
  by the Banker East Africa Magazine
- ***Best blended finance partner** in Africa for banks working with International Finance Corporation (IFC) of the World Bank Group.*

The bank has won some domestic awards namely :

- ***Occupational Safety and Health (OSHA) award 2018***
  – in the financial sector category
- ***Best presented financial statement 2018***
  by the National Board of Accountants and Auditors

VISION, MISSION AND VALUES

Getting Ahead

Modern banking is deploying new ideas and breakthrough innovation to create a wide range of services, simplifying our customer's lives.

Our Vision

To be the preferred financial services partner in Tanzania

Our Mission

Through innovative distribution and our extensive branch network, to offer affordable customer focused financial services to the Tanzanian community, in order to realise sustainable benefits for all our stakeholders

Our Core Values

WHAT DRIVES US

Eagerness & Ownership

WHAT BINDS US

Customer focus & Teamwork

WHAT GUIDES US

Integrity & Compliance

INTERNAL INFORMATION

Company Secretary

Lilian R. Komwihangiro

Registered Office

NMB Head Office
Ohio/Ali Hassan Mwinyi Road
P.O.Box 9213
Dar es Salaam

Auditor

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

Lawyers

CSB Law Chambers
P.O.Box 375
Morogoro

CRB Africa Legal
P.O. Box 79958
Dar es Salaam

AMMIC Advocates
P.O.Box 718
Kahama

Vertex Law Chambers
P.O. Box 31985
Dar es Salaam

Vigilance Attorneys
P.O. Box 785
Arusha

Mbwilo Advocates
P.O.Box 1854
Mbeya

Law Associates
P.O. Box 11133
Dar es Salaam

Goldmark Attorneys
P.O. Box 1605
Dodoma

K & M Advocates
P.O. Box 71394
Dar es Salaam

FB Attorneys
P.O. Box 19813
Dar es Salaam

East Africa Law Chamber
P.O.Box 7439
Dar es Salaam

Legis Advocates
P. O. Box 3750
Dar es Salaam

Maleta & Ndumbaro
Advocates
P.O.Box 79944
Dar es Salaam

Galati Law Chambers Advocates
P.O.Box 11317
Mwanza

Kasimbazi And Co. Advocates
P.O. Box 1075
Iringa

Derost Attorneys & Law Counsellors
P.O. Box 1481
Mtwara

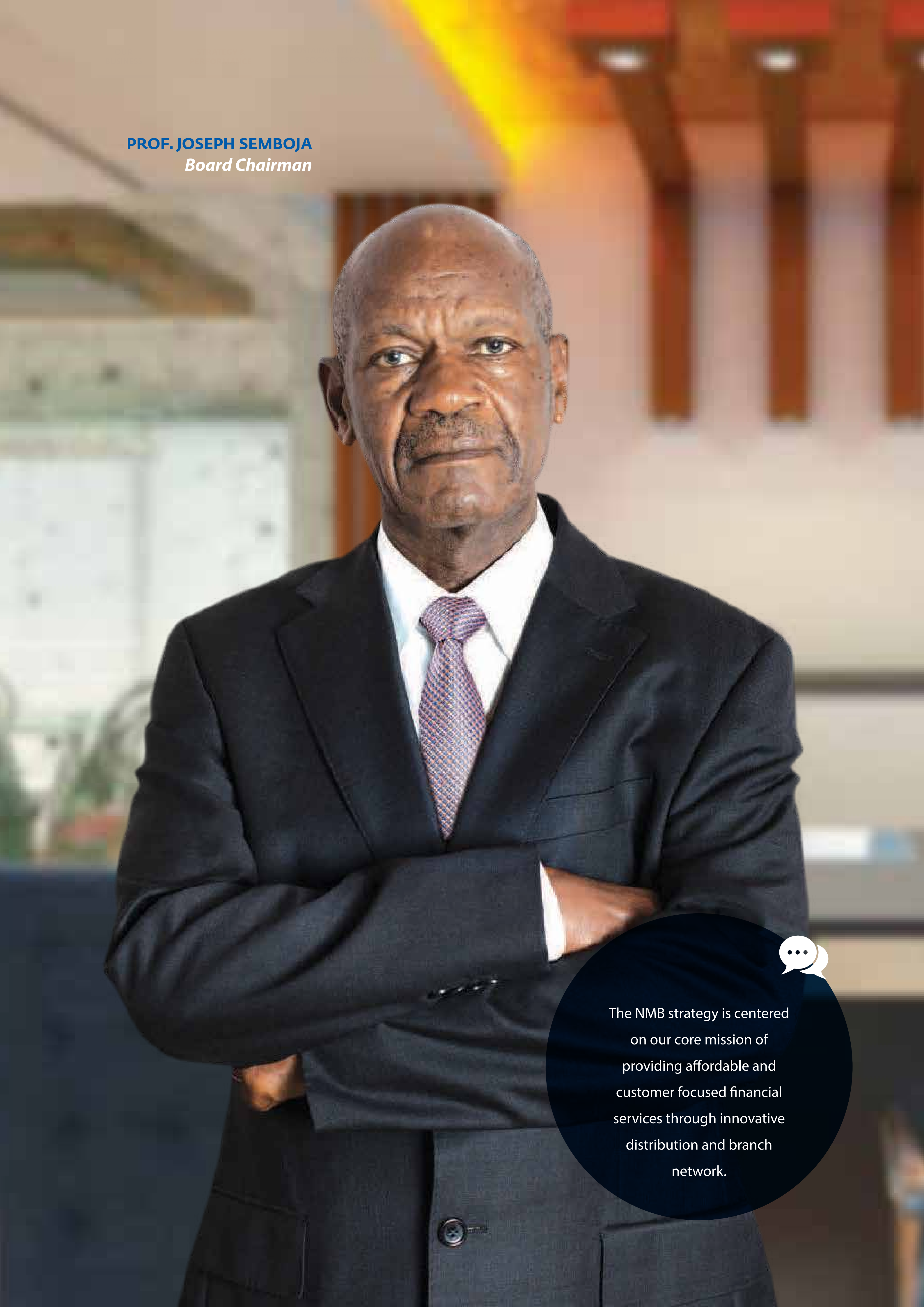
Rweyemamu Advocate Chambers
P.O. Box 1746,
Bukoba

Brickhouse Law Associates
P.O. Box 80512
Dar es Salaam

Strategy & Performance

Our team remains focused on delivering our strategy, improving our services and delivering a differentiated proposition to our clients and stakeholders to becoming a future-ready bank.

PROF. JOSEPH SEMBOJA
Board Chairman



The NMB strategy is centered on our core mission of providing affordable and customer focused financial services through innovative distribution and branch network.

CHAIRMAN'S REPORT

It gives me great honor to once again present to you the NMB Bank PLC (NMB, the Bank) Annual Report and Financial Statements for the year ended 2018.

A quick overview of the country's economic indicators show a general improvement in 2018 compared to 2017. GDP growth reached 6.7% from 6.2% in 2017 and inflation declined to an average of 3.1% from 4.5% in 2017. The liquidity also improved in the year; banks deployed various deposit mobilization initiatives that made up for the deposits lost in the previous years . The appetite for doing business also picked up evidenced by the growth in credit to the private sector which reached 4.9% in 2018 compared to 1.7% in the previous year. Subsequently, the profitability of the banking sector improved to TZS 273.2billion from TZS 208.9 billion in the previous year.

Nonetheless, loan loss provisions remained significantly higher compared to previous periods and were further impacted by the implementation of IFRS 9 starting January 2018. Five struggling financial institutions were shut down in the year and other three were taken over by more stable banks. Competition in the sector remains healthy with most banks embracing the digital movement.

In light of the changing operating environment, I am encouraged with the improved financial results that the Bank has delivered. Profit Before Tax (PBT) grew by 3% to TZS 142 billion from TZS 138 billion in 2017. Our share price remained at TZS 2,340 for the entire year, most likely due to stagnation and illiquidity in the stock market. However, NMB remains amongst the best capitalized in the market.

In 2018, three years into our Vision 2020 (V2020), we conducted a review of the assumptions underlying the strategy and the goals we set to achieve. As a result, a number of initiatives have been reprioritized to focus more on deposit mobilization, cost efficiency and revenue generation. The targets have also been revised. In 2019, as we approach the end of V2020, we will start the ground work for the next medium and long term plan.

The NMB Board upholds high standards of management and corporate governance which we believe are key to delivering sustainable shareholder value and the Bank's long term success. In 2018, the Board continued to provide leadership through oversight of the Bank's strategy execution, internal controls, risk management and people management. We worked closely with relevant stakeholders to ensure that our internal governance standards meet the expectations of the Bank of Tanzania (BOT) and the Capital Markets & Securities Authority (CMSA).

During the year, the Board underwent a number of changes with the appointment of two new directors as well as the retirement of two directors. We remain committed to ensuring that shareholders' interests are represented by experienced and qualified directors; in the year, we welcomed Ms. Christine Glover and Eng. George Mulamula onto the Board. Both directors are well accomplished in their fields: Ms. Glover is a renowned development finance consultant whilst Eng. Mulamula is a seasoned technology guru having founded the only tech incubator in Tanzania. We also bade farewell to some of our longstanding directors, Mr. Protase Tehingisa and Mr. Albert Jonkergouw who had both completed their terms of service in the Bank. Mr. Tehingisa and Mr. Jonkergouw served the Board with distinction; we thank them for their contribution to the Bank's affairs and wish them well in their future endeavors.

After serving the Bank for a little over 3 years, our Managing Director Ineke Bussemaker left the Bank in December

CHAIRMAN'S REPORT

2018 to take on new role at Rabobank in the Netherlands. In a period characterized by uncertainty and a number of changes in the operating environment, Ms. Bussemaker's commitment to sustainable growth and results enabled NMB to remain the most profitable Bank in the country. Her passion for technological advancements spearheaded the digital transformation journey the Bank is currently on. On behalf of the Board of Directors, I would like to thank Ms. Bussemaker for her drive and commitment to ensuring NMB remains the market leader.

As the search for Ms. Bussemaker's successor was yet to be finalized, we were pleased that Mr. Albert Jonkergouw was ready to hold the fort as the Interim Managing Director. Having served the Board and worked closely with the Bank's management team, Mr. Jonkergouw is no stranger to NMB. His understanding of the business will provide the required business continuity and make for a smooth transition when the permanent Managing Director is appointed.

The Board has recommended maintenance of the dividend payout ratio of a third of PAT that has been used in previous periods; for the year ended 31 December 2018 a dividend of TZS 66 per share will be paid, equivalent to TZS 33 billion. A dividend of TZS 64 per share was paid for 2017, equivalent to TZS 32 billion.

Beyond preparing for life after Vision 2020, the Board will in 2019 closely support the execution of initiatives set out to grow revenue lines and promote cost efficiency. We also look forward to finalizing the head office structure realignment which has taken longer than we had initially anticipated; many lessons have been learned and necessary adjustments will be made to ensure that we have a structure and framework that will support our ambitions. We expect competition in the sector to further increase and are putting in place measures to secure our leading position. This will among others include refining our controls and tightening our governance.

I would like to express my profound appreciation to our shareholders, customers, and partners for their longstanding support to the Bank. I also thank my fellow Directors for their insight and counsel throughout the year as well as their commitment to their roles on the Board and to the affairs of the Bank. It is a true honor to lead such a team. The achievements outlined in this report would not have been possible without the commitment and dedication of our staff and we thank everyone at the head office and branches across the country for their unwavering dedication and contributions.

On behalf of the Board we thank the Banking Regulator for the constructive manner in which they engage with the Bank, and for their oversight of the sector. Last but not least, I would like to extend special thanks to the Government of the United Republic of Tanzania for their steadfast support and cooperation.

Prof. Joseph Semboja
Chairman

INEKE BUSSEMAKER
Managing Director

In fulfilling our promise to reach more customers, we opened 11 new branches in 2018. Moreover, our agent network (NMB Wakala) continued to grow, reaching **6,800** in 2018 from 3,785 in 2017.

MANAGING DIRECTOR'S REPORT

NMB recorded a good performance in 2018, therefore maintaining its leading position in the banking industry. Our measure of performance covers both financial and non-financial milestones, such as the bank's continued improvement of services to its retail, corporate and institutional clients with a renewed focus on Consumer banking, Trade, Agribusiness as well as Medium, Small and Micro Enterprises (MSMEs). NMB's achievements over the year further demonstrate the bank's resilience in outperforming the market at a time when the banking industry has had to adapt to new regulatory requirements and a competitive business environment.

I would like to thank our shareholders, customers and all stakeholders for supporting and enabling us in our pursuit to offer world-class services. We remain committed to continue enhancing shareholder and community values and we will continue to embrace innovative means to improve our business operations and delivery.

Industry Developments

The Bank of Tanzania ("BOT") continued to implement an accommodative monetary policy regime throughout the year, resulting into adequate levels of liquidity in the financial sector. To further emphasize their drive to improve private sector credit growth, the BOT further reduced the discount rate from 9% to 7% over the year. Other measures include the availability of standby facilities for banks and foreign exchange market operations. Going forward, the increase of credit to the private sector will be further propelled by the prevailing monetary policy, an improvement in the business environment and additional measures introduced by BOT to reduce Non Performing Loans (NPLs).

Complementing the measures taken by the BOT, annual growth of credit by banks to the private sector improved to 4.9% in December 2018 compared to 1.7% recorded in December 2017. In addition, during the same time, the overall lending rates decreased from an average of 17.8% to 16.7%. The drop reflects how slow bank lending rates respond to the prevailing monetary policy, which has been attributed to difficulties with the prevailing legal framework on loan recovery as well as the national identification database.

2018 brought along some improvements in the banking industry, where soundness, stability and increased profitability were generally observed throughout the year. The sector's NPL ratio decreased from 11.9% in December 2017 to 10.4% in December 2018. The drop is highly a product of the BOT's continuous effort to ensure that NPLs remain on a decreasing trend to 5%. To warrant that this happens, the BOT continued to implement strategies to ensure that all banks submit credit data to credit reference bureaus and that banks with high NPLs submit strategies to contain their NPLs.

In addition to improved overall credit performance, the banking sector remained adequately capitalized with core Capital Adequacy Ratio (CAR) of 17% in December 2018, well above the 12.5% regulatory requirement, while the Liquid Asset Ratio (LAR) during the same period was 33%, higher than the 20% regulatory minimum.

In accordance with International Financial Reporting Standards ("IFRS") and BOT guidelines, all banks in Tanzania were scheduled to begin IFRS 9 implementation in 2018. The BOT continues to monitor and assess the effects of IFRS 9 implementation and will take appropriate measures where needed.

MANAGING DIRECTOR'S REPORT

Bank Performance

NMB reported good results despite the various changes and competition in the operating environment. The Bank's balance sheet grew by 3% year on year to TZS 5,681 billion in 2018. The slight growth in assets was funded by a 1% year on year increase in customer deposits to TZS 4,328 billion in 2018 and a 9% annual growth in other liabilities. Loans and Advances exhibited strong growth in 2018, surging 17% year on year to TZS 3,252 billion in 2018. The spike is highly a result of increased retail lending to individual consumers and MSMEs, which was fueled by a general decline of interest rates in the market during the first 3 quarters of 2018 that enabled NMB to access affordable funding. As a response to market realities, NMB decreased its lending rates in the first half of 2018, which would also explain why interest income grew by a slight 2% year on year.

Despite a notable growth in our loan book, the Bank's NPL ratio remained at 6%, similar to 2017. This reflects the weakened asset quality carried forward from 2017, which resulted in a 5% increase in our loan impairment charges, from TZS 131 billion in 2017 to TZS 137 billion in 2018. However, compared to the market where the NPL ratio is at 10.4%, NMB maintained a sound approach in building our asset book, which resulted into our Profit Before Tax (PBT) growing by a slight 3% to TZS 142 billion in 2018.

Notwithstanding the asset quality challenges that we continued to face over the year, we undertook a number of initiatives to improve our offerings to customers. The positive results of such initiatives can be evidenced by the significant growth observed in some parts of our business. The bank's Non-Interest Income grew by 25% year on year to TZS 196 billion in 2018. This growth is attributed mainly to loan related fees and an increase in transactions as a result of our efforts to drive the use of alternative channels among our clients, which include Agents (Wakala) and cards.

In addition to devising more way to increase our earnings, we continued to monitor our operational expenses throughout the year, which grew by 15%, from TZS 355 billion in 2017 to TZS 409 billion in 2018. The growth was mostly fueled by depreciation expenses, which jumped by a notable 84% year on year. We will continue to actively monitor our expenses and apply efficient processes in our operations.

With a Tier 1 Capital Ratio of 17% and Total Capital Adequacy Ratio of 19%, well above the regulatory limits of 12.5% and 14.5% respectively, NMB remains a well-capitalized bank. In addition, shareholders' funds increased from TZS 809 billion in 2017 to TZS 863 billion in 2018.

Our business performance and operations continue to be directed by goals spelled out in our strategic plan, Vision 2020. In fulfilling our promise to reach more customers, we opened 11 new branches in 2018, Moreover, our agent network (NMB Wakala) continued to grow, reaching 6,800 in December 2018 from 3,785 in December 2017.

Over the year, we remained stead fast in implementing our customer service improvement initiative, TWAWEZA, which has enabled us to improve customer service in our branches. We also launched new products such as the Salary Advance loan for salaried workers and NMB KliK, a revamped version of our mobile application.

MANAGING DIRECTOR'S REPORT

To keep up with international banking and accounting standards, we adopted the new IFRS 9 in January 2018. As concluded in our initial analysis, we have been able to cope well with the changes and we will continue to monitor the effects of the changes.

Outlook for 2019

2018 was a year of recovery and progress for NMB. As we look forward to make headway in 2019, we will continue to deliver better results and services for all of our stakeholders.

Much as market pressures and business challenges will continue to affect our business, we remain optimistic that private sector activity will remain on an upwards trajectory as the Government continues to invest in infrastructure and enable the country's industrialization drive.

NMB is well positioned to bring about a positive change in people's lives and will continue to explore additional means to address customers' everyday needs. We will continue to play our part in facilitating and contributing to Tanzania's growth. We are confident that we have the right human capital, processes and technology to enable our active participation in Tanzania's economy.

Word of Thanks

After a little over three productive and fruitful years, I have decided to leave NMB and take on a new assignment. Over these years, NMB has continued to be the most sustainable bank in Tanzania and has successfully developed a digital strategy. The Bank will continue to strive to further contribute to achieving financial inclusion in Tanzania.

As I depart, I am confident that I leave a strong, stable bank; there is still a lot that NMB can accomplish and I believe that it is well positioned to achieve greater milestones. With this in mind, be best assured that the momentum will continue under the leadership of the next Managing Director.

Thank you for your hospitality and support.

Ineke Bussemaker
Managing Director

RUTH ZAIPUNA
Chief Financial Officer

It is encouraging to see the improvement in operating income and the increased balance sheet momentum. The ongoing work on improving the quality of the loan portfolio, focus on recoveries and cost efficiency will continue.

CHIEF FINANCIAL OFFICER'S REVIEW

'We have seen improvement in the Bank's profitability year on year, but there is still work to be done'

Performance summary

The Bank's Profit before Tax increased by 3 per cent to TZS 142 billion in 2018 from TZS 138 billion in 2017. The improvement in the Bank's profitability in 2018 is a result of increase of both net interest income and non-funded income, including foreign exchange and other income. We however, still have some work to do on credit impairment charges and operating expenses to significantly improve our financial performance.

- Total operating income before impairment charges grew 10 per cent year on year to TZS 688 billion from TZS 624 billion in 2017. The growth is a result of increase in net interest income by 5 per cent benefiting from good growth in the Retail loans and advances (however, impacted by decrease in interest income from government securities from both decrease in rates and balances) and decrease in interest expense by 9 per cent, from reduction of expensive deposits. In addition, total operating income increased following the increase in net fees and commissions, foreign exchange and other income.
- Net fees and commission income increased by 23 per cent mainly attributed to increase in loan related fees, following the good growth in the Retail loans and advances and increase in other fees and commission from increased transaction volumes.
- Foreign exchange and other income increased from growth in transaction volume as well as bad debts recoveries from TZS 3.0 billion in 2017 to TZS 6.7 billion in 2018 or 126 per cent.
- Credit Impairment charge of TZS 137 billion was 5% higher year on year due to impact of IFRS 9 adoption and increase in non-performing loans following challenges in the portfolio particularly on some Corporates, Agribusiness and SME/MSE loans.
- Operating expenses were up by 15 per cent year-on-year driven by new investments in the network expansion, technology and people, as well as depreciation of capital investments completed during the year. Management will continue with the cost efficiency initiatives that will enable the Bank reduce costs and continue to invest in technology to deliver improvements in productivity and customer experience.
- The Bank is well capitalized with a Tier I Capital Ratio of 16.5% and is highly liquid. Customer loans and advances grew 17 per cent in the year while customer deposits grew by 1 per cent.
- The impact of adopting IFRS 9 on 1 January 2018 is an increase in credit provisions of TZS 15 billion and, in line with the Bank of Tanzania guidance on treatment of additional impairment on adoption of IFRS 9, an estimated decrease in the Bank's Core capital by about 0.3 per cent.
- Due to improved performance and strong capital position, the Board has recommended payment of a dividend of TZS 66 per share, a 3% increase compared to TZS 64 per share paid the previous year. The intention is to increase the dividend per share over time as the Bank's performance continues to improve.

CHIEF FINANCIAL OFFICER'S REVIEW

Performance Summary

	2018 TZS' Millions	2017 TZS' Millions	Change TZS' Millions	Decrease/ (Increase) %
Net interest income	492,023	466,701	25,322	5
Net fees and commission income	166,282	135,337	30,945	23
Foreign exchange and other income	29,594	21,914	7,680	35
Operating income before impairment charge	687,899	623,952	63,947	10
Impairment charge	(137,305)	(130,996)	(6,309)	(5)
Operating income after Impairment	550,594	492,956	57,638	12
Operating expenses	(408,953)	(355,053)	(53,900)	(15)
Profit before tax	141,641	137,903	3,738	3
Income tax expense	(43,978)	(44,409)	431	1
Profit for the year	97,663	93,494	4,169	4
Return on equity (%)	11	12		
Return on assets (%)	2	2		
Cost to income ratio (%)	59	58		
Non-interest income to gross income (%)	28	23		
Earnings per share (TZS)	195	187		
Dividend per share (TZS)	66	64		
Tier I Capital (%)	16.5	16.9		
Total Capital (%)	18.5	17.6		

Operating income by segments

Retail Banking operating income was up by 15 per cent year on year driven by increase in net interest income from growth of loans and advances and increase in non-funded income. Retail loans and advances increased by TZS 430 billion or 20% year on year, with significant increase being from SWL/Personal loans which increased by TZS 338 billion or 21 percent.

A major achievement in retail credit during the year was the introduction of the Salary Advance Loan, the first mobile loan product with the Bank. Since its inception in May 2018, 110,000 new customers have taken over 650,000 facilities amounting to TZS 75 billion. In the year, the Bank also increased its appetite for mortgage loans to individuals; the portfolio closed at TZS 15.3 billion by end December 2018, from TZS 7.8 billion in 2017.

CHIEF FINANCIAL OFFICER'S REVIEW

	2018 TZS' Millions	2017 TZS' Millions	Change TZS' Millions	Decrease/ (Increase) %
Retail	491,272	426,416	64,856	15%
Wholesale	67,508	52,964	14,544	27%
Agribusiness	14,711	9,578	5,133	54%
Treasury	114,408	134,993	(20,586)	(15)
Total	**687,899**	**623,952**	**63,947**	**10%**

Wholesale banking net Income before impairment charge increased by 27 per cent year on year. The focus on high quality loans and advances and decline in the interest rates from the second quarter of the year resulted into 9% decline in interest income in Wholesale banking. This decrease was offset by decrease in interest expenses by 30% and increase in non-funded income by 10% particularly from Trade Finance activities.

Agribusiness net income was up by 54% year on year. Increase in Agribusiness assets by TZS 41 billion from cashew-nut out growers resulted in increase in interest income by 47% and non-funded income by 41%.

Treasury total net income dropped by 15 per cent year on year with interest income from T-bills dropping by TZS 28.7 billion, largely affected by decrease in interest rates and decrease in volumes. Income from foreign exchange dealings and Bond Trading income increased by 24% year on year, partially offsetting the lower net interest income.

Loan impairment charge

Loan impairment charge for the year of TZS 137.3 billion was up by 5 per cent year on year and remains elevated relative to historic trends. Within the segments, Wholesale and Retail Banking loan impairment was lower year on year while Agribusiness loan impairment charge increased year on year. Despite the increase in loan impairment, our NPL ratio remained flat at 6% and one of the lowest in the market.

	2018 TZS' Millions	2017 TZS' Millions	Change TZS' Millions	Decrease/ (Increase) %
Wholesale Banking	57,447	59,520	(2,073)	3
Retail Banking	**62,296**	**66,144**	**(3,848)**	**6**
- Consumer Banking	24,644	50,699	(26,055)	51
- Business Banking	37,652	15,445	22,207	(144)
Agri-business	15,513	5,332	10,181	(191)
Off Balance sheet items	2,049	-	2,049	(100)
Total Impairment Charge	**137,305**	**130,996**	**6,309**	**(5)**

The introduction of IFRS 9 also required the Bank to provide for the Expected Credit Loss from 1 January 2018 while in 2017 the incurred credit loss model was used. This has had the effect of increasing our impairment charge by TZS 15 billion or 15%.

The Bank remains alert of the various challenges affecting businesses and have remained prudent and careful in the new loan applications while rigorous recovery measures for the non performing loans are under way.

Operating expenses

Operating expenses were 15% up year on year. Staff costs continue to be a significant part of overall costs, given the number of staff required to run a retail operation. The Bank achieved more than TZS 10 billion in savings through actions taken to reduce costs. This created capacity for more investments in technology, focused on enhancing our regulatory and compliance infrastructure and upgrading or replacing technology platforms.

Actions are underway to achieve more cost efficiencies by end of 2019 and maintain cost growth within inflation (currently about 3%).

Operating expenses summary

	2018 TZS' Millions	2017 TZS' Millions	Change TZS' Millions	Decrease/ (Increase) %
Employee benefits expense	166,149	154,686	11,463	(7)
Other operating expenses	188,871	171,110	17,761	(10)
Depreciation and amortization	53,933	29,257	24,676	(84)
Total operating expenses	**408,953**	**355,053**	**53,900**	**(15)**
Staff numbers (full number)	3,450	3,371	79	
Cost to income ratio (%)	59	58		

Balance sheet and Capital

Net loans and advances to customers were up 17 per cent year-on-year to TZS 3,252 billion with strong and broad-based growth across a range of products. Customer deposits of TZS 4,328 billion were up 1 per cent year-on-year as the Bank continued to focus on improving the quality and mix of its liabilities. The Bank's customer advances to customer deposits ratio increased to 78 per cent compared to 68 per cent as at 31 December 2017.

Capital ratios

The Bank is well capitalized with a Tier I Capital Ratio of 16.5 per cent, well above the Regulatory requirement of 12.5 per cent. In June 2018, the Bank borrowed TZS 68 billion from International Finance Corporation (IFC) at 14.18% as subordinated debt, used to improve the Bank's Total Capital. This improved the total Capital Ratio by 0.9%.

In December 2018, the BoT granted a relief to use conversion factor of 8.33 which is a reciprocal of 12% instead of 12.5 which is the reciprocal of 8% when converting capital charge for market and operational risks to notional Risk Weighted Assets. This reduced our RWA by about TZS 200 billion, hence increasing our total Capital Adequacy Ratio by about 0.7%.

CHIEF FINANCIAL OFFICER'S REVIEW

Balance sheet summary

	2018 TZS' Millions	2017 TZS' Millions	Change TZS' Millions	Decrease/ (Increase) %
Cash and balances with Bank of Tanzania	1,070,422	1,156,322	(85,900)	(7)
Placements and balances with other banks	174,391	242,731	(68,340)	(28)
Investments in Government Securities	740,185	919,969	(179,784)	(20)
Loans and advances to customers	3,251,794	2,787,048	464,746	17%
Other assets	444,192	400,289	43,903	11%
Total assets	**5,680,984**	**5,506,359**	**174,625**	**3%**
Balances due to other banks	20,770	149	20,621	13840%
Deposits from customers	4,327,607	4,272,149	55,458	1%
Other liabilities	469,553	425,292	44,261	10%
Total liabilities	4,817,930	4,697,590	120,340	3%
Total equity	863,054	808,769	54,285	7%
Total liabilities and equity	**5,680,984**	**5,506,359**	**174,625**	**3%**
Gross loans and advances to deposits (%)	78	68	-	-
Core capital ratio (%)	16.5	16.9	-	-
Total capital ratio (%)	18.5	17.5	-	-
Risk weighted assets	4,321,532	4,114,144	207,388	5%

In summary

We are making progress as we transform the Bank with good momentum on business generation contributing to improvement in performance. Competition remains strong but economic conditions are improving and developing regulatory clarity, specifically on capital charge for operational risk, has allowed us to pay improved dividends to our shareholders.

It is encouraging to see the improvement in operating income and the increased balance sheet momentum. The ongoing work on improving the quality of the loan portfolio, focus on recoveries and cost efficiency will continue.

The focus will also continue on ensuring that we deliver on the Bank's key strategic pillars of deposit mobilization, revenue generation and operational efficiency while maintaining close relationships with our clients, reducing the cost of funding and working to ensure the Bank realizes the benefits of our continuing investment in technology.

Ruth Zaipuna
Chief Financial Officer

BUSINESS & OPERATIONAL REVIEW

1. Retail Banking

The Retail Banking Department consists of Consumer Banking (Individuals – including Civil Servants, Private Banking customers; and Groups), Business Banking (Micro, Small & Medium-sized enterprises) and Agency Banking – with all units leveraging on the branch network. Retail offers a broad range of financial service solutions including all Personal Accounts, Savings, Mortgages, Vehicle Financing and Unsecured and Secured Lending to Personal and Business Banking customers.

In 2018 Retail Banking loan portfolio grew by 20%, however, lower interest rates impacted negatively the interest income which only grew by 9%. Customer deposits grew by 16% from the previous year to TZS 2.9 Trillion. In 2018 assets grew more than deposits, bringing a renewed focus on deposit mobilisation towards the end of the year.

Consumer Lending increased to TZS 2.487 Trillion (net of impairments), a 19% increase from TZS 2.1 Trillion the previous year. The micro, small and medium enterprises (MSME) portfolio grew to TZS 588 Billion, a 19% year on year increase. The portfolio growth is attributed to improvement in sales activity at branch level and reduced turnaround time in processing loans.

We continue to see strong growth in transaction volumes and values across all our digital and self-service channels such as internet banking, mobile banking, Agency network and merchants. Agency Banking had good growth year on year following expansion in the Agency network; gaining market leadership in terms of number of Wakalas (6,800 as at end of 2018) and its overall appeal and utilisation by customers. We aim to continue the Wakala channel enhancement and expansion to complement the branch network.

In addition to completion of refurbishment of the existing branches, the bank expanded its distribution network further by increasing the number of branches by 11 to reach 223. The bank increased the ATM network to 776, compared to 770 in the previous year.

Our Digitisation Strategy is based on customer centricity, evidenced by our newly-launched Mobile App (KLik) which gives customers greater flexibility in managing their financial affairs. In 2018, the Customer Service unit was renamed "Customer Experience" to shift the focus from providing satisfactory customer service (reactive) to creating a memorable customer experience (proactive) that builds trust and loyalty.

In 2019, we aim to have a moderate growth in assets, relative to deposits. We will continue to place emphasis on our digital channels, especially self-account opening using mobile app, KLik. As the three year' Retail Bond is also coming to an end, we will continue to explore additional deposit mobilisation initiatives, with clear and deliberate bias on cheap deposits.

Retail total income for 2018 amounted to

TZS 517bn.

2. Wholesale Banking

Wholesale Banking (WB) focuses on providing high value services and financial solutions to large corporations, Institutions and the Government. These services range from working capital financing, currency conversion, structured financing, trade transactions, syndications, club deals as well as collections and payment services.

The department maintains a careful selection of clients, with whom we establish long-term relationships to support their business growth plans. These relationships facilitate the delivery of integrated solutions to meet our clients' needs. Additionally, NMB's extended network enables customers to access a wide range of financial services across 220+ branches countrywide, strategically deployed and staffed with relationship teams charged with supporting the clients' business growth in sectors such as Transportation & Logistics, Oil & Gas, Service, Energy, Telecommunication and Manufacturing. From time to time, WB assesses risks associated with those sectors and business environment at large.

Wholesale Banking reported 27% and 4% year on year growth in Net Income and Loans and Advances, respectively. Total customer deposits decreased 15% YoY as a result of the continued implementation of the Treasury Single Account (TSA) which was introduced in 2016 and the introduction of collections through Government e-Payment Gateway (GePG) which requires weekly sweep of collected amounts to BOT accounts.

In 2018, the department continued to strengthen corporate business relationships. Despite the challenges encountered, the department achieved 4% Year on Year growth in loans and advances, reaching TZS 717 billion at the end of 2018 compared to TZS 690 billion recorded at the end of 2017. The growth was largely from Transportation, Manufacturing, Mining and Service sectors. Throughout the year, Wholesale Banking managed to minimize risk through efficient portfolio management and optimum growth of the asset book. The department also responded to the deteriorating asset quality environment in 2018 by engaging with clients to understand the challenges they faced and offer appropriate solutions.

During the year under review, Trade Finance product offering of the bank had more visibility in the market following our awareness campaign in the preceding year. NMB staff client engagement across the branch network was higher and this was reflected in utilization of related products including Import and Export Letters of Credit, Post Import Loans, Bank Guarantees, Documentary Collections and Pre-Shipment Financing.

Wholesale Banking (WB) + High value services and financial solutions = support clients' business growth

Wholesale Banking reported 27% and 4% YoY growth in Net Income and Loans and Advances respectively.

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Sectors that have contributed to the good performance include ports, rail, specifically Standard Gauge Railway project, pharmaceuticals & medical equipment procurement, power and energy generation, bulk oil procurement, rural and road construction as well as agribusiness to support export of key cash crops commodities such as cashew, cotton, maize, red beans and sorghum.

The bank also invested in branch wide staff training as well as strategic client events organized by NMB Zonal offices as well as seminars for public sector. These initiatives have positively impacted 2018 non-funded income and interest income with Trade Finance contribution of TZS 12bn, a 69% year on year growth (an increase of TZS 5 bn) compared to 2017.

Over the past year, Wholesale Banking strengthened its presence in Dodoma with additional relationship management staff located at the newly inaugurated Capital Office, enabling closer engagement with ministries and government agency offices located in the City. The department continued strengthening business relations with Corporate and Institutional customers through sponsorship and participation various events.

In 2019, we aim to grow and retain our deposits portfolio. We also look to identify new business opportunities and continue managing our loan book prudently.

BUSINESS & OPERATIONAL REVIEW

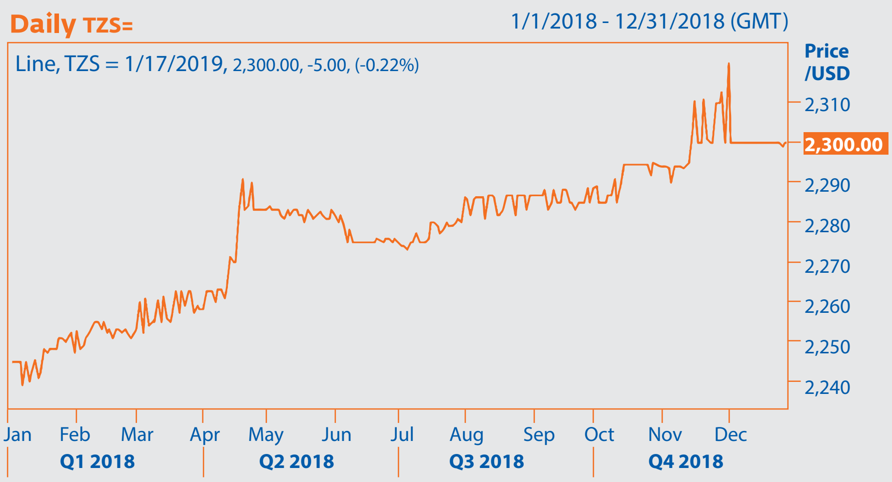
3. Treasury

For the year 2018, the Treasury department saw its year on year income drop by approximately 14.8% from TZS135 billion posted last year to TZS 115 billion. However, Foreign Exchange (FX) income reached TZS 20.9 Billion which is 23.6% higher compared to the previous year's figure, mainly owing to a pickup in market activities specifically in the retail space, card business as well as growth in key sectors such as tourism and transport. Bond Trading which was a new business line in the period under review recorded an income of TZS 1 billion for the year.

Asset Liability Management (ALM) income stood at TZS 93.17 billion, a year on year decline of 20%. The negative year on year growth was a result of a cumulative impact of lower interest rates compared to 2017 particularly in investment in the interbank market and government securities. Coupled with this was interest expense incurred from interbank borrowing by the bank from July to Mid-November 2018 due to liquidity shortage, and Tier 2 capital interest expense.

Overall, increase in credit extension to the public by banks resulted into most of the market liquidity flowing to the private sector. In addition, following successful consolidation of pension funds; their investment priority switched towards clearing past pensioners' gratuities, which limited their participation in government securities. This resulted into undersubscription of both Treasury bills and bonds during the year, putting upward pressure on interest rates. Overnight lending rates rose from 2.91% levels in December 2017 to 3.27% in December 2018. Likewise, T-bill yields witnessed a slight increase of 20 basis points on average although long term rates collectively fell by an average of 90 basis points during this period. However, it should be noted that this decline happened in the first half of the year with the second half seeing a reversal in rates as they started to rise, following the decline in investment flows towards Government securities.

USD/TZS EXCHANGE RATE GRAPH FROM Q1 2018- Q4 2018



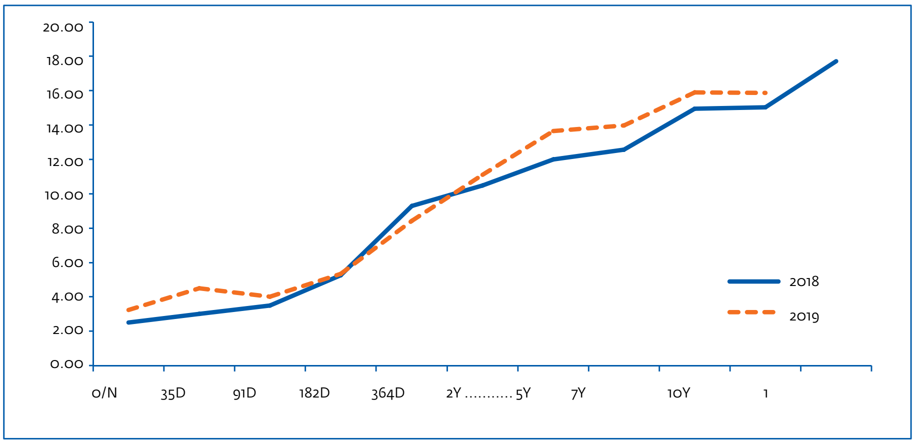
Source: Bank of Tanzania and Reuters

BUSINESS & OPERATIONAL REVIEW

In efforts to achieve the Bank's Vision 2020 of diversifying its revenue streams, NMB now has a Bond Trading desk and has just completed setting up Securities Services operations as well as Transaction Advisory Services(TAS). This was realized following the Capital Markets & Securities Authority (CMSA) decision to grant custodian and investment advisory licenses to NMB. The custodian business, once fully operational, will offer services such as safekeeping of securities; clearing and settlement of securities; corporate actions processing including interest and dividend collection; customized MIS reporting on clients' portfolios; proxy voting; together with sub-custody services to global custodians. Likewise, as an advisor, NMB seeks to offer capital raising & optimization advice, mergers & acquisition as well as strategy and market research to its customers both inside and outside the exchange within the confined guidelines of the CMSA and BOT.

NMB continues to have a long liquidity position, having its Loans to Deposits Ratio (LDR) and Liquid Asset Ratio (LAR) at 78% and 33%, respectively as at 31st December 2018.

TZS INTEREST RATES: DECEMBER 2017 & 2018



Source: Bank of Tanzania

4. Agribusiness

NMB is well positioned to utilize market opportunities in agribusiness in Tanzania by focusing on value chains for different crops. Our agri products have a broad range across the agricultural value chain. We finance input suppliers, small and large farmers, farmer cooperatives, agro processors, wholesalers, traders and exporters. Supporting the agribusiness sector creates wealth for Tanzanians as about 75% of employment in the country comes from agriculture related businesses. This is in line with the Government's efforts to reduce poverty and enhance income generation for the country's population, of which over 75% of its people are engaged in agriculture value chain. Key to success in NMB's agriculture financing has been the continuous investment in knowledge, new product innovations, and partnerships with key stakeholders, which ultimately results into a tailor-made pool of products that are relevant to market needs and agribusiness value chains.

Agribusiness knowledge and information to various stakeholders in agribusiness sector

To enhance knowledge and deeper understanding of the agriculture sector; our Food and Agriculture Research (FAR) unit within agribusiness banking has been established. Agriculture sector knowledge, market trends and price updates for selected agriculture commodities are provided through the research unit to staff and clients.

Capacity building to farmers groups

NMB Foundation for Agriculture Development plays an important role in relation to the development of active and sustainable smallholder farmer's organizations through capacity building trainings.

Products offered under NMB agribusiness banking

The Bank has devised a unique lending approach to agribusinesses for the last six years; and gathered a wealth of experience that makes NMB more competitive and knowledgeable in agriculture value chains finance in the market than its competitors. We offer tailor-made financing solutions to the agriculture sector. Currently products offered by NMB Bank through Agribusiness Department include:

1. Warehouse receipt finance
2. Out-growers loan schemes
3. Working capital/Overdraft credit facilities
4. Loans for smallholders, Emerging farmers, Commercial and Large farmers
5. Agri-machinery/investment loans
6. Current and Saving account
7. Tailor made solution to value chain actors.

Achievements

Assets: Agri portfolio was TZS 139bn as at end of 2018, a 45% increase compared to the same period in 2017.

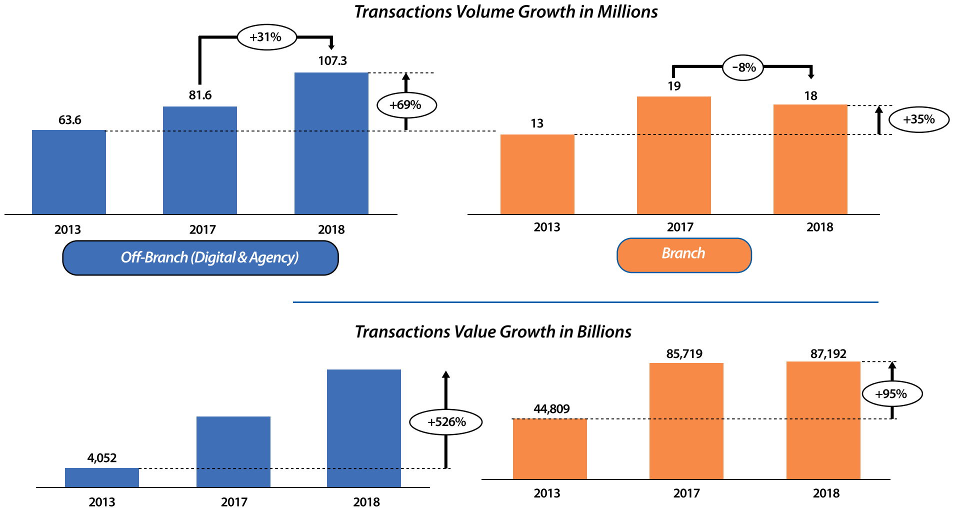
Liabilities: Agribusiness liabilities reached TZS 164bn, which is mainly from our relationship with strategic stakeholders and through innovative rural farmer financial inclusion. The growth of assets and liabilities is in line with NMB's strategy, Vision 2020.

BUSINESS & OPERATIONAL REVIEW

5. Digital Transformation & Products

Innovation, digitization and Channels

Our business model is heavily reliant on innovation and digital channels to deliver cutting-edge innovative products and services to customers. We continue to see strong growth in transaction volumes and values across all our digital and self-service channels such as internet banking, mobile banking, Agency network and merchants.



Digital channel transactions account for 86% of all transactions done in NMB and have grown year on year by 31% while branch transactions dropped by 8%. The value of transactions processed by self-service channels have grown by 68% year on year.

On the electronic payments, transactions volumes grew by 37% and values grew by 40% year on year.

Our digitization strategy is based on customer centricity, evidenced by our new mobile App (KLik) launched mid 2018 enabling customers to do banking on their own, revolutionizing money transfer, self-account opening, salary advance loan, Scan-to-pay and many more payment / transfer options with customers having greater control and freedom to manage their bank accounts right on their mobile phone.

We not only innovate internally, but we have also enabled third party systems to

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leverage off our banking platform and banking tools to reach their target markets specifically on cash management, collections and payments. In addition, these third parties maintain collection accounts within NMB, therefore improving our deposit position.

Significant growth has been achieved in volumes and values of collection transactions driven by the Government's push for electronic payments through GePG. Billers integrated through NMB grew from 302 in 2017 to over 500 in 2018, where the collection turnover grew from TZS 720bn in 2017 to TZS 1.63 trillion in 2018 a 127% growth. On the electronic payments, transactions volumes grew by 37% and values grew by 40% year on year.

Card and Merchant Solutions

NMB integrated omnichannel network operates in synergy with the Bank's products and services including card business. We have a widely recognized range of cards in Tanzania to meet the needs of our customers that include business debit card, mass-market debit cards and high net-worth debit card as cash-free payment solutions.

Salary Advance
Our instant loan through mobile banking was a successful innovation which allow retail customers to apply for loans against their salaries instantly. It was public launch Jul' 2018. We have issued 551,976 and disbursed Total amount of 76Billion

Scan to Pay
Through a strategic partnership with Visa and Mastercard, we implemented an easy, fast, secure mechanism to merchants and our customers. Public Launch - Aug' 2018 | Target: Facilitate cahsless society Number of Transactions: 4,135 | Transaction Value: 97 M

Wakala Loan
To extend the services we offer to our 6,000 Wakala's we created a product through their mobile phones. Currently completed 90 days pilot run with 100 Agents

NMB KLiK App
Our mobile app is an industry leading banking application and offers over 100 services to oru customers. Public launced: Aug\ 2018. We have achieved over 110,000 dowloads with an active user base of 50%. The total trasnsaction value: 30Billion transacted through the platform

Open Acount Chap Chap
We launched a new way for customers open accounts via their mobile at their own convinience. This pioneering innovationwas lauched in Aug' 2018 with a target increase financial inclusion and making account opening process seamless. Total number of accounts opened 81,119 Deposit Balance as of Dec. 2018 was 50Million

Fixed Deposit via Mobile
We introduced mobie fixed deposit account capability which allows customers to create a fixed deposit where they can benefit from competitive interest rates.

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During the year under review, the card business recorded revenue growth of 17% (TZS 4.9bn). Our card base has increased by 46% during the period under review. In order to meet a full range of card needs of our customers, NMB will launch in early 2019 additional card products, we will also extend acceptance through e-commerce gateway and Union Pay International (UPI).

Technology Infrastructure and Cyber Security

To support our digital agenda, the bank invested in a tier 3 data center commissioned in 2016. Our channels support systems including digital channels, Agency and branches uptime was 99.98% in line with our strategy to deliver the best services to our customers 24/7.

The prevalent threat of cyber-attacks on financial institutions remains one of our top focus. Data protection and governance are cornerstones for customers' trust in the banking sector, and are critical enabling factors for innovation in a digital economy.

We have in place a well-defined cyber security approach, well executed, independently confirmed by our external auditors on annual basis to give confidence to our customers.

6. Human Resources

In 2018, the department implemented a number of actions to revitalize the bank's leadership development initiatives. We deployed different programs aimed at creating "Fit for Purpose" and "Fit for Growth" Leadership Talent pipelines. These programs included Branch Manager's Academy Leadership launch, New Branch Managers leadership Training, Zonal Managers Exposure Program, Gordon Institute of Business Science (GIBS) Women in Leadership Program & Rabobank Talent program 2018 & attachment Program at ZANACO (A bank in Zambia) in areas of credit.

In addition HR utilized E-learning as a key driver to deliver training, which impacted the learning experience, hence reducing indirect costs. This has been realized through initiatives such as implementation of blended learning programs which have reduced the number of days spent in classroom sessions e.g. Credit Skills. During the year, we introduced pre-assessment and pre-training activities to prepare staff for learning as well as post learning programs to keep traction of staff learning.

To drive productivity, 96% of all staff had signed their objectives linked to the bank's strategy, Vision 2020, and performance has been managed as per our performance management policy. The Bank achieved approximately 83% of its sets goals. This sets an expectation that 83% of the overall performance is at satisfactory rate. Furthermore, the branch network's competence framework has been developed to define the blueprint for staff growth and enhanced performance within the bank.

Head count growth was under control and within approved budget. Total headcount stood at 3,450 against approved headcount budget of 3,501. This enabled our Bank to have a positive business continuity and being the most profitable Bank in the market.

BUSINESS & OPERATIONAL REVIEW

As change champions on rationalization aspects, HR successfully ensured closure of all branch headcount re-alignment actions by providing all the necessary advisory support to realignment teams and Championed employee engagement and ensured staff morale was maintained.

Throughout the year, the bank continued to push for gender diversity, especially in leadership positions. The overall gender parity is at 47.1% women and 52.9% men, implying a 0.1% increase in women's Head count in Q4 2018 compared to the same time in 2017. However, currently women in leadership positions comprise 29%, a 2% increase compared to the same time in 2017.

Leadership Programs
Branch Manager's Academy Leadership launch, New Branch Managers leadership Training, Zonal Managers Exposure Program, GIBBs Women in Leadership Program & Rabobank Talent program

Medical Insurance
The sensitization was a huge success and it was accomplished in less than 14 days for the entire Bank network.

Gender Diversity
The overall gender parity is at 47.1% women and 52.9% men, implying a 0.1% increase in women's Head count in Q4 2018

E-learning
Implementation of blended learning programs which have reduced the number of days spent in classroom session

HR Call Centre
To optimize HR services, a dedicated HR call center unit has been designed to enhance turnaround time for queries.

BUSINESS & OPERATIONAL REVIEW

7. Credit Department

Similar to 2017, the year 2018 was not an easy year for NMB in the credit area. However, the bank was able to reduce its Non-Performing Loans (NPL) ratio from 6.43% in 2017 to 5.88% in 2018; this ratio was well below industry average which was above 10%. The customers who faced challenges in their repayment capacity fell under the following sectors: trade, construction and transport. Some customers with micro and SME loans also felt the impact. In addition to measures taken in 2017, a number of credit management measures were introduced to deal with the situation.

The Special Assets Management (SAM) department is being enhanced to accommodate the customers under stressed condition, who need special attention. The Loan Centre department is well in control of the Salaried Workers Loans that constitute a significant proportion of the bank's loan book. In addition to the above initiatives, the Credit department conducts regular portfolio views to enhance visibility of portfolio trends for timely remedial actions.

The Credit department collaborates with the Risk department in matters of policy and risk management such as Bank's Risk Appetite Statement and Stress Testing processes under the oversight of the Board. The department focus for year 2019 includes but not limited to automation of various processes in order to improve further on turnaround time and on proper end-to-end credit risk management.

Successful initiatives in 2018 include the launch of the salary advance, a mobile product without human intervention for salaried workers whose employers have a contract with NMB. Going forward, the credit department will continue to closely monitor the loan book by perfecting its processes while adhering to all prescribed regulations and internal policies.

8. Internal Audit Function

Positioning

The Internal Audit Function (IAF) has dual reporting; functionally it reports to the Board of Directors and administratively to the Managing Director. The Function is led by the Chief Internal Auditor. The IAF helps NMB Bank Plc to accomplish its objectives by independently bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal controls, and governance processes. The function provides assurance and consulting activities to the Board and Senior Management based on the actual audit work and business monitoring.

Internal Audit Mission

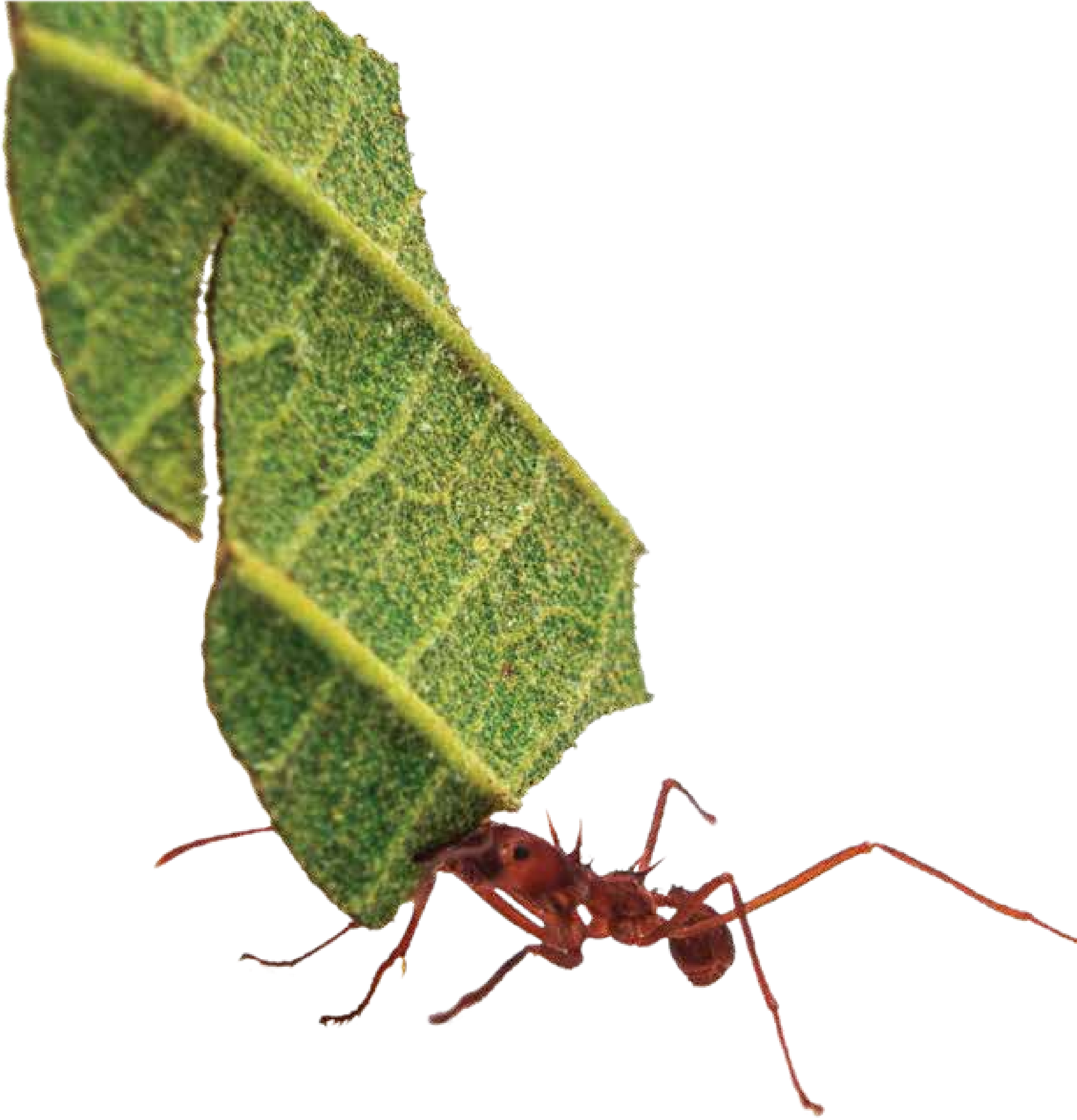
The mission of NMB Internal Audit is to enhance and protect NMB Bank Plc value by providing risk-based and objective assurance, advice, and insight.

Internal Audit Process and 2018 Performance

The NMB Internal Audit Function has adopted a Risk-Based Audit approach where the Annual Audit Plan is driven by a robust risk assessment. The Annual Audit Plan takes into consideration the results of risk assessment, expectations of the key stakeholders, business strategy, emerging risks, and regulatory requirements. In addition, the plan remains flexible to ensure that emerging risks are taken into consideration and incorporated into the assurance activities

The IAF performed the audits in 2018 based on the Annual Audit Plan approved by the Board of Directors and in line with the International Professional Practice Framework (Standards) issued by the Institute of Internal Auditors (IIA). The IAF reports to the Board on the progress made on the execution of the audit plan and significant audit issues identified on a quarterly basis.

The Internal Audit Function continued to utilize technology and Data Analytics in the audit process in order to remain relevant and provide more insight to the Board and Management. The Function continued to play a commendable role in the provision of assurance and improvement of control environment within the bank. The IAF completed ALL audits planned for the year 2018 and provided value add and insightful recommendations to Management and the Board.



Corporate Social Responsibility

...it's about a relationship

The culture of NMB is formed by its people and the choices they make and to our values-based culture. The tone from the top it's always been more than just banking, but always remembering to give back through CSR initiatives to enable us to be accountable to ourselves, stakeholders and the public in general.

CORPORATE SOCIAL RESPONSIBILITY

Overview

Investing in a culture that values good corporate citizenship continued to be our focus in 2018. During the year, we also expanded the scope of our CSR work which continues to go from strength to strength. The CSR Committee constantly reviews and enhances our strategic plans, always making sure that they are in line with the evolving society and meet the demands of an ever-changing market.

Corporate social responsibility (CSR) is very much embedded in NMB's culture. It underpins our attitude as a business and our approach to how we live our values: Customer Focus; Integrity; Compliance and Ownership. As an organization we have led the way with a range of CSR activities for a long time, overarching all of this is a commitment in practice, to allocate 1% of our profit after tax towards CSR. We also align our CSR activities with the objectives listed in the bank's Vision 2020 welfare plan.

Key focus in 2018

We are long-time supporters of the Country's community development initiatives and are proud to be involved in a diverse range of social and economic activities that serve broad community audiences. Our aim is to continue supporting the great communities on our doorstep and nationally with our strategy centers on three pillars: Financial Capability, Education and Health.

EDUCATION

Overall goal: To help create enhancing learning environments for children to access and stay engaged in schools for their future opportunities. Significant improvements in practice have been progressively seen in schools, and student engagement in learning is improving.

Key results in 2018:

- Over TZS 500 million spent on providing over 10,000 school desks to 200 primary and secondary schools in the country
- 150 used computers were donated to support primary and secondary schools
- Provision of laboratory stools as well as gas systems for secondary schools
- Significant upgrades were made to the existing facilities- 92 classrooms were constructed at the roofing lever.

In 2018, we maintained our focus on education programs and initiatives that we know are making a positive difference in primary and secondary schools, to ensure efficiency and effective operation. We also addressed the issue of inadequate school desks, laboratory stools and computers for ICT classes. The bank also provided learning devices

CORPORATE SOCIAL RESPONSIBILITY

for people with disabilities in order to contribute in creating the right conditions for children and young people to progress in attaining education.

As a bank, we continue to work closely with the Government through the President's Office – Regional Administration and Local Government (PO-RALG) supporting the free education initiative to develop a shared vision for a more learner-centric education environment. In fulfilling this mission, NMB spent over TZS 500 million to improve the learning environment for young children in more than 200 schools providing over 10,000 school desks. We managed to reach more than 30,000 students countrywide and helped to increase attendance, especially in remote schools such as Mwasanga, Hekima, Tambaza, Mwenge,Tandika,Msimbazi mseto ,Busumi, Nyasato, Nata, Mugabe, Wino, Mabatini and many more.

In recognizing the potential of ICT as a tool for improving education delivery, 150 used computers were set aside to support primary and secondary schools in the country; both in Tanzania Mainland and Zanzibar. Up to the end of the year, 150 computers were distributed to secondary schools such as Chief Ntinginye, Mwanhuzi, Rwiga, Same, Nyamisa, Nyandoto, Mwamishali, Nanda, Bweranyange, Ihembe, Buhare, Dakama, Mwanzi, Masa and many more across the country. To magnify the impact of our computer donation program, we partnered with Halotel to provide internet connection (fibre) to schools where we donate our computers. Work is also under way to ensure schools with no Power also obtain power from solar power installation providers to ensure that children have the digital technology they need to support their learning.

HEALTH

Overall goal: To ensure essential and optimum health facilities are available for our customers, stakeholders and our communities. To enable that, we provide complete set of hospital beds, delivery beds and child and mother neonatal kits.

Key results in 2018:

TZS 300 million was spent on complete sets of hospital and delivery beds to 60 hospitals. Provision of health services in Tanzania is the joint responsibility of national, NGO's, Local Governments as well as Institutions. Good health care is one of Tanzania's development priorities, the Government has set a budget to support construction and renovation of health facilities especially in rural areas (To be able to provide quality health services). Community leaders are urged to ensure availability of health center/dispensary to improve maternal health and avoid walking a long distance seeking for health services.

As a good partner, NMB has always been committed to supporting the initiative by providing delivery beds/delivery kits to those health centers. A budget of TZS 300 million was allocated to support the health sector, 60 hospitals benefited with complete sets of hospital beds and delivery beds. Beneficiary hospitals include: Magomeni hospital, Muhimbili hospital, Benjamini Mkapa hospital, Butimba hospital, Nsola hospital and Ruangwa hospital.

CORPORATE SOCIAL RESPONSIBILITY

FINANCIAL CAPABILITY

Overall goal: To foster financial knowledge, skills, attitudes and behaviors of children/youth by helping them understanding the importance of saving and equipping them to act with confidence on financial management through Wajibu program.

Key results in 2018:

Reached more than 41,871 youth and over 600 facilitators across the bank have signed up as Wajibu facilitators

Given the importance of financial inclusion to the youth segment and young people, NMB launched a youth banking program (Wajibu) in 2016. The program's objective is to promote initiatives which target the provision of adapted, accessible and affordable financial services. Implementation is done through Jifunze, Jipange and Wajibika sessions to youth with a view to empower them and build their financial capabilities.

Through different channels, young people learn about diverse financial aspects including budgeting, planning, as well as how to differentiate between needs and wants. The programs also educate the youth on saving options such as the three Wajibu accounts offered by NMB (Mtoto Akaunti, Chipukizi Akaunti and Mwanachuo Akaunti). Since inception, the Wajibu proposition has reached more than 41,871 young people across Tanzania. Within the bank, over 600 facilitators have signed up as Wajibu facilitators to help deliver the sessions in schools and they are given refresher training to improve their capacity.

The Wajibu proposition is implemented through a partnership between NMB and Women's World Banking (WWB). The project is funded by FSD-Africa. The progress of the Wajibu school sessions is tracked through the branches conducting Wajibu sessions, youth participation in sessions and conversion rate.

In 2018, we have seen much progress in Wajibu savings and financial education as a result of FINSCOPE report and collaborative work done by partners (World Women's banking and funders FSD-Africa) together with Government support, we actively pursued the 2020 strategic plan to facilitate and improve Wajibu performance. We are delighted with the working relationships we have built with both the public and private sectors. Furthermore, we continue to advance our role as a thought partner to both these sectors in our pursuit of advancing financial inclusion in Tanzania.

In addition to the educational programs mentioned above, the following key events took place under the Wajibu initiative in 2018

- Family Exhibition: The bank participated in Saba Saba exhibition and had a Wajibu corner providing brief financial education trainings to parents and youth, free account opening of NMB Mtoto account and NMB Chipukizi account was offered. We were able to open 4,203 new accounts with 1,258 standing order instructions.

CORPORATE SOCIAL RESPONSIBILITY

- Wajibu school club: Work collaboratively with Learning and development team on a school club initiative after a pilot which was done with 20 schools. These clubs are meant to complement the normal Wajibu classroom sessions and enhance sustainability and ownership of the lessons to young people to develop their capabilities to improve their financial prospects.
- Bring your child to work: In line with the celebrations of International African child Day which is celebrated June 16th every year – NMB staff together with their children had an opportunity for a quick financial education session and Free Wajibu account opening at NMB premises when parents brought their children to see our work premises during the "BRING YOUR CHILD TO WORK DAY".

Natural Disaster Recovery

In 2018, Tanzania was hit by several natural disasters, leaving thousands of people in need of support. NMB extended a helping hand to the victims affected by heavy wind which wiped away roofs at Tandahimba secondary school, Kipeta secondary school in Sumbawanga, Nangano primary school in Liwale and fire outbreak at Lanzoni School in Tanga also the ferry tragedy in Ukerewe. To reduce risks of disaster, we partnered with SUKOS Foundation- who came up with risk reduction initiatives that are meant to support communities on disaster preparedness and reduce risks associated with it. The aim is to improve living environment and enhance quality of life by reducing exposure to hazards and minimize effects to people and property. A total of TZS 90 million was spent in disaster recovery initiatives bringing relief to the affected communities.

Employee Engagement

The bank fosters different connections to help accelerate community welfare by advancing positive social and economic impact. NMB engages with internal and external stakeholders and leads CSR activities, which are aligned with standards set by the NMB CSR goals.

Our people are passionate about sharing their time to help others in the community, and we ensure everyone has time to participate in building surrounding communities, so we offer support to volunteer through a program we call CSR staff initiative. Through this program, NMB CSR matches volunteer employee donations for amounts up to TZS 1 million. In 2018, we matched a total of TZS 400 million for initiatives that over 3500 staff (100%) participated in.

In recognition of employee feedback of a strong desire to create a stronger connection with the communities we work with, 2018 saw the development of a more dedicated strand of volunteer work. This included opportunities for staff to give out good condition toys, shoes, cloth, and libraries for charities through the "DONATION BOX" initiative, implemented at our offices.

CORPORATE SOCIAL RESPONSIBILITY

We demonstrate our commitment to broader society through partnerships which cover a wide range of activities, from engagement with local communities located near our sites to our extensive participation. We partnered with Let's Do It- Tanzania to commemorate World cleanup day, over 2,000 staff from across the bank participated in various cleanup activities in markets, beaches etc.

Our staff also responded to the high demand of blood at Muhimbili National Hospital Mloganzila campus by voluntarily donating blood to save thousands of lives. Staff donated about 54 liters of blood, saving 207 patients.

Through our CSR programs, we plan to continue providing assistance in our three priority areas of health, education and financial capability. In the coming years, we will broaden our partnerships with individuals and institutions operating in the three areas with the hope of empowering more Tanzanians through commercially viable and sustainable solutions.

We are proud of the progress we have made to date and look forward to building on these strong foundations as our business continues to grow. For additional details and up-to-date NMB CSR news, please visit the CSR section on our website: www.nmbbank.co.tz

Corporate Governance

Our Approach!
As the leader and a diversified institution with a goal to support its stakeholders via a commercially successful business that generates long-term sustainable returns.

RISK REPORT

NMB is guided by its values and its mission to be the preferred Tanzanian financial service provider in both urban and rural areas. A proper Risk Management Framework to underpin this objective is therefore imperative. NMB's Risk Management Framework is geared towards three key objectives, namely:

1. Safeguarding its identity and reputation
2. Protection of profits and growth
3. Maintaining solid balance sheet ratios.

NMB has adapted an Enterprise Risk Management (ERM) framework to help the bank deliver on its key targets and objectives while ensuring that risks and uncertainties are kept to within certain limits of tolerance as defined within the bank's Risk Appetite Statement. Our ERM Strategy is very much Board and Management level-driven - the aim being to minimize downside risk and capture as much upside risk as possible in our daily operations by standardizing our risk management framework and its related processes throughout the bank.

NMB's Risk Appetite Statement is aligned to the bank's annual budget process, which in turn is aligned to the bank's Medium Term Strategy. It serves and acts as a guardrail to ensure that at any given time the actions of Management and staff during the course of the bank's operations do not exceed allowable levels of risks that could result in material losses to the bank. The ERM process gives reasonable and not absolute assurance, however, against material loss.

The Chief Risk and Compliance Officer (CRCO) at NMB is tasked by Management and the Board with the responsibility of establishing and overseeing the bank's ERM framework. What follows in this document are further details of the ERM process as adapted by NMB, plus the bank's Risk Profile for 2018.

NMB Risk Profile

NMB defines risk as a potentially negative impact on the bank's value that can arise due to internal processes or future internal or external events. The concept of risk includes the probability that an event will occur and the impact it could have on the bank's results, equity or value. The main Principal Risk categories for NMB correspond to those defined by the Bank of Tanzania's Risk Management Guidelines 2010, and consist of Operational Risk, Credit Risk, Liquidity Risk, Market Risk, Compliance Risk and Strategic Risk at the key categories. The following table encapsulates NMB's risk profile, and risk management processes and mechanisms.

RISK REPORT

Description	Risk Profile	Risk Management Measures
Credit Risk The risk that a borrower will fail to meet their contractual obligations to NMB and the risk that pledged collateral will not cover the claim. Credit risk also includes counterparty risk, concentration risk and settlement risk.	NMB experienced some significant credit risk-related impacts in 2018. NMB has a well-diversified and balanced credit portfolio with a lower-than-industry-average risk profile. Lending to the public consists largely of Salaried Worker's Loans (SWL's), with a growing portfolio of loans to large corporates and small and medium-sized companies with a low to moderate risk level. Historically NMB's overall NPLs have been well below the banking industry average for Tanzania. Setbacks in the loan book experienced in 2018 were mainly related to difficulties by a select few of our large borrowers to service their debts as per their contractual obligations. 2018 saw an increase in the number of amounts set aside by the bank as impairment, and this was to a large extent driven by the new IFRS 9 Regulation which calls for banks for the first time to impair for the performing loans as opposed to only the non-performing book.	Responsible lending is critical to a well-functioning bank. This means taking into consideration each customer's long-term finances, ability to repay and resilience. In recent years NMB has spearheaded a number of initiatives to improve its loan origination and disbursement processes, including automation of credit scoring and centralization of the disbursement process. Turn-around-times and efficiencies have subsequently improved. Through its Special Assets department NMB works proactively with customers who are facing financial difficulties, within the bounds of the bank's internal as well as regulatory guidelines. The bank's credit administration and other support functions have also undergone strengthening in recent years. Supporting the bank's lending posture is a clearly drafted and robust NMB Risk Appetite Statement and a strong credit governance framework with various levels of approvals needed for loans of different sizes and complexity. The apex credit decision-making committee is the Board Credit Committee, with other committees also existing to review smaller credit applications. Branches also have some discretion to autonomously approve certain credits up to closely monitored internal ceilings (limits).
Operational Risk The risk of losses resulting from inadequate or failed internal processes or routines, human error, system error or external events. Operational risk also includes legal risk and information risk (i.e. the risk of losses due to insufficient protection of information in terms of confidentiality, accuracy and accessibility).	NMB's Operational Risk profile is very stable. Operational risks occur in all businesses. It is not possible or cost effective to try to eliminate all of them. NMB's goal is to minimize the risks given the nature of its operations, strategy, risk appetite and market. Minor losses are a normal part of the bank's operations. The bank works actively to avoid larger losses and avoid incidents that affect large percentages of its customers, so such events are rare. When significant operational risk incidences do occur NMB always ensures that it has adequate insurance protections in place to deal with any related losses above a certain threshold. In an increasingly digitizing world, it is important for NMB to strengthen its cyber risk posture, and Management is well attuned to this fact. To minimize IT Risk, it is critical that the bank's employees are aware and prepared. Measures are taken on a routine basis to create awareness about the threat of cyber risk for both staff and customers. Measures aimed at continuously strengthening IT processes and routines are an incredibly important focus for Management. Security policies and procedures are also updated as threat scenarios change.	NMB has adopted an Enterprise Risk Management (ERM) framework to manage its various risks, including operational risk. People The bank has internal regulations to manage operational risk and works diligently to prevent incidents and losses from occurring. A variety of tools and measures are deployed as part of the bank's ERM framework, including the use of Risk Control Self Assessments RCSA's), control testing and conformance reviews by the Second Line of Defense, plus risk analyses and reporting with a focus on control improvement. Risk-reducing measures are discussed in the monthly Risk and Control Committee (RCC), which is chaired by the Chief Risk and Compliance Officer. The bank also has measures in place to perform control evaluation on a continuous basis and in connection with major changes in operations and product offerings. Systems Through Business Continuity Planning (BCP) the bank is prepared to minimize the effects of incidents as quickly as possible if and when they occur. NMB also has internal rules describing how information should be protected. Based on best international benchmarks and standards, and our own risk and threat analysis, we define adequate protection for various categories of information. In the realm of people-related operational risk, talent retention and career development are key, as is succession planning for key individuals and roles. Management, through the HR department, has robust policies in place to achieve this. The bank also has strong strategies in place to deal with the threat of fraud - whether internal or external in nature.

RISK REPORT

Compliance Risk Compliance risk is the current or prospective risk to earnings, capital and reputation arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from incorrect interpretation of relevant laws or regulations. Institutions are exposed to Compliance risk due to relations with a great number of stakeholders, e.g. regulators, customers, counter parties, as well as, tax authorities, local authorities and other authorized agencies.	Given its heft and importance as a market leader in the Tanzanian banking industry NMB cannot afford to be perceived as a bank with uncontrolled compliance and regulatory risks. As per the bank's Risk Appetite Statement, NMB shall always strive to act in an exemplary manner and comply with all laws and of the United Republic of Tanzania as well as Central Bank regulations. Where applicable NMB will also fully comply with additional requirements of extraterritorial origin. As a matter of practice, NMB will always seek to maintain pristine relations with the full spectrum of its various stakeholders, including customers, counter parties, tax authorities, local authorities and other authorized agencies. Measures taken by Management on any given matter will also be aligned with NMB's values. Some of the notable updates in the Regulatory Compliance space for 2018 included the successful transition of the bank to a new Volcker Rule-related status (TOTUS) following the implementation of a trading book for the bank. NMB was able to successfully comply with all the requirements of this new status, and successfully undergo independent testing to ascertain the same. NMB also maintains a Registered-Deemed Compliant Foreign Financial Institution status under FATCA, while it began an internal project to ensure full compliance with EU General Data Protection Regulation (GDPR) requirements.	Compliance Risk is managed in a large number of NMB's Enterprise Risk Management processes, e.g. the New Product Approval Process (NPAP), but is also an integral part of the customer and vendor onboarding processes (KYC and CDD). Compliance-related issues and concerns are directed towards the Risk and Control Committee (RCC) and resolved to a large extent within the bank's ERM framework. NMB has a robust Compliance Department, overseen by a Head of Compliance who reports to the Chief of Risk and Compliance. The Head of Compliance is also the bank's Money Laundering Reporting Officer. The bank has a variety of tools and measures to review and interdict suspicious payments and screen for sanctioned individuals and entities.
Market Risk Market risk is the risk of losses in on and off balance sheet positions as a result of adverse changes in market prices i.e. interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exists in both trading and banking book. A trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book.	NMB's market risk profile is still relatively low, but increased slightly in 2018 due to the commencement of Trading Book activities, although the net quantum of risk is kept to a very manageable level by the usage of limits (VAR, PV01) backed by stringent monitoring.	Market risk at NMB is overseen day-to-day by the Treasury department with close monitoring by the Middle Office (Market Risk team). A number of tools are used to control this risk e.g. system limits, dealer mandates etc. There is also close monitoring and tracking of market risk issues in the monthly Assets and Liabilities Committee (ALCO).

RISK REPORT

Strategic Risk Strategic risk is the current and prospective impact on earnings, capital, reputation or good standing of an institution arising from poor business decisions, improper implementation of decisions or lack of response to industry, economic or technological changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed to meet these goals and the quality of implementation.	At NMB, strategic risk is viewed from the vantage points of positioning and execution. The bank has a medium term strategy (Vision 2020), which calls for the bank to deliver in a number of areas and in line with certain financial and growth targets. Given recent headwinds which have had an impact on the bank's financial results in 2018 Management has re-calibrated and adjusted its plans accordingly. NMB will also start defining the strategic objectives for the new strategic plan.	Strategic Risk at NMB is at the forefront of Management and the Board's thinking at NMB. The bank is focused on delivering on its Vision 2020 targets, but is also now recalibrating some of its assumptions based on recent headwinds and events. Regular Strategic Risk sessions are conducted at Management and Board Level, facilitated by the Chief of Risk and Compliance and with key participation by all members of the Management Team led by the Managing Director.

BOARD OF DIRECTORS

Prof. Joseph J. Semboja | Board Chairman

Prof. Semboja was appointed to join the NMB Board of Directors on 2 May 2012. He is an acknowledged leader in the field of development economics, with extensive research experience in the areas of growth and poverty reduction. Within the Sub Sahara region he is widely known for his contribution in institutional development and for promoting research and capacity for policy development and implementation. He has an extensive network of individuals and institutions operating in differing environments both nationally and internationally. He holds a B.A and M.A from the University of Dar es Salaam, M.SC and Ph.D. from the University of Illinois, Urbana-Champaign.

Prof. Semboja has chaired several organizations including; Tanzania Sisal Board, Business Times Ltd and Akiba Commercial Bank. He also sat in the boards of Southern African Regional Poverty Network (SARPN), REPOA, National Productivity Council (NPC), Tanzania Revenue Authority (TRA), Advisory Council for Scientific Research Development Problems (RAWOO) based in the Hague, Holland, Bank of Tanzania, Small Entrepreneurs Loans Facility Project (SELF), Tanzania Social Action Fund (TASAF), Institute of Finance Management (IFM), NMB Bank (NMB) (resigned when privatized).

Ms. Ineke Bussemaker | Managing Director

Ms. Bussemaker is the Managing Director of NMB, a role she formally assumed on 25 May 2015. She was appointed a Director of NMB at an AGM in June 2015 for the duration of her term at NMB as Managing Director. Prior to her current position, she was the Head of Payment Services & Savings for Rabobank where she was responsible for all product development and operations of payment products and savings in The Netherlands. Ms. Bussemaker has 30 years of experience in banking having held senior positions in corporate banking, as country manager and in transaction banking at Citigroup and ABN Amro and has worked in the United Kingdom, Denmark, Ireland and the Netherlands.

She holds a Masters in Business Administration (MBA) in Business & Information Technology from the Rotterdam School of Management and a Bachelor's degree in Mathematics from the University of Leiden in The Netherlands. She speaks fluent Dutch and English and is conversant in French and German.

Jos van Lange | Non-executive Director

Mr. Jos van Lange is an Economist by profession and is currently independent supervisor and advisor of several institutions (Finance, Health and Education). Up to 2017 he was the Chief Executive Officer of Rabo Real Estate Group, the international real estate company of Rabobank. Prior to this role, Mr. Van Lange was Chief Financial & Risk Officer of Rabo Real Estate Group. Before his real estate positions, he was director of Retail Banking of Rabobank in the Netherlands. Jos van Lange has been Senior Executive Vice President of Rabobank since 1st February 2002 and served Rabobank in diffferent positions since 1980.

BOARD OF DIRECTORS

Mrs. Margaret Ikongo | Non-executive Director

Mrs. Ikongo is an independent consultant in Insurance and risk management having previously worked at the National Insurance Corporation (NIC) and Tanzanian Insurance Regulator Authority (TIRA). At NIC she was the Managing Director and at TIRA she served as a special advisor to the Commissioner of Insurance.

She is an Associate Member of the Chartered Insurance Institute, UK and a Certificate Member of the Institute of Risk Management, UK. Mrs. Ikongo also holds an Advanced Diploma in Insurance, a postgraduate Diploma in Finance Management and MBA (Finance) from the Open University of Tanzania. She has served as a director in various boards in Tanzania and Africa.

Christine Glover | Non-executive Director

Ms. Glover was appointed to join the NMB Board of Directors in June 2018. With over 30 years' strategic and operational experience in housing and development finance, she has held several leadership roles in the reputable firms where she was responsible for among other things designing financial housing products for the low-income sector, project managing housing development and structuring institutions such as banks and investment vehicles. Until November 2017, Ms. Glover was the head of development impact funds, a position she had held since October 2007.

Ms. Glover holds a Masters in City and Regional Planning from the University of Cape Town and a Honours degree in Art and Architectural History from the University of South Africa.

Leonard C. Mususa | Non-executive Director

Mr Mususa was appointed to join the NMB Board of Directors in June 2015. He is an Accountant by profession, registered with the National Board of Accountants and Auditors as a Fellow Certified Public Accountant (Tanzania) and a Fellow of the Association of Chartered Certified Accountants (UK). Mr. Mususa retired from PricewaterhouseCoopers (PwC) in June 2014, where he worked for 36 years and gained experience in various areas, including transaction services, corporate governance, financial reporting, risk management and control. He served as Country Senior Partner of PwC (Tanzania) for 14 years. He also served in other roles as Head of Assurance Risk and Quality in the PwC Africa Central region (covering 9 countries) and Head of Risk, Independence and Quality in East Africa Market Area (covering 6 countries).

Mr Mususa also holds directorships in diverse companies in financial, manufacturing, commerce and media sectors, including Tanzania Breweries Plc, Nation Media Group, Reliance Insurance Tanzania Limited and AutoXpress Tanzania Limited.

BOARD OF DIRECTORS

Mathias Magwanya | Non-executive Director

Mr. Mathias C. Magwanya has twenty years' experience in auditing and has carried out various due diligence assignments. He holds a Bachelor of Commerce in Accounting from the University of Dar es Salaam and Master of Business Administration in Corporate Management from Mzumbe University.

He currently works as Chief Internal Auditor of TANROADS and is a member of the Institute of Internal Auditors - Tanzania. Mr. Magwanya was nominated by the Government of Tanzania to replace Mr. Mike Laiser on 8th November 2017

Dr. George Mulamula | Non-executive Director

The founder and CEO of DTBi, the only Tech Incubator/Accelerator supporting entrepreneurship & innovation in Tanzania. Mr. Mulamula is also the Senior Government Advisor on Information Communication Technology (ICT) Entrepreneurship & Innovation for an enabling environment and eco-system for ICT entrepreneurship growth. Prior to that he was the first Principal Deputy Chief Executive Officer (PDCEO) of the Rwanda Development Board (RDB) and Senior Advisor in the Ministry of Commerce & Industry and worked on their SME and Entrepreneurship Policy.

George Mulamula was for over 8 years the first Africa Technical Expert in Intellectual Property (IP) Automation with the World Intellectual Property Organization (WIPO), based in Geneva, Switzerland and worked with Sub-Sahara African Governments on the utility of ICT in IP. He also was a catalyst in transforming the African Advanced Level Telecommunications Institute in Nairobi, Kenya to be a Centre of Excellence while he worked there. For over 15 years he has taught at various Higher Learning Institutions in the region, consulted with international and regional organizations, and also involved in policy formulation for innovation & entrepreneurship in ICT. He has run ICT companies and has written extensively on ICT, Technology Transfer for Sustainable Development.Mr. Mulamula holds a Phd in ICT Technology Transfer and a Masters in Computer Science from the City of New York University.

Mrs. Lilian Komwihangiro | Company Secretary

Mrs. Komwihangiro has been with NMB for over 10 years. Having previously worked at various law firms including Maajar, Rwechungura and Kameja Advocates, FK Law Chambers and as a legal consultant at PricewaterhouseCoopers; she has over twenty years of working experience in the legal field and is also an Advocate of the High Court of Tanzania.

Mrs. Lilian Komwihangiro holds a Bachelor of Laws degree and Master of Laws in commercial and business law, both from the University of Dar es Salaam. She also holds an MBA in Executive Management from the Eastern and Southern African Management Institute (ESAMI).

BOARD OF DIRECTORS

We believe in adopting the best practices in Corporate Governance. The Board, Management and NMB employees are committed to upholding the core values of transparency, integrity, honesty and accountability, which are fundamental to the attainment of good governance and excellent performance in any organisation. Good corporate governance principles are accepted as the drivers of improved corporate performance throughout the world. Responsibility for overseeing the proper implementation of good corporate governance rests with the directors.

i. The Board of Directors

Functions

The Board is responsible and accountable for providing effective corporate governance, direction and control of the company. The directors have a duty to exercise leadership, enterprise, integrity and judgment based on transparency, fairness, accountability and responsibility.

The Board is responsible for appointing Management, adopting a corporate strategy, policies, procedures and monitoring operational performance including identifying risks impacting the company. It is also responsible for managing good relationships with all stakeholders.

Composition

In 2018 the Board of Directors was made up of seven non-executive directors and one executive director with a mix of skills, experience and diversity.

Appointment

The appointment of directors is regulated by the Memorandum and Articles of Association of the Company, as well as the guidelines issued by the Bank of Tanzania (BOT) and the Capital Markets and Securities Authority, pursuant to the Banking and Financial Institutions Act 2006 and the Capital Markets and Securities Act 1994, respectively. Shareholders with more than a 10% stake in the share capital of NMB are entitled to nominate one director for every 10% of the shares held by them. The names are presented to the AGM for ratification and appointments are submitted to BOT for approval.

All non-executive directors are subject to retirement by rotation and re-election by shareholders periodically in accordance with the articles of association. Rotation is staggered to ensure continuity of experience and knowledge. The number of terms an individual may serve is not limited. The Companies Act 2002 requires that directors retire at the age of 70 years, however there is a provision in the law for re-election.

Resignations

In the year 2018, Directors Albert Jonkergouw and Protase Tehingisa retired from the Board. Directors Christine Glover, George Mulamula and Mathias Magwanya were appointed to the Board at the AGM in June 2018.

BOARD OF DIRECTORS

Board meetings

The Board meets quarterly, with additional meetings convened as and when necessary.

During 2018, the Board and its committees met to discuss and decide on the business activities. The Board Committees act on behalf of the Board to direct the bank effectively and accelerate the decision-making process. The four Board committees are: the Board Executive Committee (BEC), the Board Audit, Risk and Compliance Committee (BARCC), the Board Human Resources and Remuneration Committee (BHRRC) and the Board Credit Committee (BCC).

The number of meetings held over the course of the year is given in brackets:

- Board of Directors (10)
- Board Executive Committee (4)
- Board Audit Risk and Compliance Committee (9)
- Board Human Resources and Remuneration Committee (5)
- Board Credit Committee (9)

Members of the Board and respective committees as at 31st December 2018 are shown in the table below:

S/No.	Name	Main Board	BEC[1]	BARCC[2]	BCC[3]	BHRRC[4]
1.	Joseph Semboja	Chairman	Chairman			
2.	Leonard Mususa	Member		Member	Chairman	
3.	Christine Glover	Member	Member		Member	Member
4.	Jos van Lange	Member		Chairman		
5.	Mathias Magwanya	Member	Member			Member
6.	George Mulamula	Member		Member	Member	
7.	Margaret Ikongo	Member		Member		Chairman
8.	Ineke Bussemaker (MD)					

1 BEC (Board Executive Committee)
2 BARCC (Board Audit, Risk and Compliance Committee)
3 BCC (Board Credit Committee)
4 BHRRC (Board Human Resources and Remuneratin Committee)

BOARD OF DIRECTORS

Directors Evaluation

The Board regularly undergoes self-assessment and evaluation under the guidance of an independent party in order to improve the internal Governance of the Board and its Committees.

Training

Training is provided in order to ensure that the Board keeps abreast with current developments in the market. In 2018, a Data Analytics training was held for the Directors.

Relationship with Auditors

The Board Audit, Risk and Compliance Committee and the full Board held meetings with the external auditors to discuss these auditors' terms of engagement, audit plan, findings and various other issues during the year under review.

i. Board Committees

Board Executive Committee

The Committee assists the Board in fulfilling its oversight responsibilities in accordance with the Articles of Association of the Company. The Committee exercises the powers of the Board in managing the business and affairs of the Company during the intervals between Board meetings, when action by the Board is necessary or desirable but convening a special Board meeting is not warranted or practical.

Board Audit, Risk and Compliance Committee

The Committee assists the Board in fulfilling its oversight responsibility relating to the integrity of the bank's financial statements and financial reporting process, systems of accounting and financial controls; the annual external audit of financial statements, reporting and internal controls; performance of the Internal Audit, Risk and Compliance Functions; compliance with legal and regulatory requirements.

Board Human Resources & Remuneration Committee

The primary function of the Committee is to assist the Board of Directors in fulfilling its oversight responsibility to shareholders by ensuring that the bank has coherent remuneration policies and practices that fairly and responsibly reward executives and staff having regard to performance, the law and the highest standards of governance.

BOARD OF DIRECTORS

Board Credit Committee

The Committee assists the full Board in providing oversight in the management of credit risk by reviewing continuously the credit portfolio, credit standards and Credit Policy.

i. Company Secretary

The company secretary, Mrs Lilian Komwihangiro, provides support and guidance to the Board in matters relating to governance and ethical practices. She is also responsible for induction programs of new directors, keeping board members abreast of relevant changes in legislation and governance principles.

Communication with shareholders

The company recognizes that effective communication with stakeholders is essential to good governance. Following the publication of its financial results, it engages with investors to present the results and answer questions accordingly.

Shareholders are encouraged to attend the Annual General Meeting to be held on Saturday, 15th June 2019 at Julius Nyerere Convention Centre, Dar es Salaam and participate in the affairs of the company.

Corporate Information

Management Defined!

Fostering the right environment so that our people can flourish is critical to our success from our branches, the way that we hire, train, develop and retain our colleagues, and the day-to-day decisions that they make, are intrinsic to embedding our culture and in turn, delivering the best for our customers, clients and local communities.

EXECUTIVE MANAGEMENT

SALIE MLAY | Ag. BUSINESS HEAD RETAIL BANKING

Salie Andrew Mlay is a seasoned retail banker with over 20 years of experience in retail banking. Salie joined NMB since its establishment in 1997 and has held different roles including branch manager and zonal manager, a role he held before his appointment to act as the Business Head, Retail Banking. Salie holds a post graduate diploma in Business Administration from Institute of Finance Management (IFM) and an MBA in Banking from the University of London.

AZIZ CHACHA | TREASURER

Aziz Chacha joined NMB as the bank's Treasurer in September 2011 from Barclays Bank Tanzania where he had worked as the Country Treasurer. He holds an MBA from Manchester Business School of the University of Manchester, United Kingdom and currently serves in the Tanzania Bankers Association (TBA) financial markets technical committee. He has a wealth of experience in Treasury risk management, Treasury technology, capital markets/corporate finance, capital planning and balance sheet management and is a certified member of ACI-Financial Markets headquartered in France.

FILBERT MPONZI | BUSINESS HEAD WHOLESALE BANKING

Filbert has 16 years' experience in banking. Rejoined NMB Bank plc from NBC limited, a member of Barclays Africa Group and recently Absa Group, where he served as Retail Banking Director, where he successfully drove the strategy to include Personal and Mass segments and pioneered the Distribution Optimization (Branches, ATMs and introduction of Agency Banking).

Prior to joining NBC Limited, he held different senior positions within NMB Bank including Head of MSME, Business Banking, and Head of Corporate Banking (Large local, MNCs and Emerging Corporates). He brings a wealth of experience in Retail Banking, MSME, Corporate, and Agri Business. Filbert is also a member of the Board of Trustees of Social Action Trust Fund (SATF) an NGO helping Most Vulnerable Children to become productive members of the society. He also sitting as member of Investment Committee in SME Impact Fund.

Filbert is an Associate Certified Public Accountant (ACPA (T)) and holds a Bachelor of Commerce in Accounting (Hons) from University of Dar es salaam, and MBA from Eastern and Southern African Management Institute (ESAMI). Filbert also attended senior leadership courses in Harvard Business School (HBS) (USA) and Gordon Institute of Business Science (GIBS) in South Africa.

EXECUTIVE MANAGEMENT

PETE NOVAT | CHIEF DIGITAL TRANSFORMATION & PRODUCTS

Pete Novat is the Chief Digital Transformation and Products of NMB responsible for providing NMB clients in Tanzania a full range of financial products and services, delivered with unmatched convenience and an exceptional client experience. Pete directs NMB's digital delivery Channel network of ATMs and its award-winning digital banking platform that support millions of NMB's clients, including mobile banking users. Prior to his appointment as Chief Digital, Pete was the Chief Operating Officer for 4 years responsible for leading NMB Operations, Shared Services and Technology.

Pete has extensive financial services experience, having worked in the industry since the late 1990s. He spent 9 years at NBC Bank leading the team of Technology professionals before joining NMB in February 2013.Pete holds a Bachelor Degree (Hon) in Electronics and Communication Science from University of Dar es Salaam and a Certificate of Programme for Management Development (PMD) from Gibson Institute of Business Science (GIBS), SA.Communication Science from University of Dar es Salaam and a Certificate of Programme for Management Development (PMD) from Gibson Institute of Business Science (GIBS), SA.

SAIF AHMED | BUSINESS HEAD, AGRIBUSINESS

Saif Ahmed has over 24 years' experience in Corporate and SME Banking, Investment Banking, Commercial Agribusiness, FMCG and Consulting across East & West Africa, Asia and Europe. He also serves as a member of the Board of Directors and Technical Advisory Committee member of several banking and agribusiness related private & public associations including NGOs both locally and internationally. Prior to joining NMB in 2016, Saif worked with Equity Bank Ltd, Kenya where he served as General Manager of Agribusiness across 6 East African countries. He has a vast experience in several agribusiness value chains of tea, coffee, fruits, vegetables, edible nuts etc.

Saif holds a Bachelor's degree in Accounting and Economics, an MBA in Finance and Agribusiness Management from India and a Certificate in Agriculture Finance from Kenya School of Monetary Studies.

TOM BORGHOLS | CHIEF CREDIT OFFICER

Tom Borghols is the Chief Credit Officer of NMB, responsible for Credit, Special Assets and the bank's newly established Loan Centre, which manages the centralized processing of loans, including central disbursement. Tom has over 30 years banking experience having worked with ABN AMRO Bank, Fortis Bank and Rabobank. In his career he has held positions in the commercial and in the risk area, both in corporate and in retail banking. Working his way up from Relationship Manager to Branch Manager and Country Manager, Tom started his career in his native country

EXECUTIVE MANAGEMENT

The Netherlands, moved to Curacao in the Caribbean, and then to Kenya, Rwanda, Zambia. Prior to joining NMB five years ago, he had worked with the Banque Populaire du Rwanda and thereafter he was appointed to position of Director Risk at Zambia National Commercial Bank (ZANACO). Tom holds a Masters Degree in International Law.

VICTOR RUGEIYAMU | CHIEF RISK AND COMPLIANCE

Victor Rugeiyamu was appointed to the position of Chief Risk and Compliance Officer in April 2018. Prior to this appointment he acted in the capacity of the bank's Head of Risk, managing the Risk Department of the bank, a responsibility he had since he first joined NMB in 2009. In his capacity as the Chief Risk and Compliance Officer, Victor is responsible for oversight of the bank's Enterprise Risk Management (ERM) framework as well as the management of the bank's overall risk posture and appetite. He is also responsible for overseeing NMB's Compliance, Market Risk, Enterprise Risk, Operational Risk, IT Risk and Credit Risk teams as well as its Forensics Department.

With almost 20 years' worth of experience working in the financial services industry, Victor has held a number of positions in the brokerage and banking industries, on the commercial side as well as in Compliance and Risk. A native of Tanzania, he began his career in the United States immediately after completing his undergraduate degree where he served as a trader for DLJ/Credit Suisse First Boston Direct before later moving to banking at Wachovia Bank N.A.

Victor holds a Bachelor of Arts Degree (Honors) in Economics from Belmont Abbey College in North Carolina U.S.A. and an MBA in Finance and Banking from the University of North Carolina at Charlotte U.S.A.

JUMA KIMORI | CHIEF INTERNAL AUDIT

Juma joined NMB Bank from Barclays Bank as Chief Internal Auditor, reporting to the MD and the Board as of May, 2018.

Before joining NMB, he worked for Barclays Bank Tanzania (BBT) since April 2011 as the Chief Internal Auditor (CIA) reporting to the Board Audit Committee (BAC), having been with BancABC since December 2009 as the Country Head of Internal Audit. Prior to BancABC, Juma worked with PriceWaterhouseCoopers for 3.5 years as Senior Associate in the Assurance Lines of Service, specializing in Financial Services audits.

He was promoted to Director within Barclays and appointed as the Barclays Internal Audit (BIA) Regional Director effective January 2016. In this role, Juma provided oversight and leadership to the Audit teams covering Barclays Botswana, Barclays Tanzania, Barclays Zambia, Barclays Mozambique, Barclays Mauritius, and Barclays Seychelles. Juma has almost 12 years experience in the audits of Finance, Corporate Credit, Retail Credit, Payment Operations, Branch Operations, and Corporate Governance. Juma is a certified trainer of the Institute of Internal Audit (IIA) and has experience in delivering Internal Audit professional papers both within and outside Tanzania.

EXECUTIVE MANAGEMENT

Juma holds B.Com degree in Accounting from the University of Dar es Salaam and is a Certified Public Accountant (CPA). Juma is a Board Member and Vice President of the Institute of Internal Auditors, Tanzania.

LILIAN KOMWIHANGIRO | COMPANY SECRETARY AND HEAD OF LEGAL

Mrs. Komwihangiro has been with NMB for over 10 years. Having previously worked at various law firms including Maajar, Rwechungura and Kameja Advocates, FK Law Chambers and as a legal consultant at PricewaterhouseCoopers; she has over twenty years of working experience in the legal field and is also an Advocate of the High Court of Tanzania.

Mrs. Lilian Komwihangiro holds a Bachelor of Laws degree and Master of Laws in commercial and business law, both from the University of Dar es Salaam. She also holds an MBA in Executive Management from the Eastern and Southern African Management Institute (ESAMI).

RUTH ZAIPUNA | CHIEF FINANCIAL OFFICER

Ruth joined NMB Bank from Standard Chartered Bank as Chief Financial Officer towards the end of June 2018.

Ruth started her career at PricewaterhouseCoopers (PwC) where for a decade she specialized in the audit of banks and other financial institutions. At PwC, Ruth rose through the ranks to the level of Associate Director. She left the firm in August 2011, to take up the position of the Executive Director Finance and Chief Financial Officer at Standard Chartered Bank. In July 2017, she took on additional responsibilities combining her role in Tanzania with that of Business Finance Lead for the East African cluster, overseeing and leading the bank's business finance activities in Tanzania, Kenya and Uganda.

Besides her current role, Ruth has been leading the Tanzania Bankers Association (TBA) Tax Group, assisting the industry to deal with tax issues. Ruth is also an Independent Non-Executive Director for Tanzania Portland Cement Company Limited (TPCC), the leading cement producing company in Tanzania and listed on the Dar es Salaam Stock Exchange.

Ruth is an Associate Certified Public Accountant (ACPA (T)). She holds a Master of Business Administration (MBA) in Finance and a Bachelor of Commerce (BCom) degree in Accounting both from the University of Dar es Salaam.

EXECUTIVE MANAGEMENT

EMMANUEL AKONAAY

AG. BUSINESS HEAD, HUMAN RESOURCES

Emmanuel Jonathan Akonaay joined the bank in July 2014 and has been serving as the Acting Head – Human Resources reporting to the Managing Director at NMB since November 2018. In his role Emmanuel is responsible for driving the execution of the People strategy in line with the bank's vision and providing the necessary guidance to the HR team in strategy implementation.

Prior to the current appointment, Emmanuel was a Head – HR Shared Services where he was responsible for designing and implementing staff welfare policies and employee relations in addition to leading optimal HR support functions.

Emmanuel joined NMB from Ernst & Young where he served as the country Head of Human Resources function where he was responsible to drive the country HR agenda in talent acquisition, development and retention. Prior to joining EY Emmanuel served Barclays Bank Tanzania as HRBP and Reward Manager responsible for execution of country's compensation & Benefits and as a strategic HR business partner.

Emmanuel is a certified Reward & HR practitioner who holds a Bachelor of Arts from University of Dar es Salaam, is currently pursuing his MBA at ESAMI.

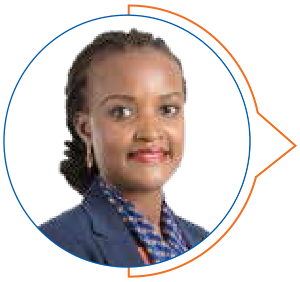
NENYUATA MEJOOLI | BUSINESS HEAD, SHARED SERVICES

Nenyuata Olekambaine Mejooli a seasoned banker with 20 years' experience in Banking Operations, Operations risk, Quality assurance, and Business process improvement and reengineering.

Nenyuata joined NMB from Standard Chartered Bank in September 2007 as Manager Business process in 2007 and has since held several roles including Senior Operations Manager, Senior Manager Banking Operations and Head of Banking Operations. Prior to her current appointment in June 2018, she was the Head Branch Network in 2016.

She holds a BSc Electronics degree from Bangalore University India and an MBA from Dublin City University Ireland. Nenyuata is also PRINCE 2 Practitioner and holds a leadership certificate from Gordon Institute of Business Science (GIBS), SA. She is certified Board member from ESAMI under Female Future Program Tanzania, cohort 1, a program which aims at preparing Tanzanian women to take higher leadership positions.

EXECUTIVE MANAGEMENT



JOSELINE KAMUHANDA | HEAD, COMMUNICATIONS AND CORPORATE AFFAIRS

Joseline has a vast experience in marketing and corporate affairs and started her career in telecommunications after her BA degree with a focus on management with marketing. Her experience covers marketing, communications, corporate affairs and management. Joseline oversees a broad range of communications and public affairs issues for NMB PLC therefore working closely with the leadership team to fulfill the bank's business and communications objectives. A high level communications professional, Joseline previously worked for Vodacom Tanzania- a leading telecommunications company in the country where she held various top positions in the company including Head of Brand & Advertising and her most recent being the Head of Corporate Communications and Public Relations.

Joseline holds an MBA from the University of Dar es Salaam, Tanzania and a Master's degree in Management and Marketing from Herriot Watt University in Edinburgh, Scotland.

ANNA MWASHA | AG. HEAD STRATEGY & INVESTOR RELATIONS

Weaving in the art of stakeholder management and corporate finance, Anna is the acting Head of Strategy and Investor Relations for NMB Bank where she is responsible for the overseeing the Bank's strategy formulation and execution. Having held different roles within banking over the last 10 years including Sales, Private Banking and Learning & Development, Anna has a good understanding of banking operations which has proven invaluable in her current role. Prior to joining NMB in 2016, she had worked for Stanbic Bank Tanzania and Access Bank Tanzania.

Anna is a Dar es Salaam Stock Exchange (DSE) certified Stock Exchange Trader and Investment Advisor. She also holds an international certificate in Investor Relations from IR Society in the UK and an International Certificate in Corporate Finance from Columbia Business School Executive Education.

MANAGEMENT COMMITTEES

Executive Management Committe

The Executive Management Committee (EXCO) steers and oversees the management of the bank at all levels. The Committee has the mandate to formulate the bank's strategy and vision for implementation by various departments, & recommend the strategy and vision for Board approval.

Assets & Liabilities Committee

The Asset and Liability Committee (ALCO) is responsible for achieving sustainable and stable profits for NMB within a framework of acceptable financial risks and controls. The Committee is authorized to manage the balance sheet and financial risks of the businesses within prescribed policies and limits. It is also authorized to delegate day-to-day management of Asset Liability Management (ALM) functions to individuals.

Credit Committees (Loan Portfolio Quality, Special Assets Management, Wholesale and Retail)

The credit committees ensure the prudent extension and management of credit facilities to customers, in accordance with the credit risk policies and procedures applicable to NMB.

Management Audit Risk and Compliance Committee

The Management Risk and Compliance Committee ensures that the areas of high risk from regulators, compliance risk and audit reports are addressed in time to improve the risk management and controls in the bank.

Management Human Resources Disciplinary Committee

The Management Human Resources Disciplinary Committee (MHRDC) ensures fairness in the implementation of the disciplinary code to staff, especially in cases of gross misconduct. The Committee has the mandate to adjudicate cases of alleged misconduct by a staff member brought to its attention, with particular reference to the requirements of the labour laws of Tanzania.

Management Tender Committee (MTC)

The Management Tender Committee (MTC) reviews, considers and approves all purchases made above the amount of TZS 100 Million. The Committee has the mandate to invite, examine and, where appropriate, authorize procurement of goods, works and services within its financial threshold.

MANAGEMENT COMMITTEES

Risk and Control Committee

The Risk and Control Committee is a standing committee involving various operational, business and support functions and is typically chaired by Chief Risk and Compliance Officer. Its aim is to oversee the controls environment and customer experience at NMB, while ensuring risk acceptance remains in accordance with NMB's risk appetite as defined in the bank's Risk Appetite Statement. This committee is also aligned with the bank's overall Enterprise Risk Management framework.The Committee also has the authority to review the operation of branches and provide the necessary guidance to branches where required.

Product Approval Committee

The Product Approval Committee reviews and approves the commissioning or deployment of new products and services. The Committee has the mandate to approve and reject a request to commission or deploy a new product or service if it fails to meet the required standard.

Anti-Fraud Roundtable Committee

The Anti-Fraud Roundtable Committee analyses if there are control failures which facilitated the occurrence of fraud incidences to and looks for immediate measures to stop.

Management Appeals Committee

The objective of the Management Appeals Committee is to consider appeals from employees aggrieved with the decision and penalty of the Head Office Disciplinary Committee (HODC) and Zonal Disciplinary Committee (ZDC).

Project Management Review Committee

The main role of the Project Management Review Committee is to govern and guide the bank's projects and programs towards successful completion within the agreed scope, schedule and cost baseline

Cost Efficiency Committee

The objective of the Cost Efficiency Committee is to ensure the Bank is cost efficient in the sense that the cost to income ratio is reduced to an optimal level and that the total income for the bank grows faster than operating costs (positive cost to income JAWs).

ANNUAL GENERAL MEETING NOTICE 2019

Notice is hereby given that the 19th Annual General Meeting of NMB Bank Plc shareholders will be held at the Julius Nyerere International Convention Centre in Dar es Salaam on Saturday, 15th June, 2019 at 10.00 a.m. The agenda will be as follows:

i. NOTICE AND QUORUM
ii. ADOPTION OF THE AGENDA
iii. CONFIRMATION OF THE MINUTES OF THE 18th ANNUAL GENERAL MEETING HELD ON 2nd JUNE 2018
iv. MATTERS ARISING FROM THE PREVIOUS MEETING
v. TO RECEIVE, CONSIDER AND ADOPT THE DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS FOR YEAR ENDED 31st DECEMBER 2018
vi. DIVIDEND DECLARATION FOR THE FINANCIAL YEAR 2018
vii. TO RECEIVE AND APPROVE THE PROPOSAL FOR DIRECTORS' REMUNERATION
viii. RESIGNATION AND APPOINTMENT OF DIRECTORS
ix. TO RECEIVE AND APPROVE APPOINTMENT OF EXTERNAL AUDITORS FOR THE FINANCIAL YEAR 2019
x. ANY OTHER BUSINESS

Important Notes:

i. Members wishing to attend the meeting must come with one of the following: a copy of his/her depository receipt, passport, voters ID card, or bank card.
ii. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her behalf in accordance with the provisions of the Articles of the Company. The proxy form must be deposited at the registered office of the company not later than 10.00 am Friday, 14th June 2019.
iii. Members wishing to attend the meeting will have to attend at their own cost. Copies of annual report and proxy forms will be available in NMB branches.
iv. Directors propose payment of a dividend of TZS 66 per share, amounting to TZS 33 billion out of 2018 profit.

Date of announcement of results:	17th May 2019
Shares trading cum div:	17th May 2019
Last day of trading cum-dividend:	6th June 2019
Shares start trading ex-div:	7th June 2019
Register Closing Date (Books Closure Date)	11th June 2019
Payment of dividend:	on or about 27th June 2019

By order of the Board.

Lilian R. Komwihangiro
Company Secretary
May 10th, 2019

ANNUAL GENERAL MEETING NOTICE 2019

PROXY

TO:

The Company Secretary

NMB Bank PLC

NMB Head Office

Ali Hassan Mwinyi/Ohio Streets

P.O. Box 9213

Dar es Salaam

I/We,.. of .... being a fully paid up member/members of the NMB BANK PLC and entitled to vote, hereby appoint ....of ....as my/our proxy, to vote for me/us and on my/our behalf at the 19th ANNUAL GENERAL MEETING of the Company to be held at the Julius Nyerere Convention Centre in Dar es Salaam on Saturday, 15th June 2019, and at any adjournment thereof.

Signed this .... day of 2019

Signature(s) of member (s)...

Note: A member entitled to attend and vote may appoint, in writing a proxy to act on his/her behalf, to attend, vote and speak instead of him/her. A proxy need not also be a member of the company.

WHISTLE BLOWING

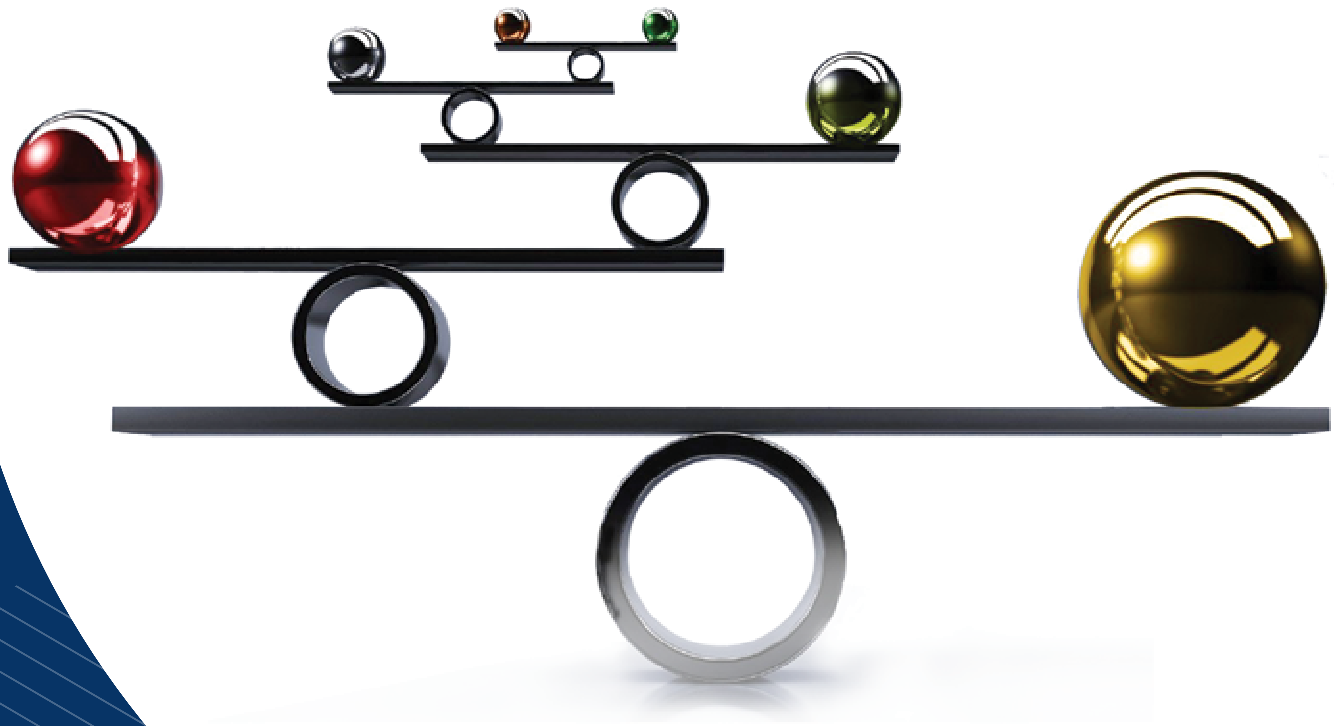
As NMB Values encourage compliance and integrity above all, we also encourage our staff members, customers, or other stakeholders to raise any concerns, inappropriate practices of any nature through our whistle blowing channels as shown below:

1. THROUGH NMB WEBSITE
   http://www.nmbbank.co.tz

2. BY POST:
   You can confidentially send your concerns to the Managing Director (MD):
   Attn to MD [envelope marked "strictly private and confidential"]
   NMB Head Office,
   P. O. Box 9213,
   Ali Hassan Mwinyi/Ohio Streets
   Dar es Salaam, Tanzania.

2. THROUGH EMAIL:
   whistleblowing@nmbtz.com

4. BY CALLING:
   The following Toll Free Phone Numbers, for those who would wish to call:
   - 0658 751 000 - Tigo
   - 0779751 000 - Zantel
   - 0685 751 000 - Airtel
   - 0800 751 000 - Vodacom



Financial Statements

Balance and Stability

Our rich history, deep customer relationships and a unique footprint in Tanzania enable us to seamlessly support and commit to all our customers. We are well placed to facilitate these tailor-made financial solutions while still having a strong understanding of the economy.

REPORT OF THE DIRECTORS

1 INTRODUCTION

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of NMB Bank Plc (the "Bank") and its subsidiary, Upanga Joint Venture Company Limited (together, the 'Group').

2 INCORPORATION

The Bank is incorporated in Tanzania under the Companies Act, No.12 of 2002 as a public limited liability company.

3 VISION

To be the preferred financial services partner in Tanzania.

4 MISSION

Through innovative distribution and its extensive branch network, the Bank offers affordable, customer focused financial services to the Tanzanian community, in order to realise sustainable benefits for all its stakeholders.

5 PRINCIPAL ACTIVITIES

The Bank is licensed under the Banking and Financial Institution Act, 2006, with license number CBA 00032. It is authorized to conduct and carry out banking business in Tanzania as a Bank. 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 is a full service commercial bank incorporated in the United Republic of Tanzania. It is engaged in taking customer deposits, providing credit facilities and offering other commercial banking services. Through its four main business divisions: Retail, Wholesale, Agribusiness and Treasury, the Bank provides a suite of financial services and products to retail customers, farmers, small businesses, Corporates, Institutions and the Government. The Bank has 223 branches, 766 ATMs and 6,800 active agents across the country. The Bank is listed on the Dar es Salaam Stock Exchange in Tanzania.

5. PRINCIPAL ACTIVITIES (CONTINUED)

During the year, NMB further reinforced its position as the innovative market leader with an extensive reach. In August 2018, the bank launched its mobile app NMB Klik, a new state-of-the-art App for smart phones providing self-service account opening and the introduction of scan to pay by using QR codes. This is in addition to the USSD functionality that is available to feature phones.

6 DIRECTORS

The Directors of the Bank who were in the office since 1 January 2018 to the date of this report are: -

No	Name	Position	Date of Birth	Nationality	Qualification/ discipline	Date of Appointment/ Resignation
1	Prof. Joseph Semboja	Chairman	24 April 1951	Tanzanian	Economist	Re-appointed on 3 June 2017
2	Albert Jonkergouw	Member	26 January 1958	Dutch	Auditor	Resigned on 2 June 2018
3	Jos van Lange	Member	06 June 1956	Dutch	Economist/ Banker	Re-appointed on 4 June 2016
4	Leonard Mususa	Member	25 September 1953	Tanzanian	Certified Public Accountant	Appointed on 6 June 2015
5	Margaret Ikongo	Member	08 June 1957	Tanzanian	Chartered Insurer	Re-appointed on 3 June 2017
6	Protase Tehingisa	Member	24 May 1947	Tanzanian	Lawyer	Retired on 14 November 2018
7	Mathias Magwanya	Member	3 January 1968	Tanzanian	Auditor	Nominated on 8 November 2017 Appointment ratified on 2 June 2018
8	Ineke Bussemaker	Member	23 February 1958	Dutch	Banker	Appointed on 6 June 2015 Resigned on 31 December 2018
9	George Mulamula	Member	4 April 1956	Tanzanian	Computer Scientist	Appointed on 2 June 2018
10	Christine Glover	Member	29 November 1952	South African	Investment Manager	Appointed on 2 June 2018

7 COMPANY SECRETARY

The Bank's secretary as at 31 December 2018 and during the year was Lilian R. Komwihangiro.

8 CORPORATE GOVERNANCE

The Board of Directors (the "Board") consists of nine directors. One of the Directors holds an executive position (Managing Director) in the Bank. The Board takes overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal controls, policies and procedures is operative, and for compliance with sound corporate governance principles.

REPORT OF THE DIRECTORS

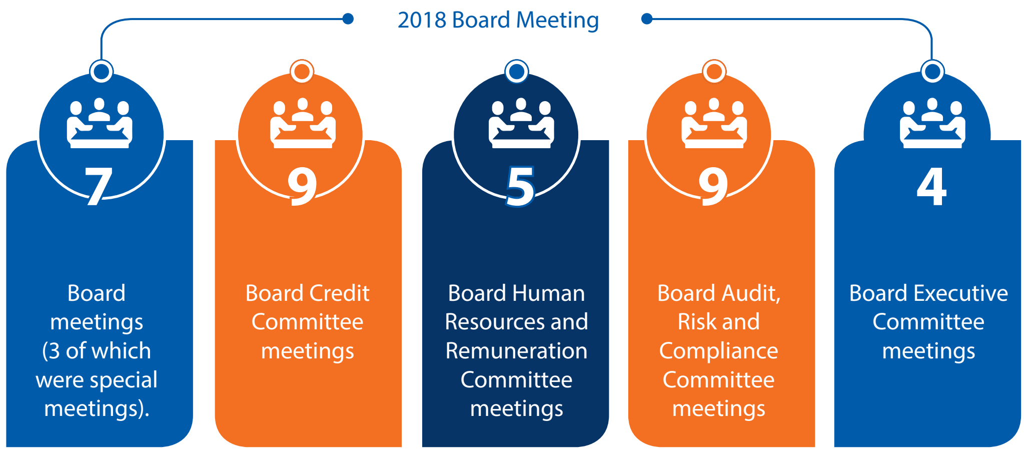
8. CORPORATE GOVERNANCE (CONTINUED)

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Managing Director assisted by the Management Team. The Management Team is invited to attend board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various units of the Bank.

The Bank is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. During the year, the Board had the following board sub-committees to ensure a high standard of corporate governance throughout the Bank.

1. Board Executive Committee (BEC)
2. Board Audit, Risk and Compliance Committee (BARCC)
3. Board Human Resources and Remuneration Committee (BHR&RC)
4. Board Credit Committee (BCC)

During the year, there were 7 board meetings *(3 of which were special meetings)*. There were also 9 Board Credit Committee meetings, 5 Board Human Resources and Remuneration Committee meetings *(1 of which was a special meeting)*, 9 Board Audit, Risk and Compliance Committee meetings *(5 of which were special)* and 4 Board Executive Committee meetings.



REPORT OF THE DIRECTORS

8. CORPORATE GOVERNANCE (CONTINUED)

The following table shows the number of Board and Committee meetings held during the year and the attendance by directors:

	DIRECTORS	Board (7)	BARCC (9)	BCC (9)	BHR&RC (5)	BEC (4)
1.	Prof. Joseph Semboja	7	n/a	n/a	n/a	4
2.	Mr. Albert Jonkergouw	3	n/a	4	2	2
3.	Mr. Jos Van Lange	7	8	n/a	n/a	n/a
4.	Mr. Protase Tehingisa	6	n/a	8	5	n/a
5.	Mrs. Margaret Ikongo	7	8	n/a	5	n/a
6.	Mr. Mathias Magwanya	6	n/a	n/a	5	4
7.	Mr. George Mulamula	4	5	4	3	n/a
8.	Mr. Leonard Mususa	7	9	9	n/a	n/a
9.	Ms. Christine Glover	2	n/a	3	2	1
10.	Ms. Ineke Bussemaker	7	9	7	5	3

**n/a – not applicable*

9 REMUNERATION POLICIES

The Bank has in place processes and procedures for determining remuneration paid to its Directors. Management normally prepares a proposal of fees and other emoluments paid to directors after having conducted a market survey, which is brought to the Board before presenting the same to the Annual General Meeting (AGM) for final approval.

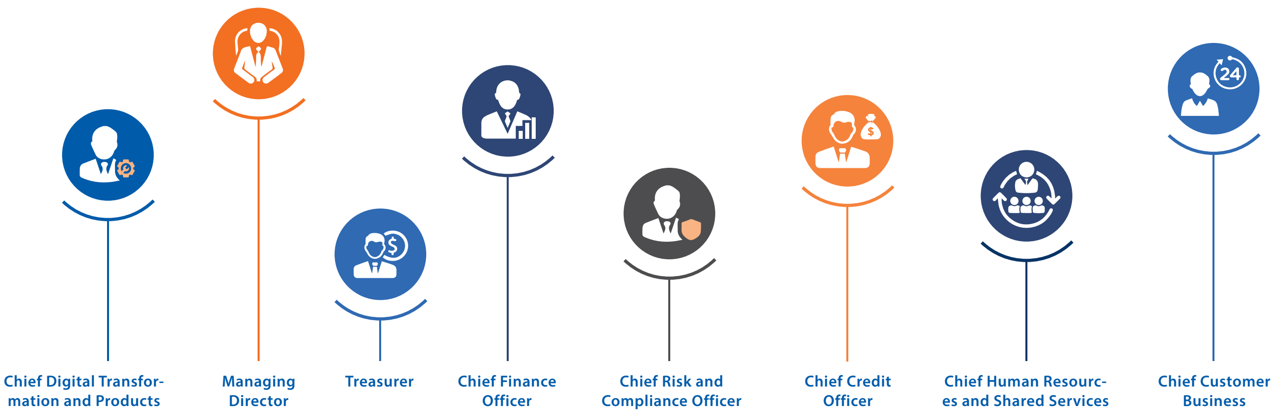
10 ACCOUNTING POLICIES

The accounting policies of the Bank disclosed in Note 3 to the financial statements have been approved by the Board. The accounting policies have been updated to reflect the new and revised International Financial Reporting Standards (IFRSs) in Note 2.

11 MANAGEMENT TEAM

The Management of the Bank is led by the Managing Director assisted by the Management Team. The management of the Bank at the date of the report consisted of the following:

REPORT OF THE DIRECTORS



12 INTERNAL AUDIT FUNCTION

The Bank has an independent Internal Audit function reporting to the Board Audit Risk and Compliance Committee. The Chief of Internal Audit function of the Bank is Juma Kimori.

13 STOCK EXCHANGE INFORMATION

In 2008 the Bank was listed at the Dar es Salaam Stock Exchange. The price per share as at year-end date was TZS 2,340 (2017: TZS 2,750). Market capitalisation as at 31 December 2018 was TZS 1,170 billion (2017: TZS 1,375 billion).

Stock prices changes are affected by the demand and supply of shares in the stock market. Changes in economic conditions, regulations and accounting standards can have an impact on corporate profits, which would result in stock price drops on at least a temporary basis.

TZS 2,340
Price per share as at year-end of 2018

TZS 2,750
Price per share as at year-end of 2017

14 CAPITAL STRUCTURE

The Bank's capital structure for the year under review is disclosed under note 34 to the financial statements. Details of the capital management, regulatory capital and capital structure are disclosed under Note 6.6.

REPORT OF THE DIRECTORS

15 SHAREHOLDERS OF THE BANK

The total number of shareholders during the year 2018 is estimated to be 17,596 (2017: 17,576). None of the Directors is holding a significant number of shares at the Bank.

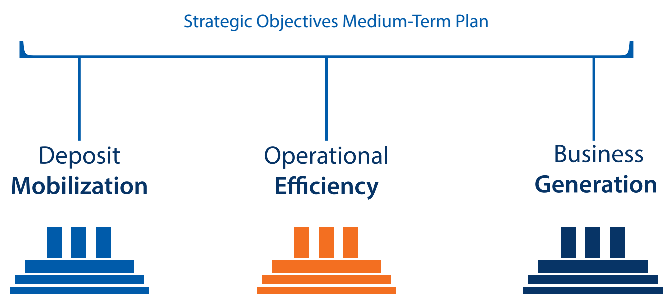
The following is a list of shareholders who individually own 0.5% or more of the shares of the Bank.

Name of the Shareholder	%	2018 number of shares	%	2017 number of shares
Cooperatieve Centrale Raiffeisen - Boerenleenbank B.A. "Rabobank Nederland" (Rabobank)	34.9	174,500,000	34.9	174,500,000
The Treasury Registrar	31.8	158,901,800	31.8	158,901,800
National Investment Company Limited (NICOL)	6.6	33,049,520	6.6	33,049,520
Mr Aunali F Rajabali and Sajjad F Rajabali	5.0	25,000,000	5.0	25,000,000
BNYM Re SQM Frontier Africa Master Fund Ltd	1.9	9,566,432	1.9	9,566,432
Morgan Stanley Institutional Fund, Inc -Frontier Markets Portfolio-MGGQ	1.3	6,718,721	1.3	6,718,721
Morgan Stanley Galaxy Fund	1.3	6,427,232	1.3	6,427,232
Banque Pictet and Cie Sa A/C Patrick Schegg	1.0	4,972,700	1.0	4,972,700
Parastatal Pension Fund (PPF)	1.0	4,831,636	1.0	4,831,636
Kuwait Investment Authority	0.7	3,500,000	0.7	3,500,000
Sanlam Centre Sub Saharan Africa Equity Master Fund Class E	0.7	3,400,000	0.7	3,400,000
Duet Africa Opportunities Master Fund	0.6	3,150,000	0.6	3,150,000
Stanbic Nominees Limited	0.6	3,115,338	0.6	3,115,338
TCCIA Investment Company Limited	0.5	2,611,886	0.5	2,611,886
Orbit Securities Co. Ltd ITF WWB Capital Partners, LP.	0.5	2,372,044	0.5	2,372,044
General Public	11.6	57,882,691	11.6	57,882,691
Total	**100.0**		**100.0**	**500,000,000**

16 STRATEGIC OBJECTIVES

The Bank's objectives that drives its long-term strategic focus is to maintain its leadership in profitability while maintaining its stronghold position in the retail and wholesale market. The Bank has its Medium-Term Plan focusing on three pillars namely deposit mobilization, operational efficiency and business generation, with its strategic objectives focusing on:

- Maintaining a stable and structural deposit flow to sustainably fund the assets;
- Maintain a high quality and diversified loan book with non-performing loans below 5%, to secure a LDR below 75% and comply with BOT liquidity standards;
- Increase non-funded income contribution to total income to 32% by enhancing existing value propositions;
- Lower the cost to serve. Cost to Income Ratio below 56% in the medium term;
- Improve Return on Equity to 20% in the medium term;
- Expand offerings available from agency banking and other channels;
- Become the best in service and product offerings – customer obsessed and insight driven;
- Enhance the digital offering solutions to customers; and
- Create a performance and customer-oriented culture.



17 FUTURE STRATEGIC PLANS

The core of the Bank's strategy is to provide to our customers relevant and affordable products and services that will enable them to grow and prosper whilst maximizing returns to shareholders. To deliver this, we have over the years invested in world class technology and infrastructure, which allows to provide convenience and accessibility to our customers. These investments have enabled us to significantly expand our reach through our different channels including Agency Banking and Mobile Banking. With 6,800 active agencies as at December 2018, the Bank has the largest Agency Banking network in the country and it serves over 3.2 million customers.

The Bank remains committed to serving and remaining relevant to its customers. It will

achieve this by reviewing and enhancing its products and services, as well as reengineering and where possible automating the processes that are used in their delivery. This should ultimately increase operational efficiency, reduce operating costs and increase profitability. The goal is to provide our customers with a superior customer experience and become the benchmark for customer service, affordability and product offerings.

The Bank is invested in the communities in which it operates. It is for this reason that we continuously promote the essence of shared growth with our customers and other stakeholders. We truly want our staff, shareholders and customers to thrive, as we believe that it is only through their success that the Bank can symbiotically continue to prosper as well.

COMMUNITIES **we operates** | **6,800** AGENTS | **3.2m** CUSTOMERS | **DSM SE** LISTING

18 MARKET OVERVIEW

Global GDP is estimated to have grown by 3.7% in 2018 compared with 3.8% in 2017. United States attained solid GDP growth of 2.9% largely contributed by strengthened fiscal stimulus. In Europe there was a notable decline of exports resulting from appreciation of the euro and slowing external demand. Brexit uncertainties continued to weaken domestic consumption in the United Kingdom and slowed growth. China also achieved modest growth due to the resilience of domestic demand which helped to offset the impact of exports reduction.

REPORT OF THE DIRECTORS

18. MARKET OVERVIEW (CONTINUED)

The Tanzania economy continued to record strong performance, with real GDP growing by 6.7% in the first three quarters of 2018. The sectors that contributed mostly to the growth were construction, trade and agriculture and manufacturing. Inflation remained low and stable, hovering below the target of 5% contributed by adequate food supply, stable exchange rate and sustained prudence of monetary and fiscal policies. During the year, Bank of Tanzania reduced the discount rate from 9% to 7% emphasizing the continued support for higher credit growth. Reverse repo was mostly used to inject liquidity into the economy supported with Treasury bills operations. Interest rates for overnight interbank market remained moderate, ranging between an average of 1.89% and 2.98%. The value of the Tanzania shilling against the US dollar remained fairly stable which was consistent with prudent monetary policy and streamlined fiscal measures.

In overall, the banking sector remained sound, stable and profitable, with the levels of capital and liquidity above regulatory requirements. Bank of Tanzania instituted measures which aimed at improving credit approval process and contain the level of non-performing loans. The credit to private sector continued to recover and expected to strengthened further on the back of various measures instituted by Bank of Tanzania and continued efforts to improve business environment.

19 PERFORMANCE FOR THE YEAR

2018 Financial Highlights

Statement of financial position

Total assets of the Group increased to TZS 5.7 trillion (2017: TZS 5.5 trillion), this represents a yearly growth of 3%.

The Bank's net loans and advances grew by TZS 465 billion (17%) year on year (YoY), driven by an increase in retail loans particularly SWL/Personal loans and SME loans. This is despite significant write-offs during the year including increase in impairment impacted by adoption of IFRS 9. The growth in loans and advances was offset by decrease in government securities by TZS 180 billion (20%) attributed by yield shrinkage, decrease in placements with banks by TZS 68 billion (28%) and decrease of cash and balance with Bank of Tanzania by TZS 86 billion (7%). The decrease in the liquid assets of the Bank also supported to fund the growth in loans and advances. Assets growth was also funded by increase of customer deposits by TZS 64 billion YoY, Subordinated loan from International Finance Corporation (IFC) amounting to TZS 68 billion and IFC short-term loan worth TZS 40 billion.

REPORT OF THE DIRECTORS

19. PERFORMANCE FOR THE YEAR (2018 FINANCIAL HIGHLIGHTS) (CONTINUED)

There was an increase in Bank's non-earning assets by 12% year on year mainly coming from increase in prepaid expenses, income and deferred tax recoverable by TZS 51 billion, while the property and equipment decreased by TZS 11 billion.

Statement of profit or loss and other comprehensive income

During the year, the Group recorded a net profit of TZS 101 billion (2017: TZS 96 billion), increase of 6% while the Bank earned a net profit of TZS 98 billion (2017: TZS 94 billion), an increase of 4% year on year. This slight increase in profit was attributed to loan impairment charge of TZS 137 billion booked during the year.

The Bank's total income grew 12% year on year to TZS 551 billion. The growth is coming from the Bank's net interest income which increased by 5% mainly as a result of decrease in interest expense by 9% while net fees and other income increased by 23% mainly attributed to loan related fees, Foreign exchange trading followed by other commission income. Impairment charge increased by 5% due to impact of IFRS 9 adoption, non-performing loans on some corporates, MSE and SME loans.

The Bank's operating expenses increased by 15% during the year mainly contributed by increase in branch and other channels operating costs by 9% and increase in depreciation by 84% driven by capitalisation of completed projects during the year.

The Bank's subsidiary, Upanga Joint Venture Company (UJVC) Limited made a profit after tax of TZS 3.4 billion (2017: TZS 2.1 billion). The increase in profit is attributable to decreased interest expense on borrowings. As at 31 December 2018, the total assets were TZS 57 billion (2017: TZS 47 billion); the increase was due to increase in cash and bank balances due to rental advances received.

The audited financial statements for the year are set out on pages 95 to 218

20 CASH FLOW

During the year, the Group's major source of cash flow was from its investing activities which generated TZS 146 billion (2017: utilised TZS 250 billion). This was attributed to net proceeds of TZS 183 billion (2017: TZS 195 billion) generated from investments in government securities and customer deposits generated TZS 43 billion (2017: TZS 535 billion). The major use of the cash flow was investment in on loans and advances TZS 497 billion (2017: source TZS 2 billion), TZS 68 billion (2017: TZS 61 billion) for payment of taxes, TZS 26 billion (2017: TZS 45 billion) investment in fixed assets, TZS 12 billion (2017: TZS 11 billion) investment in software and TZS 32 billion (2017: TZS 52 billion) for dividend payment.

REPORT OF THE DIRECTORS

20. CASHFLOW (CONTINUED)

The Group's cash projections indicate that future cash flows will mostly be generated from deposits. The Bank will continue to implement different strategies to mobilise deposits by targeting individual depositors but also offering competitive rates for fixed deposits and improving cash collection solutions to big corporate customers, government institutions, Non-Government Organisations and other agencies.

21 DIVIDEND

The Directors propose payment of a dividend of TZS 64 per share, amounting to TZS 32 billion. In 2017, a dividend of TZS 64 per share, amounting to TZS 32 billion was approved and paid.

22 KEY PERFORMANCE INDICATORS FOR BANK

The following Key Performance Indicators (KPIs) are effective in measuring the delivery of the Bank's strategy and managing the business.

		NMB ratios	
Performance indicator	**Definition and calculation method**	**2018**	**2017**
Return on equity	Net profit/Total equity.	11%	12%
Return on assets	Net profit/Total assets.	2%	2%
Cost to income ratio	Total costs/Net income.	59%	58%
Interest margin on earning assets	Total interest income/ Interest earning assets	15%	17%
Non - interest income to Gross income	Non - interest income/Total income.	28%	23%
Gross loans to customers' deposits	Total loans to customers/Total deposits from customers.	78%	68%
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances.	6%	6%
Earning assets to total assets	Earning assets/Total assets.	73%	72%
Growth on total assets	Increase in assets for the year/Total asset opening balance.	3%	11%
Growth on loans and advances to customers	Increase in Loans and advances /Opening balance of loans and advances.	17%	(0.3) %
Growth on customer deposits	Increase in customer deposits/Opening balance of customer deposits	1%	14%
Capital adequacy			
Tier 1 Capital	Risk weighted assets including off balance sheet items/Core Capital	16.5%	16.9%
Tier 1+Tier 2 Capital	Risk Weighted assets including off balance sheet items/Total Capital	18.5%	17.6%

23 TREASURY POLICY

The Bank maintains a well-documented treasury policy that outlines approved Treasury activities in the Bank and how various risks that arise from such dealings together with other banking activities are identified, measured and managed. These, among others, include liquidity risk, foreign exchange risk and interest rate risk.

Regulatory ratios and internal limits on the above stated risks are stipulated in the policy to enable an efficient monitoring of any breaches. Moreover, to combat any losses that may result from dealing activities, the policy allows for establishment of dealer limits, counterparty limits and stop-loss limits that must be reviewed regularly and kept up to-date. In addition to this, roles and responsibilities of Treasury staff, Market Risk unit, senior management and Assets and Liabilities Committee (ALCO) members in complying with the policy are stated.

Assets and Liabilities Management (ALM) team in conjunction with Market Risk unit provide monthly reports to ALCO to evidence compliance with the policy. Any incident where a guideline has been breached is reported by the Treasury functions to the Treasurer who then escalates the breach to ALCO members and Bank Management for immediate actions. The following sections are covered in the Treasury policy:

i. Liquidity Management

Liquidity management evaluates the Bank's ability to meet its commitments as they fall due and whilst maintaining market confidence in the market so as to be able to replace funds when they are withdrawn The Bank's sound and robust liquidity management process, as carried out within the bank and monitored by ALCO, encompasses of the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that daily obligations can be met. This includes replenishment of funds as they mature or borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly liquid and marketable securities that can easily be liquidated as protection against any unforeseen interruption to cash flows;
- Monitoring balance sheet liquidity ratios, i.e., Liquid Asset Ratio (LAR), Loan to Deposit Ratio (LDR) and Long-term Funding Ratio (LTFR) against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Diversification of depositor base;
- Performing Liquidity stress and scenario tests; and
- Maintaining a robust and effective contingency funding plan.

REPORT OF THE DIRECTORS

23.TREASURY POLICY (CONTINUED)

i. Liquidity Management (continued)

It is vital to know that changes in interest rates impact the overall profit of the Bank. Hence, in addition to liquidity management, the Bank manages its interest expenses through regular review of the fixed deposit rates and other savings accounts rates, together with striving to obtain reasonable and fair borrowing rates from the interbank and multilateral lenders.

ii. Foreign Exchange risk

Foreign Exchange risk is a current or prospective exposure to earnings and capital arising from adverse movement in currency exchange rate. The Treasury policy mainly focuses on foreign exchange risk that arises from trading activities whose management principles are as outlined below;

- Identification of foreign exchange risks in the trading and banking book
- Risk appetite specification in the form of limits and triggers
- Breach management
- Price validation and profit recognition
- Sign off of positions and profit or loss
- Reporting and management of foreign exchange risk.

The policy further outlines the roles and responsibilities of ALCO, Market Risk Unit and Foreign exchange traders in managing this risk for the Bank.

iii. Interest Rate risk

Interest Rate risk is the risk that arises from mismatches between the re-pricing dates on interest rate sensitive assets and liabilities in the normal course of business activities. Treasury policy explains the types of interest rate risk together with methods for measuring and managing it. The policy additionally outlines the roles and responsibilities of ALCO and Treasury in their involvement with managing the risk. All these are disclosed both internally via reports to ALCO (monthly) and Board Audit Risk and Compliance Committee (BARCC) on a quarterly basis and publicly through annual financial reports. All borrowings have been disclosed under note 31 and 32 to the financial statements. Interest rate sensitivity analysis is disclosed under note 6.2.2.

iv. Contingency Funding Plan

Treasury policy puts together a contingency funding plan that is aimed at providing a framework within which an effective plan of action can be put in place in response to an adverse liquidity event. The plan stipulates:

- The points that will trigger implementation of the plan;
- Roles and responsibilities of Management;

- Team members during phase 1 and phase 2 of the crisis situation as defined in the policy; and
- An updated call tree during the liquidity crisis.

24 PRINCIPAL RISKS AND UNCERTAINTIES

The key risks that may significantly impact the Bank's short-to-medium term strategy are mainly Credit, Operational, Compliance, Information and Communication Technology (ICT), Market, Liquidity, Strategic and Reputational risk.

Below, we provide a description of these various risk categories that the Bank faces.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including the legal risk. Fraud, whether internal or external, is also a subset of operational risk. The number and value of fraud cases within the bank is quite low when compared to overall customer numbers, balances and transaction volumes. This is due to the Bank being able to implement a number of stringent controls including preventive and detective measures.

Compliance Risk

The risk to earnings and capital arising from violations of, or non-compliance with laws, rules, regulations, internal bank policies and authority levels, prescribed practices and ethical standards. Management continually and robustly ensures that the Bank complies with relevant laws, rules, regulatory requirements and other internal procedures via a number of stringent controls.

Credit Risk

This is the risk resulting from the possibility that an asset in the form of a monetary claim against a counter party may not result in a cash receipt (or equivalent) as per the terms of the contract. The Bank has robust controls in place to its exposure to credit risk, including approval limits, disbursement controls, continuous monitoring and a robust risk appetite statement.

ICT Risk

Risk associated with the use of Information and Communication Technology to support business processes/standards. ICT risk results from inadequate or failed ICT Strategy, ICT Project and Program or ICT Operations. The Bank has robust checks in place to limit its exposure to ICT risk and performs regular monitoring to validate the efficacy of its ICT risk controls.

Market Risk

The risk of a potential decrease in shareholder's value as a result of adverse changes in the market value

24. PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

of assets and liabilities. Market risk associated with trading activities is the risk of loss occurring as a result of trading in the capital, interest rate, foreign exchange, equity and/or commodity markets. The Bank has stringent controls and monitoring mechanisms in place to limit its exposure to market risk.

Liquidity Risk

The risk arising from the inability of the Bank to accommodate decreases in liabilities or to fund increases in assets in full, at the right time and place, and in the right currency. If a Bank is seen to be illiquid it cannot obtain sufficient funds, either by increasing liabilities or converting assets promptly or at a reasonable cost. The Bank has stringent controls and monitoring mechanisms in place to limit its exposure to liquidity risk.

Reputational Risk

The risk that an activity, action or stance taken by the Bank's officials will impair its image in the community and/or the long-term trust placed in the Bank by its stakeholders resulting in the loss of business or the threat or legal action. The Bank has stringent reputation risk controls in place including very tight controls on corporate communications and messaging.

25 RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance with such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board carries out risk and internal control assessment through the Board Audit, Risk and Compliance Committee.

The Board assessed the internal control systems throughout the financial year ended 31 December 2018 and is of the opinion that they met the accepted criteria.

26 SERIOUS PREJUDICIAL MATTERS

In the opinion of the Directors, there are no serious unfavorable matters that can affect the Bank (2017: None).

27 SOLVENCY

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future.

28 MAJOR FINANCING TRANSACTIONS

During the year, the Group borrowed TZS 68 billion from IFC at 14.18% as subordinated debt, which was necessary to improve the Bank's Tier II capital and fund asset growth. The borrowing improved the total Capital Ratio by 0.9%. In addition, the Bank borrowed a one-year loan from IFC amounting to USD 17.5 million for funding its loans and advances. The two loans attracted interest expense of TZS 5.8 billion which was charged in the statement of profit or loss and other comprehensive income. The interest rates were fixed, consequently, there is no impact on interest rate changes.

29 RESOURCES

Employees with appropriate skills and experience in running the business are a key resource available to the Bank and they assist in pursuing the Bank's business objectives.

30 EMPLOYEES' WELFARE

Management and employees' relationship

There was continued good relationship between employees and management for the year 2018. There were no unresolved complaints received by the Management from the employees during the year. A healthy relationship continues to exist between management and trade unions despite the fact that the main Trade Union has lost majority representation and bargaining power. Staff have been continuously engaged in matters affecting their wellbeing throughout the year and their concerns have been dealt with

REPORT OF THE DIRECTORS

30. EMPLOYEES' WELFARE (CONTINUED)

an utmost importance. The Management is in the final process of establishing Workers Council which will give an additional platform where employees can channel their concerns and advise to the Management.

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind.

Training facilities

During the year, the Bank spent TZS 2,897 million (2017: TZS 2,809 million) on staff training in order to improve employees' technical skills and hence effectiveness. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade skills and enhance development.

Medical assistance

All members of staff and their spouses up to a maximum number of four beneficiaries (dependents) for each employee were availed medical services by the Bank through an external service provider. From March 2018 (after moving to NHIF), staff own parents and spouse's parents are accepted under medical insurance.

Financial assistance to staff

Loans are available to all confirmed employees depending on the assessment, and the discretion of Management as to the need and circumstances. Loans provided to employees include personal loans, vehicle loans, mortgage loans and other advances.

Persons with disabilities

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

Employees benefit plan

The Bank pays contributions to publicly administered pension plans on mandatory basis, which qualify to be defined contribution plans. The number of employees during the year was 3,450 (2017: 3,371).

31 GENDER PARITY

At 31 December 2018, the Bank had 3,450 employees (2017: 3,371); out of which 1,824 were male and 1,626 were female (2017: male 1,785, female 1,586).

32 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 40 to the financial statements.

33 POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year (2017: NIL)

34 RELATIONSHIP WITH STAKEHOLDERS

The Bank continued to maintain a good relationship with all stakeholders including regulators.

The Bank also recognizes that effective communication with stakeholders is essential to good governance. Following the publication of its financial results, the Bank engages with investors to present the results and answer questions accordingly. Shareholders are encouraged to attend Annual General Meeting and participate in the affairs of the Bank.

35 CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Bank set aside TZS 1,486 million (2017: TZS 1,506 million) to support social economic activities. The funds allocated aim at providing high quality social services in upholding the wellbeing of communities. Through our CSR, we invest in the focus areas of education, health, financial capability and disaster recovery initiatives.

- **Educational support** includes classroom construction at the roofing level, school desks, laboratories and libraries;
- **Financial Capability** – Wajibu Program: This is a financial education curriculum training in schools by providing learning sessions to both youth and their parents/guardians about the importance of savings;
- Support for **natural disaster recovery** during natural calamities; and
- **Health support** including providing a complete set of normal hospital beds and delivery beds, maternal and child facilities, waiting bays construction and ward separators.

REPORT OF THE DIRECTORS

Support is also extended to:

	Branch openings – our CSR projects are extended to communities where new branches are opened; specifically, in areas where there is limited availability of public services. Support is directed to the areas of health, education and financial capability trainings.
	New regions – support is extended to new regions with development projects; a maximum of TZS 25 million was extended towards chosen projects with engagements done at local government level.

Our commitment to creating value to the society through staff initiative is very key. We aim to create a better future for the society through giving back and volunteerism. To date over 3,200 (95%) of the Bank's staff participated in CSR staff initiatives whose support multiplies the impact, restores happiness and helps to empower the disadvantaged groups.

36 AUDITORS

PricewaterhouseCoopers was the auditor of the Bank for the year ended 31 December 2018 and have expressed their willingness to continue in office in accordance with Section 170(2) of the Tanzania Companies Act. Appointment of auditors for the year ending 31 December 2019 will be done at the Annual General Meeting and the process will comply with the requirements of Section 6 of the Banking and Financial Institutions (External Auditors) Regulations, 2014.

BY ORDER OF THE BOARD

Prof. Joseph Semboja

Chairman

29 March 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No.12 of 2002.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of the Group and of the profit in accordance with International Financial Reporting Standards (IFRS). The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

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

Signed on behalf of the Board of Directors by:

Prof. Joseph Semboja

Chairman

29 March 2019

DECLARATION OF THE CHIEF FINANCIAL OFFICER

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance/Accounting responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing a true and fair view of the entity's financial position and performance in accordance with applicable International Financial Reporting Standards (IFRS) and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors' as per the Statement of Directors' Responsibility on page 18.

I, Ruth Zaipuna, being the Chief Financial Officer of NMB Bank Plc hereby acknowledge my responsibility of ensuring that consolidated financial statements for the year ended 31 December 2018 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No.12 of 2002 and Banking and Financial Institutions Act (BFIA), 2006 and its regulations.

I thus confirm that the financial statements give a true and fair view of the financial performance of NMB Bank Plc and its subsidiary for the year ended on 31 December 2018 and its financial position as on that date and that they have been prepared based on properly maintained financial records.

CPA Ruth Zaipuna

Chief Financial Officer

NBAA Membership number: ACPA 1915

29 March 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NMB BANK PLC

REPORT ON THE AUDIT OF THE CONSOLIDATED AND BANK FINANCIAL STATEMENTS

Our opinion

In our opinion, the Consolidated and Bank financial statements give a true and fair view of the Consolidated and Bank financial position of NMB Bank Plc (the Bank) and its subsidiaries (together the Group) as at 31 December 2018, and of the Consolidated and Bank financial performance and Consolidated and Bank cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002.

What we have audited

NMB Bank Plc's Consolidated and Bank financial statements (the financial statements) as set out on pages 25 to 151 comprise:

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

Basis for opinion

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

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

Independence

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NMB BANK PLC (CONTINUED)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND BANK FINANCIAL STATEMENTS (CONTINUED)

Key audit matter

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers Management exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment. The Bank adopted IFRS 9 on its mandatory effective date of 1 January 2018. As permitted by IFRS 9, the requirements have been applied retrospectively without restating comparatives. The key changes arising from adoption of IFRS 9 are that the credit losses are now based on expected loss model rather than an incurred loss model. Judgement is applied to determine the appropriate parameters and assumptions used to estimate the provisions in the following areas:-	• *We tested the reasonableness of the quantitative and qualitative criteria used in the classification of loans and advances.* • *As the quantitative basis of classification of loans and advances is reliant on information systems, we understood and tested key information technology general and application controls including the accurate calculation of the number of days past due.* • *We tested management's application of the qualitative criteria in the classification of loans and advances.* • *We tested the reliability and reasonableness of information used for estimating probability of default and loss given default.*
• *Quantitative and qualitative criteria for classification of loans and advances based on assessment of factors contributing to significant increase in credit risk and default;*	• *We tested the reasonableness of the forward-looking parameters considered by management.*
• *Determination of the probability of defaults (both 12 months and lifetime);*	• *We challenged management's basis for establishing the correlation between forward looking parameters and the bank's non-performing loan trends.*
• *Determination of the forward-looking parameters to be incorporated in the estimation of expected credit losses; and*	• *We agreed the collateral values used in the impairment model to valuation reports.*
• *Estimation of the expected cash flows (including from collateral realization) used the determination of the loss given default.* The value of the loans and advances to customers is also significant. The detailed disclosures are included in Note 2(b), Note 3(f), Note 4(a), Note 6.1 and Note 20 of the financial statements	• *We tested the reasonableness of the expected cash flows and challenged management's assumptions of recovery estimates for unsecured facilities and regarding recovery costs and recovery periods used to estimate the recoverable amount of collateral for secured facilities.*

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NMB BANK PLC (CONTINUED)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND BANK FINANCIAL STATEMENTS (CONTINUED)

Other information

The directors are responsible for the other information. The other information comprises Index to the notes, List of Abbreviations, Corporate Information, Report of the Directors, Statement of Directors' responsibilities and Declaration of the Chief Financial Officer (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and CFO Report and Financial Highlights, Value Added statement, Chairman's report, Managing Director's Report, Business and Operational Review, Sustainability and Corporate Social Responsibility, Corporate governance, and other additional Corporate information, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read CFO Report and Financial Highlights, Value Added statement, Chairman's report, Managing Director's Report, Business and Operational Review, Sustainability and Corporate Social Responsibility, Corporate governance, and other additional Corporate information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the Consolidated and Bank financial statements

The directors are responsible for the preparation of the Consolidated and Bank financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002, and for such internal control as the directors determine is necessary to enable the preparation of Consolidated and Bank financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NMB BANK PLC (CONTINUED)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND BANK FINANCIAL STATEMENTS (CONTINUED)

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

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

Auditor's responsibilities for the audit of the consolidated and bank financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated and Bank financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated and Bank financial statements or, if such

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NMB BANK PLC (CONTINUED)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND BANK FINANCIAL STATEMENTS (CONTINUED)

disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated and Bank financial statements, including the disclosures, and whether the Consolidated and Bank financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NMB BANK PLC (CONTINUED)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND BANK FINANCIAL STATEMENTS (CONTINUED)

Report on other legal and regulatory requirements

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

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

Cletus Kiyuga ACPA-PP No. 1981
For and on behalf of PricewaterhouseCoopers

Certified Public Accountants

Dar es Salaam

Date: 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018 TZS' Millions	2017 TZS' Millions
Interest and similar income	7(a)	600,555	585,512
Interest and similar expense	8	(109,615)	(120,291)
Net interest income		490,940	465,221
Impairment charge – loans and advances	20(b)	(135,256)	(130,996)
Impairment charge – off-balance sheet exposures	6.1.5 (e)	(2,049)	-
Total impairment charge		(137,305)	(130,996)
Net interest income after impairment		353,635	334,225
Fee and commission income	9	203,003	154,880
Fee and commission expense	9	(36,721)	(19,543)
Net fee and commission income		166,282	135,337
Trading income		1,033	-
Foreign exchange income	10(a)	20,861	17,389
Other income	11	7,647	4,155
Total operating income		549,458	491,106
Employee benefits expense	12	(166,149)	(154,686)
Other operating expenses	13(a)	(183,043)	(165,378)
Depreciation and amortization	14(a)	(55,904)	(31,228)
Total operating expenses		(405,096)	(351,292)
Profit before income tax		144,362	139,814
Income tax expense	15(a)	(43,401)	(44,205)
Profit for the year		100,961	95,609
Attributable to			
Owners of the Bank		100,510	95,320
Non-controlling interests		451	289
Profit for the year		100,961	95,609
Other comprehensive income, net of tax			
Items that may subsequently be reclassified to profit or loss:			
Fair value gain on financial assets at FVOCI – net of tax	34 (v)	182	67
Total comprehensive income for the year		101,143	95,676
Attributable to:			
Owners of the Bank		100,692	95,387
Non-controlling interests		451	289
Total comprehensive income for the year		101,143	95,676
Basic and diluted earnings per share (TZS)	16(a)	201.02	190.64

BANK'S STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018 TZS' Millions	2017 TZS' Millions
Interest and similar income	7(b)	601,638	586,992
Interest and similar expense	8	(109,615)	(120,291)
Net interest income		**492,023**	**466,701**
Impairment charge – loans and advances	20(b)	(135,256)	(130,996)
Impairment charge – off-balance sheet exposures	6.1.5 (e)	(2,049)	-
Total Impairment charge		**(137,305)**	**(130,996)**
Net interest income after impairment		**354,718**	**335,705**
Fee and commission income	9	203,003	154,880
Fee and commission expense	9	(36,721)	(19,543)
Net fee and commission income		**166,282**	**135,337**
Trading income		1,033	-
Foreign exchange income	10(b)	20,914	17,759
Other income	11	7,647	4,155
Total operating income		**550,594**	**492,956**
Employee benefits expense	12	(166,149)	(154,686)
Other operating expenses	13(b)	(188,871)	(171,110)
Depreciation and amortization	14(b)	(53,933)	(29,257)
Total operating expenses		**(408,953)**	**(355,053)**
Profit before tax		**141,641**	**137,903**
Income tax expense	15(b)	(43,978)	(44,409)
Profit for the year		**97,663**	**93,494**
Other comprehensive income, net of tax			
Items that may subsequently be reclassified to profit or loss:			
Fair value gain on financial assets at FVOCI – net of tax	34 (v)	182	67
Total comprehensive income for the year		**97,845**	**93,561**
Basic and diluted earnings per share (TZS) 16(a)		195.33	186.99

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	Note	2018 TZS' Millions	2017 TZS' Millions
Assets			
Cash and balances with Bank of Tanzania	18	1,070,422	1,156,322
Placements and balances with other banks	19	174,391	242,731
Loans and advances to customers	20(a)	3,241,401	2,771,732
Investment in government securities			
- At amortised cost	21(a)	724,943	919,099
- At FVOCI	21(b)	15,242	870
Equity investment at FVOCI	22(a)	2,920	1,740
Other assets	23(a)	84,755	64,733
Current tax assets	15(c)	13,066	1,905
Property and equipment	24(a)	265,700	277,156
Intangible assets	25	21,241	19,901
Deferred tax assets	26(a)	62,132	43,338
Total assets		**5,676,213**	**5,499,527**
Liabilities			
Balances due to other banks	28	20,770	149
Deposits from customers	27(a)	4,315,220	4,272,058
Other liabilities	29(a)	107,149	87,994
Provisions	30	3,519	2,784
Borrowings	31	301,388	336,930
Subordinated debt	32	70,972	-
Total liabilities		**4,819,018**	**4,699,915**
Capital and reserves			
Share capital	34 (i)	20,000	20,000
Retained earnings		799,128	749,880
General reserve	34 (iv)	33,725	26,849
Fair valuation reserve	34 (v)	881	(127)
Capital and reserves attributable to owners of the parent		**853,734**	**796,602**
Non-controlling interests		3,461	3,010
Total equity		**857,195**	**799,612**
Total equity and liabilities		**5,676,213**	**5,499,527**

The financial statements on pages 95 to 218 were approved and authorised for issue by the Board of directors and were signed on its behalf by:

Prof. Joseph Semboja
Chairman

29 March 2019

BANK'S STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	Note	2018 TZS' Millions	2017 TZS' Millions
Assets			
Cash and balances with Bank of Tanzania	18	1,070,422	1,156,322
Placements and balances with other banks	19	174,391	242,731
Loans and advances to customers	20(b)	3,251,794	2,787,048
Investment in government securities			
- At amortised cost	21(a)	724,943	919,099
- Fair value through other comprehensive income	21(b)	15,242	870
Equity investment at FVOCI	22(a)	2,920	1,740
Other assets	23(b)	78,368	56,880
Investment in subsidiary	22(b)	39,639	39,639
Current tax assets	15(d)	13,188	1,923
Property and equipment	24(b)	227,607	237,090
Intangible assets	25	21,241	19,901
Deferred tax assets	26(b)	61,229	43,116
Total assets		**5,680,984**	**5,506,359**
Liabilities			
Deposit due to other banks	28	20,770	149
Deposits from customers	27(b)	4,327,607	4,272,149
Other liabilities	29(b)	93,674	85,578
Provisions	30	3,519	2,784
Borrowings	31	301,388	336,930
Subordinated debt	32	70,972	-
Total liabilities		**4,817,930**	**4,697,590**
Capital and reserves			
Share capital	34	20,000	20,000
Retained earnings		808,448	762,047
General Reserve	34	33,725	26,849
Fair valuation reserve	34	881	(127)
Total equity		**863,054**	**808,769**
Total equity and liabilities		**5,680,984**	**5,506,359**

The financial statements on pages 95 - 218 were approved and authorised for issue by the Board of directors and were signed on its behalf by:

Prof. Joseph Semboja
Chairman
29 March 2019

CONSOLIDATED STATEMTENT OF CHANGES IN EQUITY

Attributable to owners of the parent

	Share capital	Retained earnings	Fair valuation reserve	*General Banking Risk Reserve	**General Reserve	Total	Non-controlling interest	Total equity
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
At 31 December 2017	20,000	749,880	(127)	-	26,849	796,602	3,010	799,612
Changes on initial application of IFRS 9 (Note 2)	-	(12,386)	826	-	-	(11,560)	-	(11,560)
At 1 January 2018	**20,000**	**737,494**	**699**	**-**	**26,849**	**785,042**	**3,010**	**788,052**
Profit for the year	-	100,510	-	-	-	100,510	451	100,961
Other comprehensive income (OCI)								
Gain of fair valuation	-	-	260	-	-	260	-	260
Deferred tax on OCI	-	-	(78)	-	-	(78)	-	(78)
Total comprehensive income	-	100,510	182			100,692	451	101,143
Transfer to General Reserve	-	(6,876)	-	-	6,876	-	-	-
Transactions with owners								
Dividends paid for the year 2017	-	(32,000)	-	-	-	(32,000)	-	(32,000)
At 31 December 2018	**20,000**	**799,128**	**881**	**-**	**33,725**	**853,734**	**3,461**	**857,195**

*General Banking Risk Reserve represents an amount set aside to cover additional provision for loan losses required in order to comply with the requirements of the Bank of Tanzania prudential guidelines. This reserve is not available for distribution.

** General Reserve represents 1% provision charged on all current credit accommodation and other risk assets as required by the Bank of Tanzania regulations, 2014. General Reserve is created by transferring the amount from retained earnings. This reserve is not available for distribution.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the parent								
	Share capital	Retained earnings	Fair valuation reserve	*General Banking Risk Reserve	**General Reserve	***Other reserve	Total	Non-controlling interest	Total equity
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
At 31 January 2017	20,000	707,334	(194)	12,972	26,385	(13,282)	753,215	2,721	755,936
Profit for the year	-	95,320	-	-	-	-	95,320	289	95,609
Other comprehensive income (OCI)									
Gain of fair valuation	-	-	95	-	-	-	95	-	95
Deferred tax on OCI	-	-	(28)	-	-	-	(28)	-	(28)
Total comprehensive income	-	95,320	67	-	-	-	95,387	289	95,676
Transfer from general banking risk reserves	-	12,972	-	(12,972)	-	-	-	-	-
Transfer to general reserve	-	(464)	-	-	464	-	-	-	-
Reclassification of reserve	-	(13,282)	-	-	-	13,282	-	-	-
Transactions with owners									
Dividends paid for the year 2016	-	(52,000)	-	-	-	-	(52,000)	-	(52,000)
At 31 December 2017	**20,000**	**749,880**	**(127)**	**-**	**26,849**	**-**	**796,602**	**3,010**	**799,612**

*General Banking Risk Reserve represents an amount set aside to cover additional provision for loan losses required in order to comply with the requirements of the Bank of Tanzania prudential guidelines. This reserve is not available for distribution.

** General Reserve represents 1% provision charged on all current credit accommodation and other risk assets as required by the Bank of Tanzania regulations, 2014. General Reserve is created by transferring the amount from retained earnings. This reserve is not available for distribution.

***Other reserve represents the difference between the fair value of the consideration paid with respect to acquisition of additional shares in Ohio Street Properties Limited and net assets of acquired interests. In 2017 the amount was reclassified to retained earnings.

BANK'S STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Fair valuation reserve	*General Banking Risk reserve	**General reserve	Total
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
At 31 December 2017	20,000	762,047	(127)	-	26,849	808,769
Changes on initial application of IFRS 9 (Note 2)	-	(12,386)	826	-	-	(11,560)
At 1 January 2018	**20,000**	**749,661**	**699**	**-**	**26,849**	**797,209**
Comprehensive income						
Profit for the year	-	97,663	-	-	-	97,663
Other comprehensive income (OCI)						
Gain of fair valuation		-	260	-	-	260
Deferred tax on OCI		-	(78)	-	-	(78)
Total comprehensive income	-	97,663	182	-	-	97,845
Transfer to General Reserve	-	(6,876)	-	-	6,876	-
Transactions with owners						
Dividends paid for the year 2017	-	(32,000)	-	-	-	(32,000)
At 31 December 2018	**20,000**	**808,448**	**881**	**-**	**33,725**	**863,054**
At 1 January 2017	20,000	708,045	(194)	12,972	26,385	767,208
Comprehensive income						
Profit for the year	-	93,494	-	-	-	93,494
Other comprehensive income (OCI)						
Gain of fair valuation	-	-	95	-	-	95
Deferred tax on OCI	-	-	(28)	-	-	(28)
Total comprehensive income	-	93,494	67	(12,972)	464	93,561
Transfer from General Banking Risk Reserve	-	12,972	-	(12,972)	-	-
Transfer to General Reserve	-	(464)	-	-	464	-
Transactions with owners						
Dividends paid for the year 2016	-	(52,000)	-	-		(52,000)
At 31 December 2017	**20,000**	**762,047**	**(127)**	**-**	**26,849**	**808,769**

*General Banking Risk Reserve represents an amount set aside to cover additional provision for loan losses required in order to comply with the requirements of the Bank of Tanzania prudential guidelines. This reserve is not available for distribution.

** General Reserve represents 1% provision charged on all current credit accommodation and other risk assets as required by the Bank of Tanzania

CONSOLIDATED STATEMENT OF CASH FLOWS

regulations.

	Note	2018 TZS' Millions	2017 TZS' Millions
Cash (utilised in)/ generated from operations	36(a)	(213,710)	701,199
Tax paid	15(c)	(68,480)	(61,072)
Net cash (utilised in)/ generated from operations		**(282,190)**	**640,127**
Cash flows from investing activities			
Proceeds from government securities		791,522	691,669
Investment in government securities		(608,848)	(886,571)
Purchase of property and equipment	24(a)	(25,530)	(45,295)
Purchase of intangible assets	25	(11,930)	(10,550)
Proceeds on disposal of property and equipment		365	223
Net cash generated from/ (utilised in) investing activities		**145,579**	**(250,524)**
Cash flows from financing activities			
Proceeds received from borrowings		114,565	50,428
Principal paid on borrowings		(83,730)	(66,612)
Interest paid on borrowings		(28,765)	(24,085)
Dividends paid	17	(32,000)	(52,000)
Net cash used in financing activities		**(29,930)**	**(92,269)**
Net (decrease) / increase in cash and cash equivalents		**(166,541)**	**297,334**
Cash and cash equivalents at beginning of the year		1,002,394	697,580
Effect of movement in foreign exchange		6,861	7,480
Cash and cash equivalents end of the year	35	**842,714**	**1,002,394**
Analysis of cash and cash equivalents at end of the year:			
Cash in hand		402,709	358,322
Balances with Bank of Tanzania (excluding SMR)		265,614	401,341
Deposits and balances due from banking institutions		174,391	242,731
		842,714	**1,002,394**

BANK'S STATEMENT OF CASH FLOWS

	Note	2018 TZS' Millions	2017 TZS' Millions
Cash (utilised in)/ generated from operations	**36(b)**	**(213,710)**	**701,199**
Tax paid	15(c)	(68,480)	(61,072)
Net cash (utilised in)/ generated from operations		**(282,190)**	**640,127**
Cash flows from investing activities			
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Proceeds on disposal of property and equipment		365	223
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Cash flows from financing activities			
Proceeds from borrowings		114,565	50,428
Principal paid on borrowings		(83,730)	(66,612)
Interest paid on borrowings		(28,765)	(24,085)
Dividends paid	17	(32,000)	(52,000)
Net cash used in financing activities		**(29,930)**	**(92,269)**
Net (decrease)/ increase in cash and cash equivalents		**(166,541)**	**297,334**
Cash and cash equivalents at the beginning of the year		1,002,394	697,580
Effect of movement in foreign exchange		6,861	7,480
Cash and cash equivalents end of the year	**35**	**842,714**	**1,002,394**
Analysis of cash and cash equivalents at end of the year:			
Cash in hand		402,709	358,322
Balances with Bank of Tanzania (excluding SMR)		265,614	401,341
Deposits and balances due from banking institutions		174,391	242,731
		842,714	**1,002,394**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 REPORTING ENTITY

NMB Bank Plc (the "Bank) is a public limited liability company and is incorporated and domiciled in the United Republic of Tanzania. The address of its registered office is as disclosed under corporate information.

The Bank is listed on the Dar es Salaam Stock Exchange (DSE). The Bank has equity investments in Tanzania Mortgage Refinance Company Limited (TMRC) and a subsidiary company named Upanga Joint Venture Company (UJVC) Limited.

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

(a) Basis of preparation

The consolidated and Bank financial statements of NMB Bank Plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The Consolidated and Bank financial statements have been prepared under the historical cost convention, as modified by the revaluation of debt and equity instruments designated at fair value through other comprehensive income.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated and Bank financial statements are disclosed in Note 4.

(b) Changes in accounting policy and disclosures

i) New standards amendments and interpretations adopted by the Group and Bank

The following standards and interpretations became effective in the current year and were relevant to the Group and had material impact on the amounts reported in these financial statements.

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

As permitted by the transitional provisions of IFRS 9, the Group elected not restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

i) New standards amendments and interpretations adopted by the Group and Bank (continued)

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosure repeats those disclosures made in the prior year. The adoption of IFRS 9 has resulted in changes in the Group and Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group and Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in summary of accounting policies.

Classification and measurement of financial instruments

Financial assets	Measurement category	IAS 39 Carrying amount	Measurement category	IFRS 9 Carrying amount
GROUP (Amounts in TZS Millions)				
Placements and balances with other banks	Amortised cost (Loan and receivables)	242,731	Amortised cost	242,731
Loans and advances to customers	Amortised cost (Loan and receivables)	2,771,732	Amortised cost	2,756,991
Investment in government securities:	Loans and receivables	422,732	Amortised cost	422,732
	Held to maturity	496,367	Amortised cost	496,367
	Available for sale	870	FVOCI	870
Other assets (excluding prepayment)	Amortised cost (Loan and receivables)	56,880	Amortised cost	56,880
Equity Investments	FVOCI (Available for sale)	1,740	FVOCI	2,920
BANK (Amounts in TZS Millions)				
Placements and balances with other banks	Amortised cost (Loan and receivables)	242,731	Amortised cost	242,731
Loans and advances to customers	Amortised cost (Loan and receivables)	2,787,048	Amortised cost	2,772,307
Investment in government securities:	Loans and receivables	422,732	Amortised cost	422,732
	Held to maturity	496,367	Amortised cost	496,367
	Available for sale	870	FVOCI	870
Other assets (excluding prepayment)	Amortised cost (Loan and receivables)	32,340	Amortised cost	32,340
Equity Investments	FVOCI (Available for sale)	1,740	FVOCI	2,920

There were no changes to the classification and measurement of financial liabilities, other than to changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in the instrument's credit risk, which are now presented in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

i) New standards amendments and interpretations adopted by the Group and Bank (continued)

The total impact on the Group and Bank's retained earnings and fair valuation reserve as at 1 January 2018 is as follows;

	Group TZS Millions	Bank TZS Millions
Retained earnings at 31 December 2017 (IAS 39)	749,880	762,047
Increase in provision for loans and advances to customers	(14,741)	(14,741)
Provision for off-balance sheet exposures	(2,953)	(2,953)
Increase in deferred tax assets relating to impairment provisions	5,308	5,308
Net impact on retained earnings from adoption of IFRS 9 on 1 January 2018	(12,386)	(12,386)
Retained earnings after adoption of IFRS 9	**737,494**	**749,661**
Fair valuation reserve at 31 December 2017	(127)	(127)
Increase in fair valuation reserve resulting from re-measurement of equity instruments at FVOCI	1,180	1,180
Increase in deferred tax assets relating fair valuation gain	(354)	(354)
Fair valuation reserve after adoption of IFRS 9	**699**	**699**

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

The Group performed a detailed analysis of its business model for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

GROUP

Amounts in TZS Millions	IAS 39 carrying amount 31 December 2017	Re classifications	Re-measurements	IFRS 9 carrying amount 1 January 2018
Amortised Cost				
Cash and balances with Bank of Tanzania				
Opening balance under IAS 39 and closing balance under IFRS 9	1,156,322	-	-	1,156,322
Placements and balances with other banks				
Opening balance under IAS 39 and closing balance under IFRS 9	242,731	-	-	242,731
Loans and advances to customers				
Opening balance under IAS 39	2,771,732	-	-	-
Re-measurement: ECL allowance	-	-	(14,741)	-
Closing balance under IFRS 9	-	-	-	2,756,991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

i) New standards amendments and interpretations adopted by the Group and Bank (continued)

Amounts in TZS Millions	IAS 39 carrying amount 31 December 2017	Re classifications	Re-measurements	IFRS 9 carrying amount 1 January 2018
Investment in Government securities- Amortised cost				
Opening balance under IAS 39	-	-	-	-
Addition: From financial assets held as loans and receivables	-	422,732	-	-
Addition: From financial assets held to maturity	-	496,367	-	-
Closing balance under IFRS 9				919,099
Investment in government securities – Loans and receivables				
Opening balance under IAS 39	422,732	-	-	-
Subtraction: To amortised cost (IFRS 9)	-	(422,732)	-	-
Closing balance under IFRS 9				-
Investment in government securities – Held to maturity				
Opening balance under IAS 39	496,367	-	-	-
Subtraction: To amortised cost (IFRS 9)	-	(496,367)	-	-
Closing balance under IFRS 9				
Other assets (excluding prepayments)				
Opening balance under IAS 39 and closing balance under IFRS 9	40,116	-	-	40,116
Total financial assets measured at amortised cost	**5,130,000**	**-**	**(14,741)**	**5,115,259**
Fair Value through other comprehensive income (FVOCI)				
Investment in government -(debt instruments)				
Opening balance under IAS 39	-			
Addition: From available for sale (IAS 39)	-	870		
Closing balance under IFRS 9	-	-		870
Investment in government securities – FVOCI (equity instruments)				
Opening balance under IAS 39				
Addition: From available for sale (IAS 39) -Designated		1,740		
Re-measurement of equity instruments at FVOCI			1,180	
Closing balance under IFRS 9				2,920
Investment securities – Available for sale financial assets				
Opening Balance under IAS 39	2,610			
Subtraction: To FVOCI- debt instruments		(870)		
Subtraction: To FVOCI- equity instruments		(1,740)		
Closing balance under IFRS 9		-		-
Total financial assets measured at FVOCI	**2,610**	**-**	**1,180**	**3,790**
Financial liabilities at amortised cost				
Other liabilities	**76,565**	**-**	**2,953**	**79,518**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

i) New standards amendments and interpretations adopted by the Group and Bank (continued)

Bank

Amounts in TZS Millions	IAS 39 carrying amount 31 December 2017	Re classifications	Re-measurements	IFRS 9 carrying amount 1 January 2018
Amortised Cost				
Cash and balances with Bank of Tanzania				
Opening balance under IAS 39 and closing balance under IFRS 9	1,156,322	-	-	1,156,322
Placements and balances with other banks				
Opening balance under IAS 39 and closing balance under IFRS 9	242,731	-	-	242,731
Loans and advances to customers				
Opening balance under IAS 39	2,787,048	-	-	-
Re-measurement: ECL allowance	-	-	(14,741)	-
Closing balance under IFRS 9	-	-	-	2,772,307
Investment in Government securities- Amortised cost				
Opening balance under IAS 39	-	-	-	-
Addition: From financial assets held as loans and receivables	-	422,732	-	-
Addition: From financial assets held to maturity	-	496,367	-	-
Closing balance under IFRS 9				919,099
Investment in government securities – Loans and receivables				
Opening balance under IAS 39	422,732	-	-	-
Subtraction: To amortised cost (IFRS 9)	-	(422,732)	-	-
Closing balance under IFRS 9				-
Investment in government securities – Held to maturity				
Opening balance under IAS 39	496,367	-	-	-
Subtraction: To amortised cost (IFRS 9)	-	496,367	-	-
Closing balance under IFRS 9				
Other assets (excluding prepayments)				
Opening balance under IAS 39 and closing balance under IFRS 9	32,340	-	-	32,340
Total financial assets measured at amortised cost	**5,137,540**	**-**	**(14,741)**	**5,122,799**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

i) New standards amendments and interpretations adopted by the Group and Bank (continued)

Amounts in TZS Millions	IAS 39 carrying amount 31 December 2017	Re classifications	Re-measurements	IFRS 9 carrying amount 1 January 2018
Fair Value through other comprehensive income (FVOCI)				
Investment in government - (debt instruments)				
Opening balance under IAS 39	-			
Addition: From available for sale (IAS 39)	-	870		
Closing balance under IFRS 9	-	-		870
Investment in government securities – FVOCI (equity instruments)				
Opening balance under IAS 39				
Addition: From available for sale (IAS 39) - Designated		1,740		
Re-measurement of equity instruments at FVOCI			1,180	
Closing balance under IFRS 9				2,920
Investment securities – Available for sale financial assets				
Opening Balance under IAS 39	2,610			
Subtraction: To FVOCI - debt instruments		(870)		
Subtraction: To FVOCI - equity instruments		(1,740)		
Closing balance under IFRS 9		-		-
Total financial assets measured at FVOCI	**2,610**	-	**1,180**	**3,790**
Financial liabilities at amortised cost				
Other liabilities	**77,777**	-	**2,953**	**80,730**

Reclassifications from retired categories with no change in measurement

The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired' with no changes to their measurement basis:

i. Those previously classified as available for sale and now classified as measured at FVOCI

Government Securities

After assessing its business model for government securities within the Group's liquidity portfolio, which are mostly held to collect the contractual cash flows, the Group has identified certain securities which are managed separately and for which the past practice has been (and the Group's intention remains) to hold to collect the contractual cash flows and sell. Consequently, the Group assessed that the appropriate business model for this group of securities is held to collect and sell. These securities, which amounted to TZS 870 million and which were previously classified as available for sale, were classified as Fair value through Other Comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

i) New standards amendments and interpretations adopted by the Group and Bank (continued)

Designated of equity instruments at FVOCI

The Group has elected to irrevocably designate strategic investment with Tanzania Mortgage Refinance Company Limited (TMRC) of TZS 1,740 million in a small portfolio of non-trading equity securities at FVOCI as permitted under IFRS 9. These securities were previously classified as available for sale. The securities have now been re-measured at fair value to TZS 2,920 million. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed.

ii. Those previously classified as held to maturity and loans and receivables and now classified as measured at amortised cost.

Apart from Treasury bonds which were previously classified as held to maturity, all the remaining financial assets were classified as loans and receivables.

Reconciliation of impairment allowance from IAS 39 to IFRS 9

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

Measurement category	Loan Loss allowance under IAS 39	Reclassification	Re-measurements	Loan loss allowance under IFRS 9
Loan and receivables (IAS 39) /Financial assets at amortised cost (IFRS 9)				
Cash and balances with the Bank of Tanzania	-	-	-	-
Placements and balances with other banks	-	-	-	-
Investment in government securities	-	-	-	-
Loans and advances to customers	104,949	-	14,741	119,690
Other assets				
Total	**104,949**	**-**	**14,741**	**119,690**
Held to maturity (IAS 39) /Financial assets at amortised cost (IFRS 9)				
Investment in government securities	-	-	-	-
Available for sale financial instruments (IAS 39)/Financial assets at FVOCI (IFRS 9)				
Investment in government securities	-	-	-	-
Loan commitments and financial guarantees contracts				
Off balance items in the scope of IFRS 9	-	-	**2,953**	**2,953**

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)
(b) Changes in accounting policy and disclosures (continued)
i) New standards amendments and interpretations adopted by the Group and Bank (continued)

Impact on Capital

The Bank of Tanzania has issued guidelines on transition requirements for the implementation of IFRS 9 that require in the first adoption, when IFRS 9 impairment is greater than BOT provision, for the purpose of computing core capital, banks and financial institutions shall spread the excess impairment equally over three years. See note 6.6.

The following standards and interpretations became effective from 1 January 2018 and were relevant to the Group but had no material impact on the amounts reported in these financial statements.

Title	Key requirement
IFRS 15 Revenue from contracts with customers and associated amendments to various other standards	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18, which covers contracts for goods and services, and IAS 11, which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognised: • identify contracts with customers • identify the separate performance obligation • determine the transaction price of the contract • allocate the transaction price to each of the separate performance obligations, and • recognise the revenue as each performance obligation is satisfied.
	Key changes to current practice are: • Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. • Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.) – minimum amounts must be recognised if they are not at significant risk of reversal.
	The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa. There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few. As with any new standard, there are also increased disclosures. These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications. Entities will have a choice of full retrospective application, or prospective application with additional disclosures. In nearly all cases the Group's pattern of revenue recognition under previous accounting policies is consistent with the requirements of IFRS 15, however, while certain income streams from LCs and guarantees differ in pattern of recognition, the differences were not material. Thus, apart from disclosure requirements, the standard did not have a significant impact to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

i) New standards amendments and interpretations adopted by the Group and Bank (continued)

The following standards and interpretations became effective in the current year and were relevant to the Group but had no material impact on the amounts reported in these financial statements.

Title	Key requirement
Transfers of Investment Property – Amendments to IAS 40	The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. The list of evidence for a change of use in the standard was re-characterised as a non-exhaustive list of examples to help illustrate the principle. The Board provided two options for transition: • Prospectively, with any impact from the reclassification recognised as adjustment to opening retained earnings as at the date of initial recognition, or • Retrospectively - only permitted without the use of hindsight. **Additional disclosures are required if an entity adopts the requirements prospectively.**
Annual improvements 2014-2016 cycle	The following improvements were finalised in December 2016: • **IFRS 1** - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10, which are no longer relevant. • **IAS 28** - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.
Interpretation 22 Foreign Currency Transactions and Advance Consideration	The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability). If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. Entities can choose to apply the interpretation: • retrospectively for each period presented • prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or prospectively from the beginning of a prior reporting period presented as comparative information

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

ii) New standards and interpretations that are not yet effective and have not been early adopted.

Title	Key requirements	Effective Date
IFRS 16 Leases	IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.	1 January 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time
	Impact assessment:	
	As at the reporting date, the Group had non-cancellable operating lease commitments of TZS 425 billion, see note 38 (d). For the remaining lease commitments, the Group expects to recognize right-of-use assets of approximately TZS 125 billion on 1 January 2019, lease liabilities of TZS 113 billion (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018) and deferred tax assets of TZS 1.3 billion. Overall, total equity will be approximately TZS 3 billion lower. The Group expects that net profit before tax will decrease by approximately TZS 1 billion for 2019 as a result of adopting the new rules. Based on the assessment undertaken to date, the total estimated adjustment of the adoption of IFRS 16 on the statement of financial position will result into decrease in Retained Earnings by TZS 3 billion or 0.4% and increase in Risk Weighted Assets by TZS 126 billion due to creation of ROU asset of TZS 125 billion and deferred tax asset of TZS 1.3 billion. These are expected to reduce the Capital adequacy ratio by 0.5%. Operating cash flows will increase and financing cash flows decrease by approximately TZS 18 billion as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

ii) New standards and interpretations that are not yet effective and have not been early adopted. (continued)

Interpretation 23 *Uncertainty over Income Tax Treatments*	The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses: • how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty; • that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored; • that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment; • that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty; and • that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements. While there are no new disclosure requirements, upon adoption entities are Group will continue with the general requirement to provide information about judgements and estimates made in preparing the financial statements. The Group will thus be required to provide information about judgements and estimates made in determination of liabilities arising from uncertain tax positions.	1 January 2019

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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Team, which is chief operating decision maker.

(b) Principles of consolidation and equity accounting

The consolidated financial statements incorporate the financial statements of the Bank and an entity controlled by the Bank (its subsidiary). The financial statements of the Bank and its subsidiary are made up to 31 December 2018.

i. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position, respectively.

ii. Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Principles of consolidation and equity accounting (continued)

interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

iii. Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

iv. Separate financial statements

In the separate financial statements, investment in subsidiary is accounted for at cost less impairment.

(c) Interest income and expense

Accounting policies applicable in current period under IFRS 9

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

I. Purchased or originated credit-impaired (POCI) financial assets, for which the original credit – adjusted effective is applied to the amortised cost of the financial asset.

II. Financial assets that are not 'POCI' 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).

Accounting policies applicable in prior period under IAS 39

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset

3. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

(c) Interest income and expense (continued)

or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(d) Fee and commission income and expense

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

Fees and commission are generally recognised on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party - such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses - are recognised on completion of the underlying transaction.

(e) Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements in the Group and the Bank are measured using the currency of the primary economic environment in which the Group and the Bank operate (“the functional currency”). The financial statements are presented in Tanzania Shillings (TZS) rounded to the nearest million, which is the Group’s and 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 with 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 statement of profit or loss. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

(f) Financial assets and financial liabilities

Accounting policies applicable in current period under IFRS 9

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instruments. Regular way purchases and sales of financial assets are recognised on trade – date on which the group commits to purchase or sell the asset.

At initial recognition, the Group 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 a 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 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 debts 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 recognises 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 recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing or 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 realised through settlement

Financial assets

i. Classification and subsequent measurement

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(f) Financial assets and financial liabilities (continued)
Accounting policies applicable in current period under IFRS 9 (continued)

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

Debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

i. The Group's business model for managing the asset; and

ii. The cash flow characteristics of the asset.

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

- Amortised cost: Assets that are held for collection for contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 6. Interest income from these financial assets is included in 'Interest and similar income' using effective interest rate method.

- 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 principals and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit and loss. When the financial asset is derecognised in 'Net Investment income', interest income from these financial assets is included in 'interest income' using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequent measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in interest income' using the effective interest rate method.

- Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group'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 the assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (continued)

are classified as part of 'other' 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.

For example, the Group's business model for the mortgage loan book is to hold to collect contractual cash flows, with sales of loans only being made internally to a consolidated SPV for the purpose of collateralising notes issued, with no resulting derecognition by the Group. Another example is the liquidity portfolio of assets, which are held by the Group as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purposes of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. These securities are classified in the 'other' business model and measured at FVPL.

- SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments or principals and interest (the SPPI test'). In making this assessment, the Group 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 exposures to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets are classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest. The Group reclassifies debts investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (continued)

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement or profit or loss.

iii. Impairment

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

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

Details of the Group's impairment policy and disclosures are provided under Note 6.1.3.

iv. Modifications of Loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantially new terms are introduced, such as a profit share/equity- based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant changes in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affects the credit risk associated with the loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (continued)

If the terms are substantially different, the Group derecognises the original financial asset and recognises 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 the initial recognition for impairment calculation purposes, including for the purposes of determining whether a significant increase in credit risk has occurred. However, the Group also assessed whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as gains or loss on derecognition.

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

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). The loan will remain in its original stage until it meets the criteria as described in Note 3 (f) (iv) on the next page.

v. Curing of non-performing financial assets including restructured facilities.

An instrument is considered to no longer have SICR or be in default (i.e. to have cured) when it has been established that the obligor is able to meet the requirements of the agreed terms and conditions.

IFRS 9 allows credit exposures to migrate from higher credit risk categories to lower credit risk categories, that is, from stage 3 to stage 2 and from stage 2 to stage 1.

Under migration from stage 3 to stage 2, the Bank shall consider criteria for upgrade of credit accommodations as follows:

- in the case of overdraft facilities, the account has satisfactorily performed for a minimum period of two consecutive quarters; and
- In the case of term loans, the obligor has timely paid four consecutive installments.

On the other hand, credit exposures may migrate from stage 2 to stage 1 when there is a significant improvement

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (continued)

of the credit exposure. In determining whether an exposure should shift backward from stage 2 to stage 1, The Bank shall consider the following;

- All outstanding payments on the credit facility are made on time and there are no payments in arrears.
- There is improvement of the quantitative and qualitative factors that caused significant increase of the credit risk.

Upgrade from stage 2 to stage 1 shall be subject to a monitoring period of 90 days for conventional loans and 30 days for Microfinance loans to confirm if the risk of default has decreased sufficiently before upgrading such exposure.

vi. Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

Financial liabilities

i. Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (continued)

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to Changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and

ii. Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specific 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 debts instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdraft and other banking facilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (continued)

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

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

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

Accounting policies applicable in prior period under IAS 39

Financial assets

The Group and Bank classifies its financial assets into the following categories: loans and receivables, held-to-maturity and available for sale financial assets. Management determines the appropriate classification of its financial assets at initial recognition.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortized cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

Accounting policies applicable in prior period under IAS 39 (continued)

Financial assets categorized as loan and receivable includes as cash and balances with Bank of Tanzania, loans and advances to customers, placement and balances with other banks, investment in government securities and other assets.

Interest on loans is included in the profit or loss and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan through an allowance account and recognized in the profit or loss as 'loan impairment charges'.

ii. Available for sale

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in the statement of other comprehensive income and cumulated in a separate reserve in equity, revaluation reserve, until the financial asset is derecognized. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in profit or loss. Financial assets designated as available for sale include investment in government securities and equity investments.

iii. Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the directors have the positive intention and ability to hold to maturity, other than:

- those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank designates as available-for-sale; and
- those that meet the definition of loans and receivables.

Held-to-maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Recognition of financial assets

The Group uses trade date accounting for regular way contracts when recording financial asset transactions. Trade date is the date the group commits to purchase the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

Accounting policies applicable in prior period under IAS 39 (continued)

Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Financial liabilities are derecognised when extinguished. Such financial liabilities include borrowings, deposits from banks, deposits from customers and other liabilities.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Classes of financial instruments

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen on the table below:

Financial assets	*Class*
Placement and balances with other banks	Loans and receivables
Loans and advances to customers	Loans and receivables
Investment in government securities	
- Held to maturity	Held to maturity
- Loan and receivables	Loans and receivables
- Available for sale	Available for sale
Other assets	Loans and receivables
Equity investments	Available for sale
Financial liabilities	
Deposits from banks	Financial liabilities at amortised cost
Deposits from customers	Financial liabilities at amortised cost
Other liabilities	Financial liabilities at amortised cost
Borrowings	Financial liabilities at amortised cost

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(f) Financial assets and financial liabilities (continued)
Accounting policies applicable in prior period under IAS 39 (continued)

Impairment of financial assets

i. Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficult of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payment;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

Accounting policies applicable in prior period under IAS 39 (continued)

financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss.
When a loan is uncollectible, it is written off against the related provision for loan impairment such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is revised by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss under impairment charge for credit losses.

ii. Assets classified as available-for-sale

The Group assesses at each end of reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the profit or loss.

Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

iii. Renegotiated loans

When the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Offsetting financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

(g) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised costs; the difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

(h) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate in accordance with the Income Tax Act, 2004 adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Tanzania where the Bank's subsidiary operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in in accordance with the Income Tax Act, 2004 is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.
Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(j) Non-financial assets

i. Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is provided on the straight-line basis so as to write down the cost of assets to their residual values over their useful economic lives, at the following rates: -

	%
Building	5
Leasehold Improvements	5-50
Motor vehicles	25
Furniture, fittings and equipment	20
Computer equipment	33.3

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
(j) Non-financial assets (continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income in the profit or loss.

ii. Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years). Costs associated with maintaining computer software programs are recognised as an expense when incurred.

(k) Impairment of non-financial assets

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period. No indicators of impairment were identified therefore no non-financial assets were impaired in 2018.

(l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less. For the Bank, cash and cash equivalents include: cash and non-restricted balances with Bank of Tanzania, Investment securities and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Bank of Tanzania. Cash and cash equivalents are carried at amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

(m) Employee benefits

i. Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

ii. Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

iii. Post-employment obligations

The Bank operates a defined contribution pension plans. The Bank has a statutory requirement to contribute to the Public Service Social Security Fund (PSSSF) and National Social Security Fund (NSSF), which are defined contribution schemes.

Bank contributes 15% of the required 20% of gross emoluments to the scheme and the contributions are recognised as an expense in the period to which they relate. The remaining 5% is deducted from employees. The subsidiary of the bank does not have any employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(n) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(o) Dividend

Dividend distribution to the Bank's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Bank's shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) in the consolidated and Bank financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares.

(q) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.
Leases of property, plant and equipment where the Group has substantially, all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other longterm payables. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(r) Contingencies and commitments

Transactions are classified as contingencies where the Bank and its subsidiary obligations depend on uncertain future events. Items are classified as commitments where the Bank and its subsidiary commit themselves to future transactions if the items will result in the acquisition of assets.

Financial guarantees
Financial guarantees are initially recognised in the consolidated and Bank financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation.

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

Undrawn commitments
These are commitments the Bank has made to extend credit to customers and are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

(s) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of Consolidated and Bank financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Measurement of the expected credit loss allowance

The Group measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). The Group uses a number of significant judgements in applying the accounting requirements for measuring ECL, such as:

- Determination criteria for significant increase in credit risk;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and the associated ECL; and
- Estimating Probability of default, Exposure at Default and Loss Given Default

Detailed information about the judgement and estimates made by the Group are explained under note 6.

(b) Property and equipment, leased premises refurbishments and intangible assets

Critical estimates are made by the Directors in determining the useful lives of property and equipment, leased premises refurbishment and intangible assets as well as their residual values.

(c) Taxes

The Group is subjected to several taxes and levies by various government and quasi- government regulatory bodies. As a rule of thumb, the Group recognizes 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.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

(c) Taxes (continued)

The recognition of deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profit, future reversals of existing taxable temporary differences and ongoing tax planning and strategies. The deferred tax recognised in the Group's statement of financial position as at 31 December 2018 was TZS 62,132 million (2017: TZS 43,338 million). The judgment takes into consideration the effect of both positive and negative evidence, including historical financial performance, projections of future taxable income and future reversals of existing taxable temporary differences.

(d) Provisions

The Bank and Group have provided for the liabilities arising out of contractual obligations. The closing balance of provisions on litigations amounted to TZS 3,519 million. (2017: TZS 2,784 million). Professional expert advice is taken on establishing litigation provisions. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgements than other types of provisions. When cases are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists as a result of a past event, estimating the probability of outflows and making estimates of the amount of any outflows that may arise. As matters progress through various stages of the cases, Management together with legal advisers evaluate on an ongoing basis whether provisions should be recognised, and the estimated amounts of any such provisions, revising previous judgements and estimates as appropriate.

(e) Fair valuation of financial instruments

The fair value of financial instruments traded in active markets at the financial reporting date is based on their quoted bid market price or dealer price quotations without any deductions for transaction costs. For all other financial assets not listed in an active market, the fair value is determined by using appropriate valuation techniques.

In determining the fair value of government securities that are designated as fair value through other comprehensive income, the Bank uses yields of similar instruments traded in Bank of Tanzania's auctions. Changes in valuation assumptions could affect the reported fair value of financial instruments. For example, to the extent that the directors increased the yield rate by 10 basis points, the fair values would be estimated at TZS 15,991 million (2017: TZS 901 million) as compared to their reported fair value of TZS 15,242 million at 31 December 2018 (2017: TZS 870 million). If the yield rate had decreased by 10 basis points the fair value would be estimated at TZS 15,318 million (2017: TZS 999 million).

In determining the fair value of unquoted equity investment in TMRC, the Bank used a price of recent transaction of the shares of the Company. If the price of the shares would have increased/decreased by 10% the fair value of the investments would have been increased/decreased by TZS 292 million.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

5. SEGMENT REPORTING

The Group has the following business segments: Treasury, Retail, Agribusiness, Wholesale banking and UJVC (the Bank's subsidiary). The operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Team (The Chief Operating Decision-Maker), which is responsible for allocating resources to the reportable segments and assessing their performances. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

Operating segments

The Group comprises the following main operating segments:

- ***Wholesale Banking*** - includes loans, deposits and other transactions and balances with corporate customers
- ***Retail Banking*** - includes loans, deposits and other transactions and balances with retail customers
- ***Agribusiness*** – includes loans, deposits and other transaction and balances with customers in the agriculture business
- ***Treasury*** - undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.
- ***UJVC*** – includes operations of Upanga Joint Venture Company, a subsidiary of the Bank.

Revenue and assets reported to the Bank's management team are measured in a manner consistent with that of the financial statements.

In arriving to segmented net interest income, an internal allocation of interest income and interest expenses between businesses has been done to recognise and measure how much each source of funding and each user of funding is contributing to overall profitability of the Bank. Operating expenses for the Bank has also been allocated to the business using an internal agreed allocation ratio.

All customers are based in Tanzania, except for interbank placements with corresponding banks. There was no income deriving from transactions with a single external customer that amounted to 10% or more of the Group's total income.

The segment information provided to the Bank's Management Team for the reportable segments for the year ended 31 December 2018 is as follows (all amounts in TZS million):

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING (CONTINUED)
Operating segments (Continued)

2018	Treasury		Retail banking	Agri-business	UJVC	(Eliminations)/ consolidation	Total
Interest income	100,234	75,618	409,122	16,664	-	(1,083)	600,555
Interest expense	(6,740)	(41,146)	(56,058)	(5,671)	(1,083)	1,083	(109,615)
Net Interest Income	**93,494**	**34,472**	**353,064**	**10,993**	**(1,083)**	**-**	**490,940**
Loan impairment charges	-	(59,496)	(62,296)	(15,513)	-	-	(137,305)
Net fees and commission, trading, foreign exchange and other income	20,914	33,036	138,208	3,718	5,980	(6,033)	195,823
Employee benefits expense	(15,784)	(31,568)	(98,859)	(19,938)	-	-	(166,149)
General and administrative expenses	(17,370)	(34,739)	(108,789)	(21,940)	(205)	-	(183,043)
Depreciation and amortization	(5,696)	(11,394)	(35,680)	(7,196)	(1,971)	6,033	(55,904)
Profit /(loss) before tax	**75,558**	**(69,689)**	**185,648**	**(49,876)**	**2,721**	**-**	**144,362**
Income tax provision	(23,460)	21,638	(57,642)	15,486	577	-	(43,401)
Profit after tax	**52,098**	**(48,051)**	**128,006**	**(34,390)**	**3,298**	**-**	**100,961**
Segment assets, liabilities and equity							
Total assets	**2,280,442**		**2,547,557**	**137,253**	**56,171**	**(61,721)**	**5,676,213**
Total liabilities and equity	**1,357,096**		**2,947,962**	**78,194**	**56,171**	**(61,721)**	**5,676,213**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING (CONTINUED)

The segment information provided to the Bank's Management Team for the reportable segments for the year ended 31 December 2017 is as follows (all amounts in TZS million):

2017	Treasury	Wholesale banking	Retail banking	Agribusiness	UJVC	(Eliminations)/ consolidation	Total
Interest income	117,876	82,823	374,956	11,337	-	(1,480)	585,512
Interest expense	(641)	(59,195)	(56,059)	(4,396)	(1,480.00)	1,480	(120,291)
Net Interest Income	**117,235**	**23,628**	**318,897**	**6,941**	**(1,480)**	**-**	**465,221**
Loan impairment charges	-	(65,498)	(58,948)	(6,550)	-	-	(130,996)
Net fees and commission, foreign exchange and other income	17,759	29,336	107,519	2,637	5,632	(6,002)	156,881
Employee benefits expense	(14,695)	(29,390)	(92,038)	(18,563)	-	-	(154,686)
General and administrative expenses	(16,255)	(32,511)	(101,810)	(20,534)	(270)	6,002	(165,378)
Depreciation and amortization	(2,779)	(5,559)	(17,408)	(3,511)	(1,971)	-	(31,228)
Profit before tax	**101,265**	**(79,994)**	**156,212**	**(39,580)**	**1,911**	**-**	**139,814**
Income tax provision	(32,611)	25,761	(50,304)	12,746	204	-	(44,205)
Profit after tax	**68,654**	**(54,233)**	**105,908**	**(26,834)**	**2,115**	**-**	**95,609**
Segment assets, liabilities and equity							
Total assets	**2,615,162**	**683,245**	**2,112,741**	**95,854**	**46,578**	**(54,053)**	**5,499,527**
Total liabilities and equity	**951,887**	**1,701,709**	**2,612,837**	**240,569**	**46,578**	**(54,053)**	**5,499,527**

6. FINANCIAL RISK MANAGEMENT

The Bank's subsidiary does not have significant operations (Note 22 (b)). The financial assets and liabilities mainly consist of loans from related parties that are eliminated on consolidation and other assets and liabilities that are not material to the Group. Consequently, the financial risk management information presented below relates only to the Bank.

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

Risk management is carried out by the Risk Department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk, market risk (foreign exchange risk, interest risk and price risk) and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

6.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Management therefore, carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in the credit risk management team of the Bank and reported to the Board of Directors and heads of department regularly.

6.1.1 Credit risk measurement

Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. The Loan book is split into Term Loans (Secured & unsecured), Agribusiness and off-balance sheet items (these include overdrafts, Letters of Credit and Guarantees).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit Risk (Continued)

6.1.1 Credit risk measurement (Continued)

The Group considers a term loan to be in default if the repayment of the loan is more than 90 days past due for all product types except salaried workers' loans. Term loans under the salaried workers' loans are in default if the repayments on the loans are more than 180 days past due. Whilst the Group considers Agribusiness loans to be in default if the bullet repayment on the loan is more than 90 days past due and further considers a revolving facility in default if the facility is drawn above the loan limit for more than 90 consecutive days during the lifetime of the facility or if the drawn amount is still outstanding 90 days after maturity of the facility or if a related term loan is in default.

The Group estimates the Loss Given Default for both term loan (secured and unsecured) and Agribusiness loans based on recoveries on loans that defaulted and were written off and collections from loans that defaulted but were not written off while, for off balance sheet items, the probability of default and loss given default component for revolving facilities has been combined to determine a loss rate.

Exposure at Default for term loans is estimated as contractual rundown on the loans. For Agribusiness loans this is estimated as the outstanding balance on the facility while for the off-balance sheet items the exposure at default is estimated by determining a credit conversion factor (CCF).

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all customers are segmented into five rating classes as shown below:

	Number of days past due	
Bank's rating	Microloans	Other loans
Current	0	0 - 30
Especially mentioned	1 - 30	31 - 90
Sub-standard	31 - 60	91 -180
Doubtful	61 - 90	181 - 360
Loss	91 or more	361 and more

For internal monitoring of balances with other banks, banks are rated into three categories based on their financial position. Additionally, qualitative characteristics is taken into consideration when scoring a counterparty. Counterparts with history of default are usually rated as Medium to High risk and dealing limits are cancelled.

Bank's rating	Score	Staging
Defaulted	Any	Stage 3
High	2.51 - 3	Stage 2
Medium	1.51 – 2.5	Stage 1
Low	1 - 1.51	Stage 1

The Bank's balances with other banks as at 31 December 2018, are all of low risk.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit Risk (Continued)

6.1.2 Risk limit control and mitigation policies

(a) Lending limits

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

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

(b) Collateral

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

- Mortgages over residential and commercial properties;
- Cash collaterals;
- Charges over business assets such as inventory and accounts receivable;
- Government guarantees; and
- Charges over financial instruments such as debt securities and equities.

Loans other than Salaried Workers Loans are generally secured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.2 Risk limit control and mitigation policies (Continued)

(b) Collateral (Continued)

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Credit impaired assets (amounts in TZS Millions)	Gross exposure	Impairment allowance	Carrying amount	Market Value of Collateral
MSE	17,442	16,217	1,225	-
SWL	13,802	13,729	73	-
Other consumer loans	3,767	3,505	262	213
Corporate Customers	111,150	45,737	65,413	153,180
SME	26,567	11,231	15,336	53,973
Agribusiness	18,085	8,241	9,844	21,475
Total	**190,813**	**98,660**	**92,153**	**228,841**

(c) Credit-related commitments

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

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

6.1.3: Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- 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 Group.
- 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. Refer to note 6.1.3.1 for a description of how the Group determines when a significant increase in credit risk has occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.3: Expected credit loss measurement (Continued)

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 6.1.3.2 for a description of how the Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 6.1.3.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 6.1.3.4 includes an explanation of how the Group has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

- Product type (e.g. Overdraft, Term loans, Letter of credit e.t.c)
- Repayment type (e.g. Repayment/Interest only)
- LTV ratio for retail mortgages
- Credit risk grading
- Industry – Agribusiness loans are assessed independently in their own modal
- Collateral type – whether secured or unsecured

The following exposures are assessed individually:

- Stage 3 loans with current exposure above TZS 100 million
- Properties in repossession proceedings

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.3: Expected credit loss measurement (Continued)

6.1.3.1: Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experience a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Qualitative criteria

Loans and advances to customers

A loan facility is assessed to have significant increase in credit risk if the borrower meets one or more of the following criteria:

- Direct debit cancellation;
- Extension to the terms granted;
- Previous arrears within the last 12 months;
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default;
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans; and
- Identified fraudulent activities in issuing the loan

The assessment of SICR incorporates forward-looking information and is performed on an annual basis at a portfolio level. A watch list is used to monitor credit risk on a monthly basis through Loan Portfolio Quality (LPQ) committee. This assessment is performed at the counterparty level. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Loans and advances to banks

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

- Significant counterparty management restructuring or re-organisation due to prolonged poor performance of the entity
- Significant advance change in regulatory, economic, or technological environment of the borrower that results in a significant change in ability to meet its debt obligations; and
- Significant reductions in financial support from a parent entity that resulted to significant adverse change of operating results of the counterparty.

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.3: Expected credit loss measurement (Continued)

6.1.3.1: Significant increase in credit risk (SICR)

Government securities

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

- The government has received a low credit rating ("C") by the International rating agencies; or
- The government has initiated debt restructuring process.

Quantitative criteria:

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Low credit risk exemption

Government securities such as treasury bills and bonds measured at amortised cost and at fair value through other comprehensive income are classified as low credit risk financial instruments and impairment will be recorded only if there is evidence of expected default on Government securities. It is important to note that there is no history of default on the Tanzania Government securities.

6.1.3.2: Definition of default and credit impaired assets

Loans and advances to customers

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative

The Group considers a term loan to be in default if the repayments on the loan are more than 90 days past due for all product types except salaried workers' loans. Term loans under the salaried workers' loans are in default if the repayments on the loans are more than 180 days past due. Whilst the Group considers Agribusiness loans to be in default if the bullet repayment on the loan is more than 90 days past due and further considering a revolving facility in default if the facility is drawn above the loan limit for more than 90 consecutive days during the lifetime of the facility or if the drawn amount is still outstanding 90 days after maturity of the facility.

Qualitative

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.3: Expected credit loss measurement (Continued)

6.1.3.2: Definition of default and credit impaired assets (Continued)

- the borrower is in long-term forbearance;
- the borrower is deceased;
- the borrower is insolvent;
- the borrower is in breach of financial covenant(s);
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty;
- Fraudulent activities were conducted in issuance of the loan;
- It is becoming probable that the borrower will enter bankruptcy; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

Loans and advances to banks

For balances due 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 counterpart is taken under management by Statutory Manager;
- When counterpart licence has been revoked by Central Banks; and
- When counterpart has been 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 to the extent of 30 days delay;
- When the government is downgraded to below "C" Status by International Rating Agency such as Moody's. S&P or Fitch; and
- When the government is declared default/bankrupt by responsible agencies like World Bank or IMF.

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.3: Expected credit loss measurement (Continued)

6.1.3.3: Measuring ECL — Explanation of inputs, assumptions and estimation techniques

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group'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 ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.3: Expected credit loss measurement (Continued)

6.1.3.4: Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD and vary between secured and unsecured loans and off-balance sheet exposure. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Bank's Strategy Team on an annual basis and provide the best estimate view of the economy over the next three years.

After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average growth rate (e.g. GDP) over a period of the past three years.

The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, the Bank's Strategy team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major segment type to ensure non-linearity are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2018 and 31 December 2018, for all the Group concluded that three scenarios appropriately captured non-linearity.

The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.3: Expected credit loss measurement (Continued)

6.1.3.4: Forward-looking information incorporated in the ECL models (Continued)

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

	2019	2020	2021
Credit growth in private sector			
Base	8%	10%	10%
Upside	11%	12%	14%
Downside	4%	5%	6%

The most significant period-end assumptions used for the ECL estimate as at 1 January 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

	2018	2019	2020
Credit growth in private sector (CGPS)			
Base	5%	8%	10%
Upside	6%	11%	12%
Downside	4%	4%	5%

The weightings assigned to each economic scenario at 1 January 2018 and 31 December 2018 was 80%, 10% and 10% for "base", "upside" and "downside" respectively.

If the credit growth in private sector changed by 10% expected loss allowance would have been as follows:

	Expected loss allowance	
Sensitivity Analysis	**Higher end TZS Millions**	**Lower end TZS Millions**
Secured term loans	15,918	15,570
Unsecured term loans	7,429	7,613
Overdraft facilities	3,908	3,653
Agribusiness loans	6,145	5,843
Off-balance sheet exposures	5,171	4,833
Total expected loss allowance	**32,426**	**37,512**

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.3: Expected credit loss measurement (Continued)

6.1.3.4: Forward-looking information incorporated in the ECL models (Continued)

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

6.1.4 Credit risk exposure

6.1.4.1: Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets

(a) Secured Term Loans

			2018 ECL Staging		2017
Amounts in TZS' Millions	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
Credit grade					
Current	745,712	-	-	745,712	721,569
Especially mentioned	-	131,529	-	131,529	10,337
Sub-standard	-	-	72,409	72,409	18,883
Doubtful	-	-	25,517	25,517	48,107
Loss	-	-	5,363	5,363	7,993
Gross Carrying amount	**745,712**	**131,529**	**103,289**	**980,530**	**806,889**
Loss allowance	(6,705)	(9,039)	(61,560)	(77,304)	(46,676)
Carrying amount	**739,007**	**122,490**	**41,729**	**903,226**	**760,213**

(b) Unsecured term loans

			2018 ECL Staging		2017
Amounts in TZS' Millions	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
Credit grade					
Current	1,898,047	-	-	1,898,047	1,581,742
Especially mentioned	-	14,665	-	14,665	9,330
Sub-standard	-	-	3,383	3,383	8,416
Doubtful	-	-	12,069	12,069	10,217
Loss	-	-	4,181	4,181	5,593
Gross carrying amount	**1,898,047**	**14,665**	**19,633**	**1,932,345**	**1,615,298**
Loss allowance	(7,368)	(126)	(17,181)	(24,675)	(23,687)
Carrying amount	**1,890,679**	**14,539**	**2,452**	**1,907,670**	**1,591,611**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.4 Credit risk exposure (Continued)

6.1.4.1: Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

(c) Agribusiness

	2018 ECL Staging				2017
Amounts in TZS' Millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Credit grade					
Current	65,867	-	-	65,867	30,558
Especially mentioned	-	606	-	606	213
Sub-standard	-	-	3,466	3,466	6,176
Doubtful	-	-	1,480	1,480	459
Loss	-	-	155	155	407
Gross carrying amount	**65,867**	**606**	**5,101**	**71,574**	**37,813**
Loss allowance	(5,866)	(54)	(2,118)	(8,038)	(5,921)
Net carrying amount	**60,001**	**552**	**2,983**	**63,536**	**31,892**

(d) Overdraft facilities

	2018 ECL Staging				2017
Amounts in TZS' Millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Credit grade					
Current	319,411	-	-	319,411	347,938
Especially mentioned	-	13,325	-	13,325	1,223
Sub-standard	-	-	16,917	16,917	19,850
Doubtful	-	-	27,065	27,065	56,116
Loss	-	-	22,226	22,226	6,870
Gross carrying amount	**319,411**	**13,325**	**66,208**	**398,944**	**431,997**
Loss allowance	(3,648)	(133)	(17,801)	(21,582)	(43,406)
Carrying amount	**315,763**	**13,192**	**48,407**	**377,362**	**388,591**

*(e) Off balance sheet exposures**

	2018	2017
Undrawn commitments	49,122	46,830
Financial Guarantee	361,365	355,930
Gross carrying amount	**410,487**	**402,760**
Loss allowance	(5,002)	(2,953)
Net carrying amount	**405,485**	**399,807**

*The off-balance sheet exposures under the credit risk note include only loan commitment and financial contract that fall within the scope of IFRS 9. Provision for loss allowance relating to off-balance sheet exposures is disclosed under other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.5: Loss allowance

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period).

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

(a) Secured term loans

	Stage 1	Stage 2	Stage 3	
Amounts in TZS' Millions	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
As at 1 January 2018	**4,344**	**75**	**42,257**	**46,676**
Movements				
Transfer from stage 1 to stage 2	-	5,446	446	5,892
Transfer from stage 1 to stage 3	-	-	45,603	45,603
Transfer from stage 2 to stage 1	(6)	-	(6)	(12)
Transfers from stage 2 to stage 3	-	-	4,232	4,232
Write-offs	-	-	15,037	15,037
New financial assets originated or purchased	4,610	3,135	1,413	9,158
Changes to model assumptions and methodologies	168	2	8,597	8,767
Total net P&L charge during the period	**4,772**	**8,583**	**75,322**	**88,677**
Other movements with no P&L impact				
Write-offs	(2,411)	381	(56,019)	(58,049)
As at 31 December 2018	**6,705**	**9,039**	**61,560**	**77,304**

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.5: Loss allowance (Continued)

(b) Unsecured term loans

Amounts in TZS' Millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	**8,842**	**209**	**14,636**	**23,687**
Movements				
Transfer from stage 1 to stage 2	-	19	19	38
Transfer from stage 3 to stage 1	3	-	3	6
Transfer from stage 2 to stage 1	(15)	-	(15)	(30)
New financial assets originated or purchased	881	14	872	1,767
Changes to model assumptions and methodologies	(180)	(10)	(189)	(379)
Write off	-	-	6,337	6,337
Total net P&L charge during the period	**689**	**23**	**7,027**	**7,739**
Other movements with no P&L impact				
Write-offs	(2,163)	(106)	(4,482)	(6,751)
As at 31 December 2018	**7,368**	**126**	**17,181**	**24,675**

(c) Agribusiness

Amounts in TZS' Millions	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	**1,919**	**-**	**41,487**	**43,406**
Movements				
Transfer from stage 1 to stage 2	-	(4)	-	(4)
Transfer from stage 1 to stage 3	-	-	597	597
Transfer from stage 2 to stage 3	-	-	102	102
New financial assets originated or purchased	5,453	35	-	5,488
Changes to model assumptions and methodologies	(59)	-	549	490
Write off	-	-	174	174
Total net P&L charge during the period	**5,394**	**31**	**1,422**	**6,847**
Other movements with no P&L impact				
Write-offs	(2,777)	(5)	(1,948)	(4,730)
As at 31 December 2018	**5,866**	**54**	**2,118**	**8,038**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.5: Loss allowance (Continued)

(d) Overdraft facilities

	Stage 1	Stage 2	Stage 3	
Amounts in TZS' Millions	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	**1,919**	**-**	**41,487**	**43,406**
Movements				
Transfer from stage 1 to stage 2	-	63	-	63
Transfer from stage 1 to stage 3	-	-	16,893	16,893
Transfers from stage 2 to stage 3	-	-	3	3
New financial assets originated or purchased	613	6	732	1,351
Changes to model assumptions and methodologies	1,625	-	61	1,686
Write off	-	-	11,997	11,997
Total net P&L charge during the period	**2,238**	**69**	**29,686**	**31,993**
Other movements with no P&L impact				
Write-offs	(509)	64	(53,372)	(53,817)
As at 31 December 2018	**3,648**	**133**	**17,801**	**21,582**

(e) Off-balance sheet items

	TZS' Millions
As at 1 January 2018	**2,953**
Movements	
New financial guarantees	2,360
Matured financial guarantees	(311)
Total net P&L charge during the period	**2,049**
As at 31 December 2018	**5,002**

Allowance charged to profit or loss during the year

Secured loans	6.1.5 (a)	88,677
Unsecured loans	6.1.5 (b)	7,739
Agribusiness loans	6.1.5 (c)	6,847
Overdraft facilities	6.1.5 (d)	31,993
Off-balance sheet exposures	6.1.5 (e)	2,049
As at 31 December 2018		**137,305**

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.5: Loss allowance (Continued)

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

- The high volume of new Salaried Workers Loans and Corporate loans originated during the period, aligned with the Group's organic growth objective, increase the gross carrying amount of the unsecured book by 21% and secured book by 83%, with a corresponding TZS 881 million increase in loss allowance for unsecured book and TZS 4.6 billion for secured book measured on a 12-month basis.
- The write-off of Corporate loans and SWL with a total gross carrying amount of TZS 123 billion resulted in the reduction of the Stage 3 loss allowance by the same amount.

The following table further explains changes in the gross carrying amount and explains their significance to the changes in the loss allowance for the same portfolio as discussed above.

(a) Secured term loans

	Stage 1	Stage 2	Stage 3	
Amounts in TZS' Millions	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
As at 1 January 2018	715,538	20,712	70,639	806,889
Movements				
Transfer from stage 1 to stage 2	(39,295)	39,295	-	-
Transfer from stage 3 to stage 1	13	-	(13)	-
Transfer from stage 2 to stage 1	631	(631)	-	-
Transfer from stage 1 to stage 3	(76,456)	-	76,456	-
Transfer from stage 2 to stage 3	(5,662)	-	5,662	-
New financial assets originated	595,728	92,819	6,566	695,113
Write-offs	(2,410)	-	(56,021)	(58,431)
De-recognition	(442,375)	(20,666)	-	(463,041)
As at 31 December 2018	**745,712**	**131,529**	**103,289**	**980,530**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.5: Loss allowance (Continued)

(b) Unsecured term loans

	Stage 1	Stage 2	Stage 3	
Amounts in TZS' Millions	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	1,577,524	20,543	17,231	1,615,298
Movements				
Transfer from stage 1 to stage 2	(11,234)	11,234	-	-
Transfer from stage 3 to stage 1	2,883	-	(2,883)	-
Transfer from stage 3 to stage 2	-	915	(915)	-
Transfer from stage 2 to stage 1	3,074	(3,074)	-	-
Transfer from stage 1 to stage 3	(13,040)	-	13,040	-
Transfer from stage 2 to stage 3	-	(3,873)	3,873	-
New financial assets originated	340,656	1,419	183	342,258
Write-offs	(1,816)	(106)	(4,680)	(6,602)
De-recognition	-	(12,393)	(6,216)	(18,609)
As at 31 December 2018	**1,898,047**	**14,665**	**19,633**	**1,932,345**

(c) Agribusiness

	Stage 1	Stage 2	Stage 3	
Amounts in TZS' Millions	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	30,590	311	6,912	37,813
Movements				
Transfer from stage 1 to stage 2	(215)	215	-	-
Transfer from stage 1 to stage 3	(2,533)	-	2,533	-
Transfer from stage 2 to stage 3	-	(122)	122	-
New financial assets originated	61,285	391	-	61,676
Write-offs	(2,781)	(5)	(1,949)	(4,735)
De-recognition	(20,479)	(184)	(2,517)	(23,180)
As at 31 December 2018	**65,867**	**606**	**5,101**	**71,574**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.5: Loss allowance (Continued)

(d) Overdraft facilities

	Stage 1	Stage 2	Stage 3	
Amounts in TZS' Millions	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	351,465	-	80,532	431,997
Movements				
Transfer from stage 1 to stage 2	(12,639)	12,639	-	-
Transfer from stage 1 to stage 3	(61,726)	-	61,726	-
Transfer from stage 2 to stage 3	-	(11)	11	-
New financial assets originated	53,156	750	1,766	55,672
Write-offs	(509)	-	(53,373)	(53,882)
De-recognition	(10,336)	(53)	(24,454)	(34,843)
As at 31 December 2018	**319,411**	**13,325**	**66,208**	**398,944**

6.1.6 Write-off policy

The Group writes off financial assets that have been past due for more than 365 days. The Bank may write-off some financial assets in whole or in part before the 365 days threshold when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was TZS 123 billion. The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

6.1.7. Modification of loans

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the period as part of the Bank's restructuring activities and their respective effect on the Bank's financial performance:

Amounts in TZS Millions	Loans and advance to customers
Gross amount before modification	31,132
Net modification loss	307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.7. Modification of loans (Continued)

The net modification loss above represents the changes in the gross carrying amounts (i.e. before impairment allowance) of the financial assets from immediately before, to immediately after, modification. In the significant majority of cases, this gross loss had been anticipated and already materially reflected within the ECL allowance. The gross carrying amount of restructured facilities held as at 31 December 2018 was TZS 28,702 million.

6.1.8 Amounts due from banks

Balances due from other banks are categorized as stage 1. The Loss Given Default (LGD) for these assets is zero hence no impairment was recognized as at 31 December 2018 (2017: Nil). The expected credit Loss is expected to be insignificant. The bank holds treasury bonds and bills with face value of TZS 6.48 billion and TZS 20 billion respectively in respect to these balances (2017: Treasury bonds of TZS 3 billion and treasury bills of TZS 38.9 billion).

6.1.9 Debt securities, treasury bills and other eligible bills

The Bank hold investments in Treasury Bills and Treasury bonds issued by the Government. At the end of reporting period, these investments were categorized as stage 1. There are no credit ratings for these investments. The Loss Given Default (LGD) for these assets is almost Nil hence no impairment was recognized as at 31 December 2018 (2017: Nil).

6.1.10 Balances with Bank of Tanzania and other assets

Other assets and balances with Bank of Tanzania are categorized as stage 1 and stage 3. The simplified model has been used for estimation of ECL. The impact has been determined to be insignificant.

6.1.11 Repossessed collateral

During the year, the Bank did not obtain assets by taking possession of collateral held as security. Repossessed properties are usually sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

6.1.12 Concentration of risks of financial assets with credit risk exposure

a. Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2018. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.12 Concentration of risks of financial assets with credit risk exposure (Continued)

	Tanzania	Europe	America	Others	Total
Credit risk exposures relating to on-balance sheet assets are as follows:	TZS Millions	TZS Millions	TZS Millions	TZS Millions	TZS Millions
31 December 2018					
Balances with the Bank of Tanzania	667,713	-	-	-	667,713
Placement and balances with other banks	51,099	69,675	11,176	42,441	174,391
Investment in Government securities					
• Amortised cost	724,943	-	-	-	724,943
• Fair value through Other Comprehensive Income	15,242	-	-	-	15,242
Loans and advances to customers:					
Loans to individuals:					
- MSEs	347,203	-	-	-	347,203
- Other consumer loans	125,517	-	-	-	125,517
• Salaried workers loans	1,802,798	-	-	-	1,802,798
Loans to corporate entities:					
- Corporate customers	636,858	-	-	-	636,858
- SMEs	212,950	-	-	-	212,950
• Agribusiness loans	126,468	-	-	-	126,468
Other assets (excluding prepayments)	34,742	-	-	-	34,742
As at 31 December 2018	**4,745,533**	**69,675**	**11,176**	**42,441**	**4,868,825**
Credit risk exposures relating to off-balance sheet assets are as follows:					
Guarantees and indemnities (Note 38(a))	212,113	-	-	-	212,113
Undrawn commitments (Note 38(a))	129,355	-	-	-	129,355
Acceptances and letters of credit (Note 38(a))	200,899	-	-	-	200,899
As at 31 December 2018	**542,367**	-	-	-	**542,367**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.12 Concentration of risks of financial assets with credit risk exposure (Continued)

	Tanzania	Europe	America	Others	Total
	TZS Millions	TZS Millions	TZS Millions	TZS Millions	TZS Millions
Credit risk exposures relating to on-balance sheet assets are as follows:	**TZS Millions**	**TZS Millions**	**TZS Millions**	**TZS Millions**	**TZS Millions**
31 December 2017					
Balances with the Bank of Tanzania	798,007	-	-	-	798,007
Placement and balances with other banks	124,944	16,704	100,752	331	242,731
Investment in Government securities					
• Held to maturity	496,367	-	-	-	496,367
• Loans and receivable	422,732	-	-	-	422,732
• Available for sale	870	-	-	-	870
Loans and advances to customers:					
Loans to individuals:					
- MSEs	294,482	-	-	-	294,482
- Other consumer loans	32,343	-	-	-	32,343
• Salaried workers loans	1,566,409	-	-	-	1,566,409
Loans to corporate entities:					
- Corporate customers	609,797	-	-	-	609,797
- SMEs	192,760	-	-	-	192,760
• Agribusiness loans	91,257	-	-	-	91,257
Other assets (excluding prepayments)	32,340	-	-	-	32,340
As at 31 December 2017	**4,662,308**	**16,704**	**100,752**	**331**	**4,780,095**
Credit risk exposures relating to off-balance sheet assets are as follows:					
Guarantees and indemnities (Note 38(a))	67,028	-	-	-	67,028
Undrawn commitments (Note 38(a))	99,289	-	-	-	99,289
Acceptances and letters of credit (Note 38(a))	330,329	-	-	-	330,329
As at 31 December 2017	**496,646**	-	-	-	**496,646**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.12 Concentration of risks of financial assets with credit risk exposure (Continued)

b. Industry sectors

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

31 December 2018	Financial institutions	Manu-facturing	Trading and commercial	Transport and communication	Wholesale and retail	Agriculture	Individuals	Others	Total
Balances with the Bank of Tanzania	667,713	-	-	-	-	-	-	-	667,713
Placement and balances with other banks	174,391	-	-	-	-	-	-	-	174,391
Investment in Government securities		-	-	-	-	-	-	-	
- Amortised cost	724,943	-	-	-	-	-	-	-	724,943
- Fair value through Other comprehensive income	15,242	-	-	-	-	-	-	-	15,242
Loans and advances to customers:									
Loans to individuals:									
- MSE	-	15	12,218	-	326,771	-	8,199	-	347,203
• Other consumer loans	-	-	-	-	-	-	-	125,517	125,517
• Salaries workers loans	-	-	-	-	-	-	1,802,798	-	1,802,798
Loans to corporate entities:	-	-	-	-	-	-	-	-	
- Corporate customers	-	99,952	196,764	97,420	230,212	12,510	-	-	636,858
- SMEs	-	6,454	135,872	5,564	65,060	-	-	-	212,950
- Agribusiness	-	-	20,510	-	22,142	79,429	-	4,387	126,468
Other assets (excluding prepayments)	-	-	-	-	-	-	-	34,742	34,742
As at 31 December 2018	**1,582,289**	**106,421**	**365,364**	**102,984**	**644,185**	**91,939**	**1,810,997**	**164,646**	**4,868,825**
Credit risk exposures relating to off-balance sheet assets are as follows:									
Guarantees and indemnities - (Note 38(a))	-	-	-	106	15,790	1,598	-	194,619	212,113
Undrawn commitments (Note 38(a))	2,886	44,100	5,417	6,483	54,283	11,073	-	5,113	129,355
Acceptances and letters of credit (Note 38(a))	2,470	8,364	86,935	21,717	33,406	1,917	-	46,090	200,899
As at 31 December 2018	**5,356**	**52,464**	**92,352**	**28,306**	**103,479**	**14,588**	**-**	**245,822**	**542,367**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.1 Credit Risk (Continued)

6.1.12 Concentration of risks of financial assets with credit risk exposure (Continued)

31 December 2017	Financial institutions	Manu-facturing	Trading and commercial	Transport and commu-nication	Wholesale and retail	Agriculture	Individ-uals	Others	Total
Balances with the Bank of Tanzania	798,007	-	-	-	-	-	-	-	798,007
Placement and balances with other banks	242,731	-	-	-	-	-	-	-	242,731
Investment in Government securities	-	-	-	-	-	-	-	-	-
- Held to maturity	496,367	-	-	-	-	-	-	-	496,367
- Loans and receivable	422,732	-	-	-	-	-	-	-	422,732
- Available for sale	870	-	-	-	-	-	-	-	870
Loans and advances to customers:									
Loans to individuals:									
- MSE	14	1,356	32,960	742	111,873	1,708	1,238	144,591	294,482
- Other consumer loans	-	-	1,573	520	4,656	47	24,477	1,070	32,343
- Salaries workers loans	5,375	348	25,848	2,602	7,321	2,978	1,411,466	110,471	1,566,409
Loans to corporate entities:									
- Corporate customers	12,962	195,648	180,923	113,377	42,519	11,001	-	53,367	609,797
- SMEs	-	4,938	31,622	2,017	113,638	2,069	1,655	36,821	192,760
- Agribusiness	-	4,579	75	-	21,562	62,076	8	2,957	91,257
Other assets (excluding prepayments)	-	-	-	-	-	-	-	32,340	32,340
As at 31 December 2017	**1,979,058**	**206,869**	**273,001**	**119,258**	**301,569**	**79,879**	**1,438,844**	**381,617**	**4,780,095**

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

	Financial institutions	Manu-facturing	Trading and commercial	Transport and commu-nication	Wholesale and retail	Agriculture	Individ-uals	Others	Total
Guarantees and indemnities - (Note 38(a))	-	366	17,991	1,539	46,297	-	-	835	67,028
Undrawn commitments (Note 38(a))	-	34,566	18,157	1,169	6,647	37,997	575	178	99,289
Acceptances and letters of credit (Note 38(a))	-	27,237	219,942	37,826	889	2,569	-	41,865	330,329
As at 31 December 2017	**-**	**62,169**	**256,090**	**40,534**	**53,833**	**40,566**	**575**	**42,878**	**496,646**

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.2 Market Risk

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

The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly. Regular reports are submitted to the Banks Assets and Liability Committee (ALCO) and heads of department.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

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

6.2.1 Foreign exchange risk

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

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

Concentrations of currency risk - on - and off - balance sheet financial instruments:

As at 31 December 2018	USD	EURO	GBP	Others	Total
	Millions	Millions	Millions	Millions	Millions
Assets					
Cash and balances with Bank of Tanzania	150,067	4,730	860	1,008	156,665
Placement and balances with other banks	76,434	33,071	13,292	528	123,325
Loans and advances to customers	263,434	-	-	-	263,434
Other assets (excluding prepayments)	283	26	-	-	309
Total financial assets	**490,218**	**37,827**	**14,152**	**1,536**	**543,733**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.2 Market Risk (Continued)

6.2.1 Foreign exchange risk (Continued)

Liabilities					
Deposits from customers	325,087	12,168	1,097	-	338,352
Long term borrowing	174,647	-	-	-	174,647
Other liabilities (excluding non-financial other liabilities)	1,761	4	3	-	1,768
Total financial liabilities	**501,495**	**12,172**	**1,100**	**-**	**514,767**
Net on-balance sheet financial position	**(11,277)**	**25,655**	**13,052**	**1,536**	**28,966**
Off balance sheet position					
Guarantee and indemnities	139,934	-	-	-	139,934
Undrawn commitments	47,833	-	-	-	47,833
Acceptance and letters of credit	179,671	11,428	1,029	-	192,128
	367,438	**11,428**	**1,029**	**-**	**379,895**

Concentrations of currency risk - on - and off - balance sheet financial instruments:

As at 31 December 2017	USD	EURO	GBP	Others	Total
	Millions	Millions	Millions	Millions	Millions
Assets					
Cash and balances with Bank of Tanzania	153,073	4,843	625	88	158,629
Placement and balances with other banks	130,752	9,980	6,396	724	147,852
Loans and advances to customers	255,741	-	-	-	255,741
Other assets (excluding prepayments)	797	27	-	-	824
Total financial assets	**540,363**	**14,850**	**7,021**	**812**	**563,046**
Liabilities					
Deposits from customers	309,063	12,868	794	-	322,725
Long term borrowing	192,064	-	-	-	192,064
Other liabilities (excluding non-financial other liabilities)	3,408	4	2	-	3,414
Total financial liabilities	**504,535**	**12,872**	**796**	**-**	**518,203**
Net on-balance sheet financial position	**35,828**	**1,978**	**6,225**	**812**	**44,843**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.2 Market Risk (Continued)

6.2.1 Foreign exchange risk (Continued)

Off balance sheet position					
Guarantee and indemnities	16,500	19	-	-	16,519
Undrawn commitments	40,821	-	-	-	40,821
Acceptance and letters of credit	311,154	13,211	1,375	648	326,388
	368,475	**13,230**	**1,375**	**648**	**383,728**

Foreign exchange sensitivity analysis

The impact of fluctuation of Bank's post tax profit for the year resulting from foreign exchange movements, keeping all other variables held constant on translation of foreign currency dominated cash and balances with the Bank of Tanzania, placements and balances with other banks, loans and deposits from customers and other banks is analysed in the table below

	% change in exchange rate	2018	2017
		TZS Million	TZS Million
USD	10%	1,128	3,583
EURO	10%	2,566	198
GBP	10%	1,305	623

The effect of translation of placements and balances with other banks in other currencies (Kenyan shillings, Japanese Yen, Swiss Francs, Canadian dollars, Australian dollars, Norwegian Krona, Swedish Krona and South African Rand) is not considered to be significant.

6.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly by the Bank. The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.2 Market Risk (Continued)

6.2.2 Interest rate risk (Continued)

As at 31 December 2018	Up to 1 month TZS Millions	1 - 3 months TZS Millions	3 - 12 months TZS Millions	1 - 5 years TZS Millions	Over 5 years TZS Millions	Non-interest bearing TZS Millions	Total TZS Millions
Assets							
Cash and balances with Bank of Tanzania	-	-	-	-	-	1,070,422	1,070,422
Investment in Government securities							
• Amortised cost	26,806	239,284	162,771	233,875	62,207	-	724,943
• Fair value through other comprehensive income	-	-	-	38	15,204	-	15,242
Placement and balances with other banks	174,391	-	-	-	-	-	174,391
Loans and advances to customers	216,133	122,329	689,949	1,433,532	789,851	-	3,251,794
Equity Investments	-	-	-	-	-	2,920	2,920
Other assets (excluding prepayments)	-	-	-	-	-	34,742	34,742
Total financial assets	**417,330**	**361,613**	**852,720**	**1,667,445**	**867,262**	**1,108,084**	**5,274,454**
Liabilities							
Deposits from customers	1,772,398	144,940	223,335	164,726	-	2,022,208	4,327,607
Deposit from banks	20,770	-	-	-	-	-	20,770
Subordinated debt	2,782			17,048	51,142		70,972
Long term borrowing	4,404	69,000	84,728	143,256	-	-	301,388
Other liabilities (excluding non-financial other liabilities)	-	-	-	-	-	82,902	82,902
Total financial liabilities	**1,800,354**	**213,940**	**308,063**	**325,030**	**51,142**	**2,105,110**	**4,803,639**
Total interest repricing gap	**(1,383,024)**	**147,673**	**544,657**	**1,342,415**	**816,120**	**-**	**470,815**

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.2 Market Risk (Continued)

6.2.2 Interest rate risk (Continued)

As at 31 December 2017	Up to 1 month TZS Millions	1 - 3 months TZS Millions	3 - 12 months TZS Millions	1 - 5 years TZS Millions	Over 5 years TZS Millions	Non-interest bearing TZS Millions	Total TZS Millions
Assets							
Cash and balances with Bank of Tanzania	-	-	-	-	-	1,156,322	1,156,322
Investment in Government securities							
Held-to-maturity	29,545	30,876	127,132	284,478	24,336	-	496,367
• Loans and receivable	28,675	46,328	347,729	-	-	-	422,732
- Available for sale	-	870	-	-	-	-	870
Placement and balances with other banks	228,104	14,521	-	-	-	-	242,625
Loans and advances to customers	146,528	185,294	574,378	1,726,937	153,911	-	2,787,048
Equity Investments	-	-	-	-	-	1,740	1,740
Other assets (excluding prepayments)	-	-	-	-	-	32,340	32,340
Total financial assets	**432,852**	**277,889**	**1,049,239**	**2,011,415**	**178,247**	**1,190,402**	**5,140,044**
Liabilities							
Deposits from customers	1,677,939	161,754	232,068	3,973	-	2,196,415	4,272,149
Deposit from banks	149	-	-	-	-	-	149
Long term borrowing	-	28,261	83,655	225,014	-	-	336,930
Other liabilities (excluding non-financial other liabilities)	-	-	-	-	-	77,777	77,777
Total financial liabilities	**1,678,088**	**190,015**	**315,723**	**228,987**	**-**	**2,274,192**	**4,687,005**
Total interest repricing gap	**(1,245,236)**	**87,874**	**733,516**	**1,782,428**	**178,247**	**-**	**-**

Interest rate risk sensitivity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.2 Market Risk (Continued)

6.2.2 Interest rate risk (Continued)

The interest rate risk sensitivity of the net mismatch between interest bearing assets and liabilities up to 12 months is summarised below. This assumes a 1% adverse movement in interest rates over the period (amounts in TZS million).

Sensitivity period	Weighted average	Net Interest-Bearing Funding	Net position	Impact
2018				
Less than 30 days	(1,667)	(166,656)	164,990	1,650
1 year	40,632	840,883	(800,250)	(8,003)
2017				
Less than 30 days	(10,823)	(259,759)	248,936	(2,489)
1 year	(1,292,111)	(6,644)	(1,285,467)	12,855

6.3 Liquidity risk

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

6.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Bank's Asset and Liability Committee (ALCO), includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 6.3.3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.3 Liquidity risk (Continued)

6.3.2 Funding approach

Sources of liquidity are regularly reviewed by Bank's Asset and Liability Committee to maintain a wide diversification by currency, geography, provider, product and term.

6.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of reporting period. The amounts disclosed in the table below are the undiscounted cash flows. As at 31 December 2018, the interest-bearing deposits had a balance of TZS 2,312,723 million (2017: TZS 3,083,945 million).

	Up to1 month	1 - 3 months	3 - 12 months	Over 1 year	Total
	TZS millions	TZS millions	TZS millions	TZS millions	TZS millions
As at 31 December 2018					
Liabilities					
Deposits from customers	3,786,600	182,338	515,297	1,092,417	5,576,652
Placements and balances from other banks	20,770	-	-	-	20,770
Long term borrowing*	1,298	81,380	96,311	150,802	329,791
Subordinated debt*	795	4,345	7,285	118,363	130,788
Other liabilities (excluding non-financial liabilities)	82,902	-	-	-	82,902
Total liabilities	**3,892,365**	**268,063**	**618,893**	**1,361,582**	**6,140,903**
Assets held for managing liquidity	**1,524,219**	**361,613**	**852,720**	**2,534,707**	**5,273,259**
As at 31 December 2017					
Liabilities					
Deposits from customers	3,882,340	220,528	582,539	33,902	4,719,309
Placements and balances from other banks	149	-	-	-	149
Long term borrowing*	-	34,328	71,112	304,224	409,664
Other liabilities (excluding non-financial liabilities)	77,777	-	-	-	77,777
Total liabilities	**3,960,266**	**254,856**	**653,651**	**338,126**	**5,206,899**
Assets held for managing liquidity	**1,623,254**	**277,889**	**1,049,239**	**2,189,662**	**5,140,044**

* Includes interest payable on the loan up to its maturity date as per repayment schedule.The amount is determined by using the exchange rate and LIBOR rate at year-end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.3 Liquidity risk(Continued)

6.3.4 Assets held for managing liquidity risk

The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with the Bank of Tanzania (excluding SMR);
- Investment in government securities; and
- Placements with other banks

In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

6.4 Off-balance sheet items

(a) Undrawn commitments, outstanding letters of credit, guarantee and indemnities

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 38) are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 38) are also included below based on the earliest contractual maturity date.

	No later than 1 year	1 - 5 years	Total
	TZS' Millions	TZS' Millions	TZS' Millions
As at 31 December 2018			
Guarantee and indemnities	24,121	187,992	212,113
Undrawn commitments	129,355	-	129,355
Acceptance and letter of credit	200,899	-	200,899
Total	**354,375**	**187,992**	**542,367**
As at 31 December 2017			
Guarantee and indemnities	33,048	33,980	67,028
Undrawn commitments	99,289	-	99,289
Acceptance and letter of credit	301,183	29,146	330,329
Total	**433,520**	**63,126**	**496,646**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.5 Fair value of financial assets and liabilities

6.5.1 Fair value estimation

IFRS 13 requires the Bank to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

There were no transfers between the levels during the year.

i. Fair value of the Group financial assets and financial liabilities that are measured at fair value on recurring basis

The following table gives information about how the fair value of these financial assets and liabilities are determined:

Type	Fair value at 2018 TZS Millions	2017 TZS Millions	Hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable input to fair value
Investment in government securities	15,242	870	Level 2	Market observable inputs	N/A	N/A
Equity instruments	2,920	1,740	Level 2	Market observable inputs	N/A	N/A

Available for sale equity investments in TMRC have been reclassified to equity instruments at FVOCI on adoption of IFRS 9. As at 31 December 2017, the instruments cost was determined to be their fair value.

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.5 Fair value of financial assets and liabilities Continued)

ii. Fair value of financial assets and liabilities that are not measured at fair value

Cash and balances with Bank of Tanzania

The carrying amount of cash and balances with Bank of Tanzania is a reasonable approximation of fair value

Investment in government securities

Investment in government securities includes treasury bonds and treasury bills. The fair value of government securities has been determined by discounting the estimated future cash flows expected cash flows at current market yields as observed from rates of similar bills and bonds traded by Bank of Tanzania.

Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight advances is a reasonable approximation of fair value. The estimated fair value of fixed interest-bearing advances is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Deposits from banks and customers

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

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity

Borrowings

Significant portion of borrowing is benchmarked to LIBOR and therefore reprices at balance sheet date. Management has considered the impact of borrowings with fixed interest rate as insignificant to the total fair value of borrowings. The fair value of borrowings therefore approximates its carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.5 Fair value of financial assets and liabilities (Continued)

ii) Fair value of financial assets and liabilities that are not measured at fair value (Continued)

		Carrying amount		Fair value	
		2018	2017	2018	2017
GROUP	Hierarchy level	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
Financial assets					
Cash and balances with Bank of Tanzania	Level 2	1,070,422	1,156,329	1,070,422	1,156,329
Government securities at amortised cost (Treasury bonds)	Level 1	476,503	496,367	468,409	499,928
Government securities at amortised cost (Treasury bills)	Level 2	248,440	422,732	249,411	429,108
Placement and balances with other banks	Level 2	174,391	242,731	174,391	242,731
Loans and advances to customers	Level 3	3,241,401	2,771,732	3,240,652	2,771,572
Other assets (excluding prepayment)	Level 3	41,028	40,116	41,028	40,116
		5,252,185	**5,130,007**	**5,244,313**	**5,139,784**
Financial liabilities					
Deposits from customers	Level 3	4,315,220	4,272,058	4,315,220	4,272,058
Deposits from banks	Level 2	20,770	149	20,770	149
Subordinated debt	Level 3	70,972	-	70,972	-
Borrowings	Level 3	301,388	336,930	301,388	336,930
Other liabilities (Excluding non-financial other liabilities)	Level 3	96,377	79,793	96,377	79,793
		4,804,727	**4,688,930**	**4,804,727**	**4,688,930**

There was no transfer of assets between the fair value hierarchy levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.5 Fair value of financial assets and liabilities (Continued)

ii) Fair value of financial assets and liabilities that are not measured at fair value (Continued)

		Carrying amount		Fair value	
		2018	2017	2018	2017
BANK	Hierarchy level	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
Financial assets					
Cash and balances with Bank of Tanzania	Level 2	1,070,422	1,156,322	1,070,422	1,156,322
Government securities at amortised cost (Treasury bonds)	Level 1	476,503	496,367	468,409	499,928
Government securities at amortised cost (Treasury bills)	Level 2	248,440	422,732	249,411	429,108
Placement and balances with other banks	Level 2	174,391	242,731	174,391	242,731
Loans and advances to customers	Level 3	3,251,794	2,787,048	3,251,045	2,786,888
Other assets (Excluding prepayment)	Level 3	34,742	32,340	34,742	32,340
		5,256,292	**5,137,540**	**5,248,420**	**5,147,317**
Financial liabilities					
Deposits from customers	Level 3	4,327,607	4,272,149	4,327,607	4,272,149
Due to other banks	Level 2	20,770	149	20,770	149
Subordinated debt	Level 3	70,972	-	70,972	-
Borrowings	Level 3	301,388	336,930	301,388	336,930
Other liabilities (Excluding non-financial other liabilities)	Level 3	82,902	77,777	82,902	77,777
		4,803,639	**4,687,005**	**4,803,639**	**4,687,005**

There was no transfer of assets between the fair value hierarchy levels.

6.6 Capital management

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

- To comply with the capital requirements set by the Bank of Tanzania (BoT);
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.6 Capital management (Continued)

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania (BoT), for supervisory purposes. The required information is filed with the BoT on a quarterly basis.
The Bank of Tanzania requires each bank or banking group to:

(a) Hold a minimum level of core capital of TZS 15 billion;

(b) Maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets or above the required minimum of 10%; and

(c) Maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

(d) Maintain a capital conservation buffer of 2.5% of risk-weighted assets and off-balance sheet exposures from August 2018. The capital conservation buffer is made up of items that qualify as tier 1 capital.

When a bank is holding capital conservation buffer of less than 2.5% of risk-weighted assets and off-balance sheet exposures but is meeting its minimum capital requirements that bank:

- Shall not be distribute dividends to shareholders or bonuses to senior management and other staff members until the buffer is restored to at least 2.5%;
- Shall submit a capital restoration plan to Bank of Tanzania within a period specified by BoT, indicating how the bank is going to raise capital to meet its minimum requirement including capital conservation buffer within a specified period of time; and
- In the event that BoT does not approve the capital restoration plan, it may direct the bank to raise additional capital within a specified time period in order to restore its capital conservation buffer.

The Bank's regulatory capital as managed by its Treasury Department is divided into two tiers:

- Tier 1 capital: means permanent shareholders' equity in the form of issued and fully paid ordinary shares, and perpetual non-cumulative preference shares, capital grants and disclosed reserves less year to date losses, goodwill organization, pre-operating expenses, prepaid expenses, deferred charges, leasehold rights and any other intangible assets.
- Tier 2 capital: means general provisions which are held against future, presently unidentified losses and are freely available to meet losses which subsequently materialize, subordinated debts, cumulative redeemable preferred stocks and any other form of capital as may be determined and announced from time to time by the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.6 Capital management (Continued)

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2018 and year ended 31 December 2017. During those two periods, the Bank complied with all of the externally imposed capital requirements to which they are subject.

		2018	2017
	Note	TZS' Millions	TZS' Million
Tier 1 capital			
Share capital		20,000	20,000
Retained earnings		808,448	762,047
Excess impairment –IFRS 9*		8,847	-
Less: Prepaid expenses	23(b)	(43,627)	(24,540)
Less: Intangible assets	25	(21,241)	(19,901)
Less: Deferred tax assets	26	(61,228)	(43,116)
Total qualifying Tier 1 capital (A)		**711,199**	**694,490**
Tier 2 capital			
Subordinated debt		70,972	-
Accrued interest		(2,782)	-
General risk reserve		33,725	26,849
Fair valuation reserve		881	(127)
Total qualifying Tier 2 capital (B)		**102,796**	**26,722**
Maximum Tier 2 capital allowed (2% of Risk weighted assets) – *(C)***		89,990	82,283
Total regulatory capital (D) = [(A) + Lower of (B) or (C)]		**801,189**	**721,212**

6. FINANCIAL RISK MANAGEMENT (CONTINUED

6.6 Capital management (Continued)

	2018	2017
	TZS' Millions	TZS' Million
Risk-weighted assets		
On-balance sheet	3,580,258	3,213,078
Off-balance sheet	379,289	399,933
Market risk	4,570	8,910
Operational risk***	357,415	492,223
Total risk-weighted assets (E)	**4,321,532**	**4,114,144**

	Required Ratio (%)	Bank's ratio (%)	Bank's ratio (%)
Tier 1 capital	12.5	16.5	16.9
Tier 1 + Tier 2 capital	14.5	18.5	17.5

The increase in the total regulatory capital in the 2018 is mainly due to the contribution of the current-year profit and subordinated debt issued during the year for Tier II capital. The increase of the risk-weighted assets reflects the increase in loans and advances and operational risk capital charge during the year.

*For the purpose of computing Core Capital on first adoption of IFRS 9; BoT guidance on IFRS 9 allows Banks and financial institutions to spread the excess impairment equally over three years from 2018. The total excess impairment adjusted to retained earnings on adoption was TZS 17,694 million. The Bank intends to spread the impact of IFRS 9 Adoption for only two years for capital computation purpose. In 2018, the Bank added back TZS 8,847 million to retained earnings. The remaining amount will be added back in 2019.

**As per Bank of Tanzania requirement, Tier 2 Capital should not exceed 2% of the Total risk weighted assets and off-balance sheet exposure.

***Capital charge for operational risk is calculated using Basic Indicator approach (BIA) prescribed under Basel II by capping net interest income to 3.5% of interest earning assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. INTEREST AND SIMILAR INCOME

(a) GROUP

	2018	2017
	TZS' Millions	TZS' Millions
Loans and advances to customers	500,316	467,636
Government securities	98,181	115,103
Placements and balances with other banks	2,058	2,773
	600,555	**585,512**

(b) BANK

	2018	2017
Loans and advances to customers	501,399	469,116
Government securities	98,181	115,103
Placements and balances with other banks	2,058	2,773
	601,638	**586,992**

8. INTEREST AND SIMILAR EXPENSE (GROUP AND BANK)

	2018	2017
	TZS' Millions	TZS' Millions
Deposits from customers		
- Time deposits	31,510	46,783
- Current accounts	23,032	31,013
- Saving deposits	20,852	17,458
Deposits due to other banks	1,755	641
Borrowings from financial institutions	23,895	19,013
NMB bond	8,571	5,383
	109,615	**120,291**

9. NET FEES AND COMMISSION INCOME

	2018	2017
	TZS' Millions	TZS' Millions
GROUP AND BANK		
Fees and commission income		
Credit related fees and commissions	60,856	36,646
Other fees	71,685	49,823
ATM fees and card issuing	25,892	23,746
Maintenance fees	22,349	22,455
Teller withdrawal fees	9,900	10,334
Commission - mobile banking	7,916	8,309
Government service fees	4,405	3,567
	203,003	**154,880**
Fees and commission expense		
Financial charges	(36,721)	(19,543)
Net fees and commission income	**166,282**	**135,337**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. FOREIGN EXCHANGE INCOME

(a) GROUP

	2018	2017
	TZS' Millions	TZS' Millions
Foreign currency trading	20,861	17,389

(b) BANK

	2018	2017
Foreign currency trading	20,914	17,759

11. OTHER INCOME (GROUP AND BANK)

	2018	2017
	TZS' Millions	TZS' Millions
Bad debts recovery	6,784	3,008
Miscellaneous income	666	900
Profit on disposal of property and equipment	143	204
Rental income	22	19
Dividend on TMRC equity investments	32	24
	7,647	**4,155**

12. EMPLOYEE BENEFITS EXPENSE (GROUP AND BANK)

	2018	2017
	TZS' Millions	TZS' Millions
Salaries and allowances	99,313	91,582
Other emoluments	51,800	49,390
Pension costs - defined contribution plan	15,036	13,714
	166,149	**154,686**

13. OTHER OPERATING EXPENSES

(a) GROUP

	2018	2017
	TZS' Millions	TZS' Millions
Administrative expenses	61,491	56,846
Operating lease rent	21,824	17,561
Utilities	19,705	18,500
Security expenses	11,416	10,413
Marketing and advertising expenses	7,402	7,841
Repairs and maintenance	43,417	39,442
Travelling expenses	9,137	10,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 OTHER OPERATING EXPENSES (CONTINUED

Management contract expenses	3,843	2,752
Other expenses	3,828	869
Auditors' remuneration	671	732
Directors' remuneration:		
- Fees	119	135
- Others	190	198
	183,043	**165,378**

(b) BANK

	2018	2017
	TZS' Millions	TZS' Millions
Administrative expenses	67,319	62,578
Operating lease rent	21,824	17,561
Utilities	19,705	18,500
Security expenses	11,416	10,413
Marketing and advertising expenses	7,402	7,841
Repairs and maintenance	43,417	39,442
Travelling expenses	9,137	10,089
Management contract expenses	3,843	2,752
Other expenses	3,828	869
Auditors' remuneration	671	732
Directors' remuneration:		
- Fees	119	135
- Others	190	198
	188,871	**171,110**

14. DEPRECIATION AND AMORTISATION

(a) GROUP

	2018	2017
	TZS' Millions	TZS' Millions
Depreciation of property and equipment (Note 24(a))	42,275	25,118
Amortization of intangible assets (Note 25)	13,629	6,110
	55,904	**31,228**
(b) BANK		
Depreciation of property and equipment (Note 24(b))	40,304	23,147
Amortization of intangible assets (Note 25)	13,629	6,110
	53,933	**29,257**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. CURRENT INCOME TAX

(a) INCOME TAX EXPENSE - GROUP

Income tax expense for the year is arrived at as follows:

	2018	2017
	TZS' Millions	TZS' Millions
Current tax:		
In respect of current year (Note 15(c))	57,319	60,058
Deferred tax:		
In respect of current year (Note 26)	(9,715)	(16,236)
In respect of prior year (Note 26)	(4,203)	383
	(13,918)	**(15,853)**
	43,401	**44,205**

The tax on the Group's profit differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2018	2017
	TZS' Millions	TZS' Millions
Reconciliation of account profit to tax charge:		
Profit before income tax	144,362	139,814
Tax calculated at the statutory income tax rate of 30% (2017: 30%)	43,309	41,944
Tax effect of:		
Depreciation on non-qualifying assets	927	498
Expenses not deductible for tax purposes	3,368	2,157
Alternative minimum tax - UJVC	-	18
Recognition of prior year deferred tax in UJVC	-	(795)
Net (under)/over provision of deferred tax in prior year	(4,203)	383
Income tax expense	**43,401**	**44,205**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 CURRENT INCOME TAX (CONTINUED)

(b) INCOME TAX EXPENSE - BANK

Income tax expense for the year is arrived at as follows:

	2018	2017
	TZS' Millions	TZS' Millions
Current tax:		
In respect of current year (Note 15(d))	57,215	60,040
Deferred tax:		
In respect of current year (Note 26)	(10,443)	(16,014)
In respect of prior year (Note 26)	(2,794)	383
	(13,237)	**(15,631)**
	43,978	**44,409**

The tax on the Bank's profit differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2018	2017
	TZS' Millions	TZS' Millions
Reconciliation of account profit to tax charge:		
Profit before income tax	141,641	137,903
Tax calculated at the statutory income tax rate of 30% (2017: 30%)	42,492	41,371
Tax effect of:		
Depreciation on non-qualifying assets	927	498
Expenses not deductible for tax purposes	3,353	2,157
Net over provision of deferred tax in prior year	(2,794)	383
Income tax expense	**43,978**	**44,409**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 CURRENT INCOME TAX (CONTINUED)

(c) CURRENT TAX ASSETS - GROUP

	2018	2017
	TZS' Millions	TZS' Millions
At start of the year	1,905	891
Current year tax expense (Note 15(a))	(57,319)	(60,058)
Tax paid	68,480	61,072
Tax recoverable	**13,066**	**1,905**
(d) CURRENT TAX ASSETS - BANK		
At start of the year	1,923	891
Current year tax expense (Note 15(b))	(57,215)	(60,040)
Tax paid	68,480	61,072
Tax recoverable	**13,188**	**1,923**

16. EARNINGS PER SHARE

(a) GROUP

The calculation of the basic earnings per share was based on the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year, calculated as follows:

	2018	2017
	TZS' Millions	TZS' Millions
Net profit attributable to shareholders	100,510	95,320
Weighted average number of shares in issue in millions (Note 34)	500	500
Basic and diluted earnings per share	**201.02**	**190.64**
(b) BANK		
Net profit attributable to shareholders	97,663	93,494
Weighted average number of shares in issue in millions (Note 34)	500	500
Basic and diluted earnings per share	**195.33**	**186.99**

There being no dilutive or dilutive potential share options, the basic and diluted earnings per share are the same.

17. DIVIDEND PER SHARE

Dividends are not recognised as a liability until they have been ratified at the Annual General Meeting. The Directors propose payment of a dividend of TZS 66 per share, amounting to TZS 33,000 million out of 2018 profit. In 2017, dividend of TZS 64 per share, amounting to TZS 32,000 million was approved and paid.

18. CASH AND BALANCES WITH BANK OF TANZANIA

	2018	2017
	TZS' Millions	TZS' Millions
• Local Currency	358,414	315,670
• Foreign Currency	44,295	42,652
Balances With Bank of Tanzania		
• Local Currency	152,829	285,371
• Foreign Currency	112,785	115,970
Statutory Minimum Reserves (SMR)*	402,099	396,659
	1,070,422	**1,156,322**
Current	**1,070,422**	**1,156,322**

*The SMR deposit is not available to finance the Bank's day-to-day operations and hence excluded from cash and cash equivalents for the purpose of the cash flow statement (See Note 35). Cash in hand and balances with Bank of Tanzania are non-interest bearing.

19. PLACEMENTS AND BALANCES WITH OTHER BANKS

	2018	2017
	TZS' Millions	TZS' Millions
Balances with banks abroad	113,569	144,713
Placement with local banks		
• Local currency	60,822	94,879
• Foreign currency	-	3,139
	174,391	**242,731**
Current	**174,391**	**242,731**

20. (a) LOANS AND ADVANCES TO CUSTOMERS (GROUP)

	2018	2017
	TZS' Millions	TZS' Millions
Loans and advances to customers		
Retail customers		
Salaried workers loans (SWL)	1,823,158	1,582,062
MSE loans	365,777	302,345
Other consumer loans	130,355	32,817
	2,319,290	**1,917,224**
Corporate entities		
Large corporate entities	693,019	662,631
SME loans	224,635	200,819
	917,654	**863,450**
Agribusiness loans	136,056	96,007
Gross loans and advances to customers	3,373,000	2,876,681
Less: allowance for impairment	(131,599)	(104,949)
Net loans and advances to customers	**3,241,401**	**2,771,732**

Analysis of loans and advances to customers by maturity

Maturity analysis is based on the remaining periods to contractual maturity from year-end

	2018	2017
	TZS' Millions	TZS' Millions
Maturing:		
Within 1 year	1,023,215	906,200
Between 1 year and 5 years	1,428,335	1,711,621
Over 5 years*	789,851	153,911
	3,241,401	**2,771,732**

*During the year the Bank made some changes to its loans features including the maximum loan tenor. This has caused an increase in loans and advances balance with maturity over 5 years.

20. (b) LOANS AND ADVANCES TO CUSTOMERS (BANK)

Loans and advances to customers

	2018	2017
	TZS' Millions	TZS' Millions
Retail customers		
Salaried workers loans	1,823,158	1,582,062
MSE loans	365,777	302,345
Other consumer loans	130,355	32,817
	2,319,290	**1,917,224**
Corporate entities		
Large corporate entities	703,412	677,947
SME loans	224,635	200,819
	928,047	**878,766**
Agribusiness loans	136,056	96,007
Gross loans and advances to customers	3,383,393	2,891,997
Less: allowance for impairment	(131,599)	(104,949)
Net loans and advances to customers	**3,251,794**	**2,787,048**

Analysis of loans and advances to customers by maturity

Maturity analysis is based on the remaining periods to contractual maturity from year-end

	2018	2017
	TZS' Millions	TZS' Millions
Maturing:		
Within 1 year	1,028,411	906,200
Between 1 year and 5 years	1,433,532	1,726,937
Over 5 years*	789,851	153,911
	3,251,794	**2,787,048**

*During the year the Bank made some changes to its loans features including the maximum loan tenure. This has caused an increase in loans and advances balance with maturity over 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. (b) LOANS AND ADVANCES TO CUSTOMERS (BANK) (CONTINUED)

Movement in the allowance account for losses on loans:	Corporate	MSE	SME	SWL	Other consumer loans	Agribusiness	Total
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
At 1 January 2018							
- As previously stated	68,150	7,863	8,059	15,653	474	4,750	104,949
- Impact of IFRS 9 adoption	7,810	1,307	(3,829)	7,832	626	995	14,741
- After IFRS 9 Adoption	75,960	9,170	4,230	23,485	1,100	5,745	119,690
Increase in allowance for loan impairment*	57,447	18,926	18,726	18,577	6,067	15,513	135,256
Write-offs	(66,853)	(9,522)	(11,271)	(21,702)	(2,329)	(11,670)	(123,347)
At 31 December 2018	**66,554**	**18,574**	**11,685**	**20,360**	**4,838**	**9,588**	**131,599**
At 1 January 2017	8,630	4,912	3,077	20,863	167	15,098	52,747
Increase in allowance for loan impairment	59,520	8,241	7,204	48,580	2,119	5,332	130,996
Write-offs	-	(5,290)	(2,222)	(53,790)	(1,812)	(15,680)	(78,794)
At 31 December 2017	**68,150**	**7,863**	**8,059**	**15,653**	**474**	**4,750**	**104,949**

*The high impairment charge is mainly due to challenges in the portfolio particularly corporate book, Agribusiness and SME/MSE and emerging corporates. In addition, the adoption of IFRS 9 on 1 January 2018 resulted in increase in impairment stock by TZS 15 billion.

**Some of the loan loss allowance for some corporates clients and salaried workers loans with forged academic records provided for in the previous year were written-off during the year.

21. (a) GOVERNMENT SECURITIES AT AMORTISED COST (GROUP AND BANK)

	2018	2017
	TZS' Millions	TZS' Millions
Treasury Bills:		
Maturing within 91 days	93,889	202,161
Maturing after 91 days	154,551	220,571
	248,440	**422,732**
Treasury Bonds:		
Maturing within 91 days	18,591	42,854
Maturing after 91 days	457,912	425,998
	476,503	**468,852**
Recapitalisation Bond:		
Maturing within 91 days	-	12,015
Maturing after 91 days	-	15,500
	-	**27,515**
	724,943	**919,099**
Current	428,861	610,354
Non-current	296,082	308,745
	724,943	**919,099**

Interest on recapitalisation bond is received semi-annually at a variable rate, a maximum of 12.6% and a minimum of 7% computed as a weighted average of interest rate on Treasury Bills over the last six months. Treasury Bills and Bonds are debt securities issued by the Government of the United Republic of Tanzania at an effective rate of 13.3% (2017: 16.7%).

Government securities with face value of TZS 6,477 million (2017: TZS 11,477 million) with maturity date of 12 October 2024 are pledged as securities to borrowing advanced by TMRC.

The movement in investment securities may be summarized as follows:

	2018	2017
	TZS' Millions	TZS' Millions
At 1 January	919,099	724,197
Additions	558,758	886,571
Matured securities	(752,914)	(691,669)
At 31 December	**724,943**	**919,099**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 (b): GOVERNMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (GROUP AND BANK)

The Group has invested in various treasury bonds that are designated at fair value through other comprehensive income. The movement in these securities is as follows:

	2018	2017
	TZS' Millions	TZS' Millions
At 1 January	870	719
Interest income	1,597	37
Realised gain on fair valuation credited to P&L	1,033	19
Unrealised fair valuation gain credited to OCI (Note 34 (v))	260	95
Additions	50,090	-
Disposed	(38,608)	-
At 31 December	**15,242**	**870**
Non-current	15,242	870

22. EQUITY INVESTMENTS

(a) Group

Investment at FVOCI

Company name	2018 TZS' Millions	% Share-holding	2017 TZS' Millions	% Share-holding
Tanzania Mortgage Refinance Company Limited (TMRC)	2,920	9.73	1,740	15.06

TMRC is a private company and there is no quoted market price available for the shares. On adoption of IFRS 9 the investment has been re-measured at fair-value through other comprehensive income. Fair value was determined by observing a recent transaction in the market. As at 31 December 2018, the Bank had 1,800,000 shares in TMRC.

(b) Bank

The Bank has equity investments in TMRC and a subsidiary named Upanga Joint Venture Company Limited.

(i) Investment in a subsidiary

Company name	2018 TZS' Millions	% Share-holding	2017 TZS' Millions	% Share-holding
Upanga Joint Venture Company Limited	39,639	88	39,639	88

There are no contingent liabilities relating to the Bank's interest in the subsidiary.

There are no restrictions to the Bank in gaining access or use of assets of the subsidiary and settling liabilities of the Group.

The subsidiary listed above has share capital consisting solely of ordinary shares. The country of incorporation; the United Republic of Tanzania is also their principal place of business.

22. EQUITY INVESTMENTS (CONTINUED)

b) *Bank (Continued)*

There were no significant judgements and assumptions made in determining the Bank's interest in the subsidiary.

Set out below is the summarised financial information of Upanga Joint Venture Company Limited ("UJVC Limited"), a subsidiary of the Bank.

Summarised statement of financial position

	2018	2017
	TZS' Millions	TZS' Millions
Current		
Total current assets	18,075	6,951
Current liabilities	(8,774)	(7,219)
Total net current assets /(liabilities)	**9,301**	**(268)**
Non-current		
Assets	38,998	40,288
Liabilities	(14,067)	(10,211)
Total non-current net assets	**24,931**	**30,077**
Total net assets	**34,232**	**29,809**

Summarised statement of comprehensive income

	2018	2017
	TZS' Millions	TZS' Millions
Revenue	6,033	6,002
Cost of sales	(115)	(109)
Finance costs	(1,083)	(1,480)
Administrative expenses	(2,008)	(2,132)
Loss on foreign exchange	(53)	(370)
Tax credit	577	204
Profit after tax	**3,351**	**2,114**
Allocated to non- controlling interest	**451**	**289**

Non-controlling interests have no protective rights that can significantly restrict the Bank's ability to access or use the assets and settle the liabilities of the group.

22. EQUITY INVESTMENTS (CONTINUED)

b) *bank (Continued)*

Summarised cash flows

	2018	2017
	TZS' Millions	TZS' Millions
Net cash generated in operations	18,354	6,065
Net cash used in investing activities	-	-
Net cash used in financing activities	(6,059)	(6,167)
Net increase/(decrease) in cash and cash equivalents	12,295	(102)
Cash and cash equivalents at start of the year	91	193
Cash and cash equivalents at end of the year	**12,386**	**91**

(ii) Investment at fair value through other comprehensive income

Company name	2018 TZS' Millions	% Share-holding	2017 TZS' Millions	% Share-holding
Tanzania Mortgage Refinance Company Ltd	**2,920**	9.73	**1,740**	15.06

23. OTHER ASSETS

(a) GROUP

	2018	2017
	TZS' Millions	TZS' Millions
Prepayments	43,728	24,616
Service fees receivable	2,378	5,551
Staff imprest	33	42
Cheques and items for clearing	1,613	-
Other receivables	22,553	24,329
Balances with mobile network operators	16,018	10,777
Less: impairment allowance for other receivables	(1,568)	(582)
	84,755	**64,733**
Current	75,884	64,733
Non-current	8,871	-
	84,755	**64,733**
The movement in allowance for impairment of other receivables is as follows:		
At start of the year	(582)	(408)
Charge for the year	(986)	(174)
At end of year	**(1,568)**	**(582)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. OTHER ASSETS (CONTINUED)

(b) BANK

	2018	2017
	TZS' Millions	TZS' Millions
Prepayments	43,627	24,540
Service fees receivable	2,378	5,551
Staff advance	33	42
Cheques and items for clearance	1,613	-
Balances with mobile network operators	16,268	10,777
Other receivables	16,018	16,552
Less: Allowance for impairment of other receivables	(1,568)	(582)
	78,369	**56,880**
Current	69,498	56,880
Non-current	8,871	-
At end of the year	**78,369**	**56,880**
The movement in allowance for impairment of other receivables is as follows:		
At start of the year	(582)	(408)
Charge for the year	(986)	(174)
At end of the year	**(1,568)**	**(582)**

Other assets have not been pledged as security for liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. PROPERTY AND EQUIPMENT

(a) GROUP

	Own building	Leasehold improvement	Motor vehicles	Computers, furniture and equipment	Capital work in progress	Total
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
Year ended 31 December 2018						
COST						
At 1 January 2018	102,571	32,679	16,933	132,615	130,591	415,389
Additions	43	10	129	12,082	13,266	25,530
Transfers from work in progress	48,940	26,666	48	52,530	(128,184)	-
Transfer from prepayments	-	-	1,846	5,222	1,483	8,551
Transfer to intangible assets*	-	-	-	(2,321)	(718)	(3,039)
Disposal	-	-	(545)	(2,917)	-	(3,462)
At 31 December 2018	**151,554**	**59,355**	**18,411**	**197,211**	**16,438**	**442,969**
DEPRECIATION						
At 1 January 2018	23,950	19,627	10,248	84,408	-	138,233
Charge for the year	6,432	3,677	3,061	29,105	-	42,275
Disposal	-	-	(434)	(2,805)	-	(3,239)
At 31 December 2018	**30,382**	**23,304**	**12,875**	**110,708**	**-**	**177,269**
NET BOOK VALUE						
At 31 December 2018	**121,172**	**36,051**	**5,536**	**86,503**	**16,438**	**265,700**

The capital work in progress relates to the ongoing projects of branch remodelling. No property and equipment of the Group and Bank has been pledged as security for liabilities.

*The transfer to intangible assets represents the cost of software portion of the asset which was initially capitalized with its hardware.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. PROPERTY AND EQUIPMENT (CONTINUED)

a) *GROUP (CONTINUED)*

	Own building	Leasehold improvement	Motor vehicles	Computers, furniture and equipment	Capital work in progress	Total
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
Year ended 31 December 2017						
COST						
At 1 January 2017	102,571	32,679	13,590	112,768	122,480	384,088
Additions	-	-	-	10,420	34,875	45,295
Transfers from work in progress	-	-	3,477	23,287	(26,764)	-
Transfer from prepayments	-	-	318	-	-	318
Disposal	-	-	(452)	(13,860)	-	(14,312)
At 31 December 2017	**102,571**	**32,679**	**16,933**	**132,615**	**130,591**	**415,389**
DEPRECIATION						
At 1 January 2017	19,195	17,143	8,042	83,028	-	127,408
Charge for the year	4,755	2,484	2,658	15,221	-	25,118
Disposal	-	-	(452)	(13,841)	-	(14,293)
At 31 December 2017	**23,950**	**19,627**	**10,248**	**84,408**	**-**	**138,233**
NET BOOK VALUE						
At 31 December 2017	**78,621**	**13,052**	**6,686**	**48,206**	**130,591**	**277,156**

The capital work in progress relates to the on-going projects of branch remodelling and equipment for new data centre and network equipment at Head office. No property and equipment of the Group and Bank has been pledged as security for liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. PROPERTY AND EQUIPMENT (CONTINUED)

b) BANK

	Own building	Leasehold improvement	Motor vehicles	Computers, furniture and equipment	Capital work in progress	Total
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
Year ended 31 December 2018						
COST						
At 1 January 2018	59,551	32,679	16,933	132,615	130,591	372,369
Additions	43	10	129	12,082	13,266	25,530
Transfers from work in progress	48,940	26,666	48	52,530	(128,184)	-
Transfer from prepayments	-	-	1,846	5,222	1,483	8,551
Transfer to intangible assets*	-	-	-	(2,321)	(718)	(3,039)
Disposal	-	-	(545)	(2,917)	-	(3,462)
At 31 December 2018	**108,534**	**59,355**	**18,411**	**197,211**	**16,438**	**399,949**
DEPRECIATION						
At 1 January 2018	20,994	19,627	10,247	84,409	-	135,277
Charge for the year	4,461	3,677	3,061	29,105	-	40,304
Disposal	-	-	(434)	(2,805)	-	(3,239)
At 31 December 2018	**25,455**	**23,304**	**12,874**	**110,709**	**-**	**172,342**
NET BOOK VALUE						
At 31 December 2018	**83,079**	**36,051**	**5,537**	**86,502**	**16,438**	**227,607**

The capital work in progress relates to the ongoing projects of branch remodelling. No property and equipment of the Group and Bank has been pledged as security for liabilities.

*The transfer to intangible assets represents the cost of software portion of the asset which was initially capitalized with its hardware.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. PROPERTY AND EQUIPMENT (CONTINUED)

b) BANK CONTINUED)

	Own building	Leasehold improvement	Motor vehicles	Computers, furniture and equipment	Capital work in progress	Total
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
COST						
Year ended 31 December 2017						
At 1 January 2017	59,551	32,679	13,590	112,768	122,478	341,066
Additions	-	-	-	10,420	34,875	45,295
Transfer from prepayment	-	-	318	-	-	318
Transfers from work in progress	-	-	3,477	23,287	(26,764)	-
Disposal	-	-	(452)	(13,860)	-	(14,312)
At 31 December 2017	**59,551**	**32,679**	**16,933**	**132,615**	**130,589**	**372,367**
DEPRECIATION						
At 1 January 2017	18,210	17,143	8,042	83,028	-	126,423
Charge for the year	2,784	2,484	2,657	15,222	-	23,147
Disposal	-	-	(452)	(13,841)	-	(14,293)
At 31 December 2017	**20,994**	**19,627**	**10,247**	**84,409**	**-**	**135,277**
NET BOOK VALUE						
At 31 December 2017	**38,557**	**13,052**	**6,686**	**48,206**	**130,589**	**237,090**

The capital work in progress relates to the on-going projects of branch remodelling and equipment for new data centre and network equipment at Head office. No property and equipment of the Group and Bank has been pledged as security for liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. INTANGIBLE ASSETS (GROUP AND BANK)

	Computer Software	Work in progress	Total
	TZS' Millions	TZS' Millions	TZS' Millions
2018			
Cost:			
At 1 January	37,018	8,949	45,967
Additions	8,518	3,412	11,930
Transfer from work in progress	10,383	(10,383)	-
Reclassified from property and equipment	3,039	-	3,039
At 31 December	**58,958**	**1,978**	**60,936**
Amortisation			
At 1 January	26,066	-	26,066
Charge for the year	13,629	-	13,629
At 31 December	**39,695**	**-**	**39,695**
Net book value	**19,263**	**1,978**	**21,241**
2017			
Cost:			
At 1 January	26,652	8,765	35,417
Additions	6,228	4,322	10,550
Transfer from work in progress	4,138	(4,138)	-
At 31 December	**37,018**	**8,949**	**45,967**
Amortisation			
At 1 January	19,956	-	19,956
Charge for the year	6,110	-	6,110
At 31 December	**26,066**	**-**	**26,066**
Net book value	**10,952**	**8,949**	**19,901**

26. (a) DEFERRED TAX ASSETS (GROUP)

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

	2018 TZS' Millions	2017 TZS' Millions
At start of year	43,338	27,513
(Debit)/credit to profit or loss:		
In respect to current year (Note 15(a))	9,715	16,236
In respect of prior year: Under/(Over) provision (Note 15(a))	4,203	(383)
Impact of IFRS 9 adoption – to retained earnings	5,308	-
Debit to OCI		
Current year – charged to OCI	(432)	(28)
At the end of year	**62,132**	**43,338**

Deferred income tax asset and deferred income tax credit to the profit or loss are attributed to the following items:

Year ended 31 December 2018	1 January TZS' Millions	Credited to profit or loss TZS' Millions	Charged to OCI TZS' Millions	IFRS 9 adoption TZS' Millions	31 December TZS' Millions
Deferred income tax asset					
Property and equipment	6,056	1,617	-	-	7,673
Provisions	37,310	12,953	-	5,308	55,571
Other temporary differences	-	(652)	-	-	(652)
Fair valuation gain – debt instruments	(28)	-	(78)	-	(106)
Fair valuation gain – equity instruments	-	-	(354)	-	(354)
	43,338	**13,918**	**(432)**	**5,308**	**62,132**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. (a) DEFERRED TAX ASSETS (GROUP) (CONTINUED)

Year ended 31 December 2017 Deferred income tax asset	1 January TZS' Millions	Credited to profit or loss TZS' Millions	Charged to OCI TZS' Millions	31 December TZS' Millions
Property and equipment	5,055	1,001	-	6,056
Provisions	22,458	14,852	-	37,310
Fair valuation gain	-	-	(28)	(28)
	27,513	**15,853**	**(28)**	**43,338**

	2018 TZS' Millions	2017 TZS' Millions
Expected to be recovered within 12 months	6,660	6,005
Expected to be recovered after 12 months	55,472	37,333
	62,132	**43,338**

26 (b) DEFERRED TAX ASSETS (BANK)

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

	2018 TZS' Millions	2017 TZS' Millions
In respect to current year (Note 15(b))	10,443	16,014
At start of year	43,116	27,513
Credit/(Debit) to profit or loss:		
In respect of prior year: Over provision (Note 15(b))	2,794	(383)
Impact of IFRS 9 adoption – to retained earnings	5,308	-
Debit to OCI:		
In respect of current year	(432)	(28)
At the end of year	**61,229**	**43,116**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. (b) DEFERRED TAX ASSETS (BACK) (CONTINUED)

Deferred income tax asset and deferred income tax credit to the profit or loss are attributed to the following items:

Year ended 31 December 2018	1 January TZS' Millions	Credited to retained earnings on IFRS 9 Adoption TZS' Millions	Credited to profit or loss TZS' Millions	Charged to OCI TZS' Millions	31 December TZS' Millions
Deferred income tax asset					
Property and equipment	6,056		300	-	6,356
Provisions	37,088	5,308	12,937	-	55,333
Fair valuation gain – debt instruments	(28)	-	-	(78)	(106)
Fair valuation gain – equity instruments	-	-	-	(354)	(354)
	43,116	**5,308**	**13,237**	**(432)**	**61,229**
Deferred income tax asset					
Property and equipment		5,055	1,001	-	6,056
Provisions		22,458	14,630	-	37,088
Fair valuation gain		-	-	(28)	(28)
		27,513	**15,631**	**(28)**	**43,116**

	2018 TZS' Millions	2017 TZS' Millions
Expected to be recovered within 12 months	6,614	3,570
Expected to be recovered after 12 months	54,615	39,546
	61,229	**43,116**

27. DEPOSITS FROM CUSTOMERS

(a) GROUP

Deposits due to customers are composed of the following;

	2018 TZS' Millions	2017 TZS' Millions
Current accounts	1,696,480	2,022,960
Personal accounts	2,002,879	1,743,447
Time deposit accounts	615,861	505,651
	4,315,220	**4,272,058**
Current	4,150,494	4,268,085
Non-current	164,726	3,973
	4,315,220	**4,272,058**
(b) BANK		
Current accounts	1,708,866	2,023,051
Personal accounts	2,002,879	1,743,447
Time deposit accounts	615,862	505,651
	4,327,607	**4,272,149**
Current	4,162,881	4,268,176
Non-current	164,726	3,973
	4,327,607	**4,272,149**

28. BALANCES DUE TO OTHER BANKS (GROUP AND BANK)

	2018 TZS' Millions	2017 TZS' Millions
Deposits from other banks	4,475	149
Short-term money market borrowings	16,295	-
	20,770	**149**
Current	**20,770**	**149**

29. OTHER LIABILITIES

(a) GROUP

	2018	2017
	TZS' Millions	TZS' Millions
Sundry liabilities	64,989	54,772
Accrued expenses	35,019	30,939
Bills payable	2,139	2,177
Cheques and items for clearing to other banks	-	106
Impairment provision for off-balance sheet items (Note 6.1.5(e))	5,002	-
	107,149	**87,994**
Current	**107,149**	**87,994**

(b) BANK

	2018	2017
	TZS' Millions	TZS' Millions
Sundry liabilities	51,514	52,356
Accrued expenses	35,019	30,939
Bills payable	2,139	2,177
Cheques and items for clearing due to other banks	-	106
Impairment provision for off-balance sheet items (Note 6.1.5(e))	5,002	-
	93,674	**85,578**
Current	**93,674**	**85,578**

30. PROVISIONS (GROUP AND BANK)

	2018	2017
	TZS' Millions	TZS' Millions
Provision for losses from legal cases	**3,519**	**2,784**
Movement in provision		
At the start of year	2,784	2,648
Charged during the year	735	136
At end of year	**3,519**	**2,784**

The amounts represent provision for certain legal claims brought against the Bank by third parties in the course of business. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. BORROWINGS (GROUP AND BANK)

	2018	2017
	TZS' Millions	TZS' Millions
Borrowings:		
• EIB Loan (i)	32,700	61,416
• FMO Loan (ii)	124,200	177,118
• Triodos (iii)	28,332	28,332
• NMB Bond (iv)	64,802	63,427
• TMRC (v)	6,700	1,700
• IFC (vi)	40,250	-
Accrued interest	4,404	4,937
	301,388	**336,930**
Current	158,132	111,916
Non-current	**143,256**	**225,014**
	301,388	336,930

As at 31 December 2018, the Group had no borrowing at default.

(i) European Investment Bank (EIB) loan

As at 31 December 2018, the Bank had a borrowing balance from EIB of TZS 25,093 million (2017: TZS 49,428 million) being accumulation of TZS loans payable semi-annually within four to seven years at effective interest rate of 8.37% (2017: 8.22%). In addition, as at 31 December 2018, the Bank had a borrowing balance from EIB of USD 3.3 million (2017: USD 5.3 million) equivalent to TZS 7,607 million (2017: TZS 11,988 million) being accumulation of various USD loans payable over a period of four to seven years at a fixed interest rate. The effective interest rate of the loan during the year was 3.25% (2017: 3.11%). The loans were taken for the purpose of better Assets Liability management. The loans are unsecured.

As at 31 December 2018, the Bank was compliant with all the lender's covenants.

(ii) Financierings-Maatschappij voor Ontwikkelingslanden N.V (FMO) loan

The Bank borrowed from FMO in 2013 loan of USD 65 million repayable semi-annually and carries a floating rate based on six months LIBOR rate. The effective interest rate is 5.3%. The loan was taken for the purpose of better Assets Liability management. The loan is unsecured. As at 31 December 2018 the balance was USD 13 Million equivalent to TZS 29,900 million (2017: USD 26 million equivalent to TZS 58,292 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. BORROWINGS (GROUP AND BANK) (CONTINUED)

ii) Financierings-Maatschappij voor Ontwikkelingslanden N.V (FMO) loan (Continued)

In 2015, the Bank obtained additional unsecured loan of USD 35 million repayable semi-annually within five to six years and carries a floating rate based on six months LIBOR rate. The effective interest rate was 5.5%, during the year. The outstanding balance as at 31 December 2018 was USD 21 million equivalent to TZS 48,300 million (2017: USD 28 million equivalent to TZS 62,620 million).

Moreover in 2017, the bank drew down tranche 2 of the 2015 contract amounting to USD 25 Million repayable semi-annually within five to six years and carries a floating rate based on six months LIBOR rate. The effective interest rate was 5.5%, during the year. The outstanding balance as at 31 December 2018 was USD 20 million equivalent to TZS 46,000 million (2017: USD 25 million equivalent to TZS 56,206 million).

As at 31 December 2018, the Bank was compliant with all the lender's covenants.

(iii) Triodos B.V.

The Bank borrowed from Triodos this year an amount of TZS 28.3 billion repayable semi-annually and carrying a fixed rate. The effective interest rate is 14.4%. The loan was taken for the purpose of better Assets Liability management. The loan is unsecured. As at 31 December 2018 the balance was TZS 28,332 million.

As at 31 December 2018, the Bank was compliant with all the lender's covenants.

(iv) NMB Bond

Retail Bond

At the end of 2015, the Bank received regulatory approval for multi-currency, medium-term bond program amounting to TZS 200 billion. On 10 May 2017, the Bank issued the first tranche of this program. The Bank issued a TZS 20 billion 3-year bond targeted towards the retail investor segment; offering a gross coupon rate of 13% and issued at par. The coupon on the bond is paid semi-annually. The offer period closed on June 2017 with market demand exceeding expectations. The bond was oversubscribed by 107% with the Bank receiving applications from investors amounting to TZS 41.4 billion.

Corporate Bond

On 28 December 2018 and 29 December 2018, the Bank issued the second tranche of the Medium-Term Note (MTN) program amounting TZS 17,096 million and TZS 5 billion respectively via a private placement. The issue was targeted towards corporate investors at a gross coupon rate of 13.5% for a period of 3 years.

The bonds are unsecured and are tradable on the Dar es Salaam Stock Exchange (DSE).

The proceeds of the bond issue will be used for on-lending to the Bank's customers who include individuals, micro, small and medium sized enterprises as well as large corporate and Government institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. BORROWINGS (GROUP AND BANK) (CONTINUED)

iv) NMB Bond (Continued)

As at 31 December 2018, TZS 136,504 million on the MTN program was not issued by the Bank. Subsequent tranches will be issued as and when the Bank requires and when market conditions are conducive.

The issuance of the bonds is part of the Bank's strategy to diversify its funding sources.

(v) Tanzania Mortgage Refinance Company Limited

At the end of 2017, the Bank had borrowed from Tanzania Mortgage Refinance Company Limited (TMRC) a renewable loan of TZS 1.7 billion maturing in 48 months and carries a fixed rate of 11.5% p.a. The loan is secured by specific debenture over the portfolio of mortgage loans covering at least 125% of the loan amount.

During the year, the Bank secured an additional TZS 5 billion loan with a 3-year tenor at a fixed interest rate of 11.5%. The loan is secured by a portfolio of treasury bonds with a coverage ratio of at least 105.3% and minimum remaining tenor of 3 years from the date of disbursement.

The loans were taken for the purpose of re-financing a portfolio of mortgage loans. The effective interest rate of the loans is 11.5%.

As at 31 December 2018 the balance was TZS 6.7 billion (2017: TZS 1.7 billion).

(vi) International Finance Corporation (IFC)

The bank obtained a short-term loan from IFC this year an amount of USD 17.5 million repayable in 2019 in one bullet and carries a floating rate based on three months LIBOR rate. The effective interest rate during the year was 4.1%. The loan was taken for the purpose of better Assets Liability management. The loan is unsecured. As at 31 December 2018 the balance was USD 17.5 million equivalent to TZS 40,250 million.

As at 31 December 2018, the Bank was compliant with all the lenders covenants.

32. SUBORDINATED DEBT (GROUP AND BANK)

During the year, the bank borrowed from International Finance Corporation (IFC) an amount of TZS 68,190 million repayable semi-annually after lapse of 5 years grace period and carrying a fixed rate. The loan was taken for the purpose of improving the Tier II capital of the Bank. The loan is unsecured. As at 31 December 2018 the balance was TZS 68,190 million.

As at 31 December 2018, the Bank was compliant with all the lender's covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SUBORDINATED DEBT (GROUP AND BANK) (CONTINUED)

	2018	2017
	TZS' Millions	TZS' Millions
Principal	68,190	-
Accrued interest	2,782	-
	70,972	-
Non-Current	**70,972**	-

33. NET DEBT RECONCILIATION (GROUP AND BANK)

The analysis and movement of the Group and Bank's net debt is as follows;

	2018	2017
	TZS' Millions	TZS' Millions
Cash and cash equivalents (Note 35)	842,714	1,002,394
Borrowings repayable within one year	(177,961)	(111,916)
Borrowings repayable after one year	(194,399)	(225,014)
Net debt	**470,354**	**665,464**
Cash and cash equivalents (Note 35)	842,714	1,002,394
Gross debt – fixed interest rate	(174,372)	(156,730)
Gross debt – variable interest rate	(197,988)	(180,200)
Net debt	**470,354**	**665,464**

	Assets	Liabilities from financing activities		
	Cash and cash equivalents	Borrowing due within 1 year	Borrowing due after 1 year	Total
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
At 1 January 2018	1,002,394	(111,916)	(225,014)	665,464
Cash flows	(166,541)	(61,450)	30,615	(201,971)
Movement in accrued interest	-	(4,595)	-	-
Foreign exchange adjustment	6,861	-	-	6,861
Net debt	**842,714**	**(177,961)**	**(194,399)**	**470,354**
At 1 January 2017	697,580	(74,564)	(278,239)	344,777
Cash flows	297,334	(37,352)	53,225	313,207
Foreign exchange adjustment	7,480	-	-	7,480
Net debt	**1,002,394**	**(111,916)**	**(225,014)**	**665,464**

34. CAPITAL AND RESERVES

(i) Share capital

	2018 TZS' Millions	2017 TZS' Millions
Authorised		
625,000,000 ordinary shares of TZS 40 each	25,000	25,000
Called up and fully paid		
500,000,000 ordinary shares of TZS 40 each	20,000	20,000

(ii) Retained earnings

Retained earnings consist of undistributed profits from previous years.

(iii) General banking risk reserve

General banking risk reserve represents an amount set aside to cover additional provision for loan losses required in order to comply with the requirements of the Bank of Tanzania. This reserve is not available for distribution.

(iv) General reserve

General risk reserve represents 1% provision charged on all current credit accommodation and other risk assets as required by the Bank of Tanzania regulations, 2014. General Reserve is created by transferring the amount from retained earnings. This reserve is not available for distribution.

(v) Fair valuation reserve

The reserve is made up of fair valuation of financial assets at FVOCI and liabilities. This reserve is not available for distribution to shareholders.

	2018 TZS' Millions	2017 TZS' Millions
Movement in fair valuation reserve is as follows:		
At 1 January		
• As previously stated	(127)	(194)
• Fair valuation adjustments due to IFRS 9 adoption	1,180	-
• Deferred tax adjustment due to IFRS 9 adoption	(354)	-
As stated after IFRS 9 adoption	**699**	**(194)**
Fair valuation gain of government securities at FVOCI	260	95
Deferred tax on fair valuation gain	(78)	(28)
	182	**67**
At 31 December	**881**	**(127)**

There was no reclassification adjustment made in respect to components of other comprehensive income.

35. CASH AND CASH EQUIVALENTS (GROUP AND BANK)

	2018	2017
	TZS' Millions	TZS' Millions
Cash and balances with Bank of Tanzania (Note 18)	1,070,422	1,156,322
Less: Statutory Minimum Reserves (Note 18)	(402,099)	(396,659)
Placement and balances with other banks (Note 19)	174,391	242,731
	842,714	**1,002,394**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition including: cash and balances with Bank of Tanzania and Placement with other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Tanzania.

36. NOTES TO THE STATEMENT OF CASH FLOWS

(a) GROUP

		2018	2017
	Note	TZS' Millions	TZS' Millions
Operating activities			
Profit before tax		144,362	139,814
Adjustment for:			
Depreciation and amortization	14	55,904	31,228
Profit on disposal of property and equipment	11	(143)	(204)
Realised gain on government security at FVOCI		(1,033)	(19)
Interest expense on borrowings	8	32,466	24,396
Interest income from government security at FVOCI	21(b)	(1,597	(37)
Effect of movement in foreign exchange		(6,861)	(7,480)
		223,098	**187,698**
Movement in operating assets:			
Increase in Statutory Minimum Reserve		(5,440)	(6,817)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. NOTES TO THE STATEMENT OF CASH FLOWS (GROUP) (CONTINUED)

(Increase)/Decrease in loans and advances to customers		(484,410)	2,732
Increase in other assets		(28,572)	(15,858)
Increase in deposits from customers		43,162	534,847
Increase/(decrease) in balances due to other banks		21,515	(11,027)
Increase in other liabilities		16,202	9,488
Increase in provisions	30	735	136
Cash (utilized in)/generated from operations		**(213,710)**	**701,199**

(b) BANK

	Note	2018 TZS' Millions	2017 TZS' Millions
Operating activities			
Profit before tax		141,641	137,903
Adjustment for:			
Depreciation and amortization	14	53,933	29,257
Profit on disposal of property and equipment	11	(143)	(204)
Realised gain on government security at FVOCI	21(b)	(1,033)	(19)
Interest income on government security at FVOCI	21(b)	(1,597)	(37)
Interest expense on borrowings	8	32,466	24,396
Effect of movement in foreign exchange		(6,861)	(7,480)
		218,406	**183,816**
Movement in operating assets:			
Increase in Statutory Minimum Reserve		(5,440)	(6,817)
Decrease/(increase) in loans and advances to customers		(479,487)	7,419
Increase in other assets		(30,040)	(12,815)
Increase in deposits from customers		55,458	534,745
Increase/ (decrease) in balances due to other banks		21,515	(11,027)
Increase in other liabilities		5,143	5,742
Increase in provisions	30	735	136
Cash (utilized in)/generated from operations		**(213,710)**	**701,199**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. (a) FINANCIAL INSTRUMENTS BY CATEGORY (GROUP)

	Amortised Cost	Fair Value through OCI	Total
	TZS' Millions	TZS' Millions	TZS' Millions
31 December 2018			
Financial assets			
Cash and balances with Bank of Tanzania	1,070,422	-	1,070,422
Investment securities – at amortised cost	724,943	-	724,943
Investment securities – FVOCI	-	15,242	15,242
Placement and balances with other banks	174,391	-	174,391
Loans and advances to customers	3,241,401	-	3,241,401
Equity investments	-	2,920	2,920
Other assets (excluding prepayment) *	41,028	-	41,028
	5,252,185	**18,162**	**5,270,347**

	Loans and receivables	Held to maturity	Available for sale	Total
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
31 December 2017				
Financial assets				
Cash and balances with Bank of Tanzania	1,156,322	-	-	1,156,322
Investment securities – treasury bills	422,732	-	-	422,732
Investment securities – treasury bonds	-	496,367	-	496,367
Investment securities available for sale	-	-	870	870
Placement and balances with other banks	242,731	-	-	242,731
Loans and advances to customers	2,771,732	-	-	2,771,732
Equity investments	-	-	1,740	1,740
Other assets (excluding prepayment) *	40,116	-	-	40,116
	4,633,633	**496,367**	**2,610**	**5,132,610**

	2018	2017
Financial liabilities at amortised cost	TZS' Millions	TZS' Millions
Deposits from customers	4,315,220	4,272,058
Deposits from banks	20,770	149
Borrowings	301,388	336,930
Subordinated debt	70,972	-
Other liabilities (excluding non-financial other liabilities) **	96,377	76,565
	4,804,727	**4,685,702**

*Prepayments are excluded from other assets balance, as this analysis is for financial instruments only.

**Non-financial liabilities are excluded from other liabilities balance, as this analysis is for financial instruments only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 (b) FINANCIAL INSTRUMENTS BY CATEGORY (BANK) (CONTINUED)

	Amortised Cost	Fair Value through OCI	Total
	TZS' Millions	TZS' Millions	TZS' Millions
31 December 2018			
Financial assets			
Cash and balances with Bank of Tanzania	1,070,422	-	1,070,422
Investment securities at amortised cost	724,943	-	724,943
Investment securities at FVOCI	-	15,242	15,242
Placement and balances with other banks	174,391	-	174,391
Loans and advances to customers	3,251,794	-	3,251,794
Equity investments	-	2,920	2,920
Other assets (excluding prepayment) *	34,742	-	34,742
	5,256,292	**18,162**	**5,274,454**

	Loans and receivables	Held to maturity	Available for sale	Total
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
31 December 2017				
Financial assets				
Cash and balances with Bank of Tanzania	1,156,322	-	-	1,156,322
Investment securities - Treasury bills	422,732	-	-	422,732
Investment securities - Treasury bonds	-	496,367	-	496,367
Investment securities available for sale	-	-	870	870
Placement and balances with other banks	242,731	-	-	242,731
Loans and advances to customers	2,787,048	-	-	2,787,048
Equity investment	-	-	1,740	1,740
Other assets (excluding prepayment) *	32,340	-	-	32,340
	4,641,173	**496,367**	**2,610**	**5,140,150**

	2018	2017
Financial liabilities at amortised cost	TZS' Millions	TZS' Millions
Deposits from customers	4,327,607	4,272,149
Due from banks	20,770	149
Borrowings	301,388	336,930
Subordinated debt	70,972	-
Other liabilities (excluding non-financial other liabilities) **	82,902	77,777
	4,803,639	**4,687,005**

*Prepayments are excluded from other assets balance, as this analysis is for financial instruments only.

**Non-financial liabilities are excluded from other liabilities balance, as this analysis is for financial instruments only.

38. CONTINGENT LIABILITIES AND COMMITMENTS (GROUP AND BANK)

(a) Loan commitments guarantee and other financial facilities

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

As at 31 December 2018, the Bank had the contractual amounts of off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities, as follows: -

Commitments

	2018	2017
	TZS' Millions	TZS' Millions
Guarantees and Indemnities	212,113	67,028
Undrawn Commitments	129,355	99,289
Acceptances and letters of credit	200,899	330,329
	542,367	**496,646**

Acceptances and letters of credit

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

(b) Legal claims

Some previous loan customers and ex-employees are suing the Bank for various reasons. With the exception of amounts disclosed in Note 30, the amounts claimed in both situations are not material and professional advice indicates that it is unlikely that any significant loss will arise.

(c) Capital commitments

As at 31 December 2018, the Bank had capital commitments of TZS 37,158 million (2017: TZS 28,872 million) in respect of new branches, branch remodeling, equipment and information technology. The expenditure contracted as at the end of reporting period but not yet incurred is as follows:

	2018	2017
	TZS' Millions	TZS' Millions
Information technology	29,436	16,642
Branch and business centres remodeling	4,238	5,162
Others including equipment, vehicles and furniture	3,484	7,068
	37,158	**28,872**

38. CONTINGENT LIABILITIES AND COMMITMENTS (GROUP AND BANK) (CONTINUED)

c) Capital commitments (Continued)

The Bank's management is confident that future net revenues and funding will be sufficient to cover these commitment.

(d) Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows: -

	2018	2017
	TZS' Millions	TZS' Millions
Not later than 1 year	2,941	15,471
Later than 1 year and no later than 5 years	25,704	60,805
Later than 5 years	396,460	410,273
Total	**425,105**	**486,550**

39. EFFECTIVE INTEREST RATES OF FINANCIAL ASSETS AND LIABILITIES (GROUP AND BANK)

The effective interest rates for the principal financial assets and liabilities at 31 December 2018 were as follows:

	2018	2017
	TZS' Millions	TZS' Millions
Government securities	13.54	13.33
Deposits with banking institutions	5.23	12.78
Loans and advances to customers	15.41	16.81
Customer deposits	1.74	2.4
Deposits from banks	8.45	3.85
Borrowings	8.72	7.17

40. RELATED PARTY TRANSACTIONS AND BALANCES

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at year-end, and related expense and income for the year are as follows:

(a) Loans and advances to related parties

At 31 December 2018 there were no loans issued to companies controlled by the Directors or their families. Advances to customers at 31 December 2018 include loans to key management personnel as follows:

Key management personnel

GROUP	2018	2017
	TZS' Millions	TZS' Millions
At start of year	1,527	1,427
Advanced during the year	768	387
Repaid during the year	(1,008)	(287)
At end of year	**1,287**	**1,527**
Interest income earned	**78**	**118**

BANK	Key management personnel		Related Companies	
	2018 TZS' Millions	2017 TZS' Millions	2018 TZS' Millions	2017 TZS' Millions
At start of year	1,527	1,427	15,316	20,003
Advanced during the year	768	387	-	-
Repaid during the year	(1,008)	(287)	(4,726)	(4,687)
At end of year	**1,287**	**1,527**	**10,590**	**15,316**
Interest income earned	**78**	**118**	**1,100**	**1,480**

No provisions have been recognized in respect of loans given by the Group and Bank to related parties (2017: Nil). Mortgage loans issued to key management were secured and the rest were unsecured. These loans carry off-market interest rates ranging between 5% and 9% and are repayable on demand. As at 31 December 2018, the Group and Bank held collateral valued at TZS 2,556 million (2017: TZS 10,084 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

a). Loans and advances to related parties (Continued)

The Bank had advanced loans of USD 12.3 million (2015: USD 7.3 million and 2013: USD 5 million) to its subsidiary Upanga Joint Venture Company Limited (UJVC) to meet costs of construction of its headquarters. The loan is repayable in 84 months and attracts a fixed interest rate of 8% p.a. (for the first three years) and floating rate at six months LIBOR + 7.5% p.a. from year four to the last year of the facility. As at the year-end, outstanding loan balance was TZS 10,590 million equivalent to USD 4.6 million (2017: TZS 15,316 million equivalent to USD 6.8 million).

(b) Deposits from related parties

GROUP

	Directors and key Management personnel	
	2018 TZS' Millions	2017 TZS' Millions
Deposits at the beginning of the year	390	448
Deposits received during the year	3,144	3,966
Deposits repaid during the year	(3,261)	(4,024)
Deposits as at the end of the year	**273**	**390**
Interest expense	**4**	**4**

BANK

	Directors and key Management personnel		Related companies	
	2018 TZS' Millions	2017 TZS' Millions	2018 TZS' Millions	2017 TZS' Millions
Deposits at the beginning of the year	390	448	92	213
Deposits received during the year	3,144	3,966	21,553	13,115
Deposits repaid during the year	(3,261)	(4,024)	(9,156)	(13,236)
Deposits as at the end of the year	**273**	**390**	**12,489**	**92**
Interest expense	**4**	**4**	**-**	**-**

The above deposits are unsecured, carry variable interest rate and are repayable on demand. Related companies included in this disclosure is Upanga Joint Venture Company Limited.

40. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Transactions and balances with Rabobank (Group and Bank)

Based on the management service contract approved by the Board, a total of TZS 3,843 million (2017: TZS 2,752 million) was paid to Rabobank during the year as management and technical assistance expenses. Management fees payable as at year-end was TZS 458 million (2017: TZS 852 million).

Nostro balances with Rabobank at year-end amounted to TZS 17,523 million (2017: TZS 3,964 million). There was no inter-bank balance due to Rabobank as at year-end. The Bank incurred expenses amounting to TZS 512 million (2017: TZS 325 million) refundable from Rabobank.

(d) Transactions and balances with Upanga Joint Venture (BANK)

During the year, the Bank made operating lease rent payments amounting to TZS 6 billion (2017: TZS 6 billion) to Upanga Joint Venture Limited. As at 31 December 2018, the Bank had prepaid rent amounting to TZS 12,067 million (2017: Nil).

(e) Key management compensation

(GROUP AND BANK)

	2018	2017
	TZS' Millions	TZS' Millions
Salaries and other short-term benefits	3,760	3,587
Post-employment benefits - defined contribution plan	348	304
	4,108	**3,891**

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The compensation made to expatriates from Rabobank is included in the management service contract highlighted in part (e) below and therefore excluded in the above benefits.

(f) Transactions and balances with Government of Tanzania (GROUP AND BANK)

The Government of Tanzania owns 31.8% (2017: 31.8%) equity in the Bank and has significant influence. The Bank invested in government securities during the year and at the year-end the amount receivable from the Government of Tanzania in the form of treasury bills and bonds amounted to TZS 740,185 million (2017: TZS 919,969 million). Interest earned from investment in government securities during the year was TZS 98,181 million (2017: TZS 115,103 million). The Bank also accepts deposits from various Government institutions and agencies, which do not attract interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(g) Directors' remuneration (GROUP AND BANK)

Fees and other emoluments paid to Directors of the Bank during the period amounted to TZS 309 million (2017: TZS 333 million). Details of payment to individual directors is shown in the table below.

DIRECTORS	BOARD MEETING	BARCC	BCC	BHR&RC	BEC	DIRECTORS FEES&REMUNERATION TZS 2018
Prof.Joseph Semboja	7	-	-	-	4	37,450,000
Mr.AlbertJonkergouw	3	-	4	2	2	22,523,262
Mr. Jos Van Lange	7	8	-	-	-	23,640,000
Mr.Protase Tehingisa	6	-	8	5	-	67,245,000
Mrs.Margaret Ikongo	7	8	-	5	-	43,770,000
Mr.Mathias Magwanya	6	-	-	5	4	41,600,000
Mr.George Mulamula	4	5	4	3	-	23,735,000
Mr.Leonard Mususa	7	9	9	-	-	47,420,000
Ms.Christine Glover	2	-	3	2	1	1,384,167
Ms.Ineke Bussemaker	7	9	7	5	3	Not applicable

41. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period that had material impact to the consolidated and Bank financial statements.

Contact Information & Distribution Network

COMPANY INFORMATION AND KEY CONTACTS

1. HEAD OFFICE

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NORTHERN ZONAL OFFICE

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Fax: 027 2548275

CENTRAL ZONAL OFFICE

P.O. Box 888, Dodoma
Tel: (Direct) 026 2322117 | Tel: (General) 026 2322260
Fax: 026 2321835

LAKE ZONAL OFFICE

P.O. Box 1580, Mwanza
Tel: (Direct) 028 2501050 | Tel: (General) 028 2500867
Fax: 028 2500691

DAR ES SALAAM ZONAL OFFICE

P.O. Box 4887, Dar es salaam
Tel: (Direct) 022 2128684 | Tel: (General) 022 2128685
Fax: 022 2128687

NETWORK DISTRIBUTION

5. DAR ES SALAAM ZONE

REGION	BRANCH/UNIT	CONTACT ADDRESS	TEL. DIRECT	TEL. GENERAL	FAX NO.
DSM	DSM Zonal Office	P.O. Box 4887, Dar es Salaam	022 2128684	022 2128685	022 2128687
	Bank House	P.O. Box 9031, Dar es Salaam	022 2115054	022 2116924	022 2116487
	Ilala	P.O. Box 25431, Dar es Salaam	022 2203194	022 2203195	022 2128542
	Kariakoo	P.O. Box 15195, Dar es Salaam	022 2180149	022 2180034	022 2180090
	Magomeni	P.O. Box 10930, Dar es Salaam	022 2170070	022 2172646	022 2170622
	Morogoro Road	P.O. Box 9064, Dar es Salaam	0222113585	022 2138945	022 2128542
	Muhimbili	P.O. Box 65589, Dar es Salaam		0222152055	
	Mwenge	P.O. Box 31597, Dar es Salaam	022 2700927	022 2700931	022 2700928
	Temeke	P.O. Box 45075, Dar es Salaam	022 2856852	022 2856181	022 2856915
	University	P.O. Box 35199, Dar es Salaam	022 2410183	022 2410183	022 2410183
	Mbagala	P.O. Box 45067, Dar es Salaam	0736990193	0736990191	07360990192
	Msasani	P.O. Box 33841, Dar es Salaam	022 2668871	022 2666191	022 2668872
	NMB House	P.O. Box 2653, Dar es Salaam	022 2324124	022 2324125/7	022 2161006
	Ubungo	P.O. Box 10930, Dar es Salaam	022 2461849	022 2461847	022 2461849
	Tegeta	P.O. Box 66787, Dar es Salaam	022 2926300	022 2926301	022 2926302
	Congo Street	P.O. Box 15195, Dar es Salaam	022 2181812	022 2181814	022 2181813
	Kurasini	P.O. Box 9031, Dar es Salaam	022 2850981	022 2850984	022 2850985
	Sinza	P.O Box 31597, Dar es Salaam	022 2773426	022 2773553	022 2773430
	Mandela Road	P. O BOX 8918, Dar es Salaam	022 80808097	022 808098	022 808099
	Maktaba Square	P.O. Box 2653, Dar es Salaam	022 2129234/5	00 2129234 /5	
	Mbezi	P.O. Box 60167, Dar es Salaam	022 2926332	022 2926333	022 2926334
	Mlimani City	P.O. Box 34115, Dar es Salaam	022 232 4120	022 232 4121	
	Airport	P.O. Box 40951, Dar es Salaam	022 2844384	022 2844385	022 2844387
	Oysterbay	P.O. Box 162409 Dar es Salaam	022 2324147	022 2324146	
	Tandika	P.O. Box 45075 Dar es Salaam	022 2856141	022 2161582	
	Gongolamboto			022 232 4192	
	Ohio	P.O. Box , Dar es Salaam	022 2322726		
	TPA	P.O. Box , Dar es Salaam	022 2161030		
	Kigamboni		022 2324174		

ZANZIBAR	Mwanakerekwe	P.O. Box 4608 Pemba	024 2234693	024 2234692	024 2234693
	Chake Chake	P.O. Box 153, Pemba	024 2452052	024 2452954	024 2452433
	Zanzibar Town	P.O Box 4608, Zanzibar	024 2239402	024 2239403	024 2239404

6. EASTERN ZONE

REGION	BRANCH/UNIT	CONTACT ADDRESS	TEL. DIRECT	TEL. GENERAL	FAX NO.
MOROGORO	Eastern Zonal Office	P.O. Box 1066, Morogoro	023 2613479	023 2613601	023 2613600
	Ifakara	P.O. Box 33, Ifakara	023 2931554	023 2931552	023 2931553
	Kilombero	P.O. Box 142, Kidatu	023 2931542	023 2931541	
	Kilosa	P.O Box 3, Kilosa	023 2623017	023 2623233	023 2623073
	Mahenge	P.O. Box 61, Mahenge	022 232 4101	022 232 4102	
	Mahenge	P.O. Box 61, Mahenge	0767 713392	0719 498119	
	Turiani	P.O. Box 167, Turiani	023 2931101	023 2931102	023 2931100
	Mvomero	P.O. Box 478, Morogoro	023 2628734	023 2628735	023 2628733
	Wami	P.O. Box 84, Morogoro	023 2613534	023 2613177	023 2613849
	Mt. Uluguru	P.O. Box 81, Morogoro	023 2614407	023 2614408	023 2614406
	Gairo	P.O. Box 12, Gairo	022 2211326	022 2211327	
	Msamvu	P.O. Box 976, Morogoro	022 2324257	022 2324258	
COAST	Bagamoyo	P.O. Box 76, Bagamoyo	023 2440128	023 2440071	023 2440055
	Chalinze	P.O. Box 34, Chalinze	023 2402922	023 2402923	023 2402922
	Kibaha	P.O. Box 30430, Kibaha	023 2402833	023 2402832	023 2402832
	Kibiti	P.O. Box 5, Kibiti	023 2010922	023 2010081	023 2010912
	Kisarawe	P.O. Box 28053, Kisarawe	023 2401035	023 2401020	
	Mafia	P.O. Box 30, Mafia	023 2011331	023 2010172	023 2010171
	Mkuranga	P.O. Box 51, Mkuranga	23 2110092	023 2110093	023 2110094
	Mlandizi	P.O. Box 30430 Kibaha	022 2211339	022 2211340	

7. CENTRAL ZONE CENTRAL ZONE

REGION	BRANCH/UNIT	CONTACT ADDRESS	TEL. DIRECT	TEL. GENERAL	FAX NO.
DODOMA	Zonal Office	P.O. Box 888, Dodoma		026 2322260/	026 2323544
	Bahi	P.O. Box 33, Ifakara	022 232 4054	023 2931552	023 2931553
	Makole	P.O. Box 30430 Kibaha	022 232 4072	022 2211340	
	Chamwino		022 232 4051		
	Kondoa	P.O. Box 95, Kondoa	026 2360306	026 2360020	026 2360306
	Kongwa	P.O. Box 200, Kongwa	026 2320431	026 2320477	026 2320477
	Kibaigwa	P.O. Box 29, Kibaigwa			
	Mpwapwa	P.O. Box 77, Mpwapwa	026 2320633	026 2320782	026 2320797
	Dodoma	P.O. Box 1482, Dodoma	026 2322067	026 2322405	026 2322219
	Bunge	P.O. Box 1482, Dodoma	026 2320010		
	UDOM	P.O. Box 277, Dodoma	026 2310107		026 2310108
	Mazengo	P.O. Box 2591 Dodoma	026 2321185	026 2321186	026 2321189
SINGIDA	Kiomboi	P.O. Box 44, Kiomboi	026 2532296	026 2532650	026 2532159
	Manyoni	P.O. Box 47, Manyoni	026 2540328	026 2540145	026 2540328
	Singida	P.O. Box 1040, Singida	026 2502100	026 2502104/5	026 2502100
	Itigi	P.O. Box 116, Itigi	026 2540327	026 2540304	026 2540104
	Ikungi	P.O. Box 528 Ikungi	022 2324057		
MANYARA	Mbulu	P.O. Box 33, Mbulu	027 2533090	027 2533064	027 2533090
	Babati	P.O. Box 70, Babati	027 2531113	027 2531027	027 2531113
	Kibaya	P.O. Box 53, Kibaya	027 2555433	027 2552030	027 2555433
	Katesh	P.O. Box 82, Katesh	027 2531697	027 2530077	027 2530076
	Simanjiro	P.O. Box 9527, Simanjiro	0272555692	027 2555693	027 2555693
	Haydom	P.O. Box 33, Mbulu	026 2540145		

8. NORTHERN ZONE

REGION	BRANCH/UNIT	CONTACT ADDRESS	TEL. DIRECT	TEL. GENERAL	FAX NO.
ARUSHA	Northern Zonal Office	P.O. Box 1256, Arusha	027 2508079	027 2508516	027 2548275
	Clock Tower	P.O. Box 3093, Arusha	027 2502599	027 2508521	027 2545184
	Karatu	P.O. Box 50, Karatu	027- 2534037	027 2534030	027 2534024
	Ngarenaro	P.O. Box 15741 Arusha	027 2548457	027 2548854	027 2548573

	Monduli	P.O. Box 20, Monduli	027 2538069	027-2538031	027 2538069
	Loliondo	P.O. Box 60, Loliondo	027 2535207	027 2535070	027 2535207
	Namanga	P.O. Box 8500, Namanga	027 2539503	027 2539505	027 2539504
	Arusha Market	P.O. Box 11168, Arusha	027 2547331	027 2547332	027 2547330
	Arusha Business Centre	P.O. Box 632, Arusha	027 2545741	027 2545740	027 2545743
	Usa River	P.O. Box 131, Arusha	027 2541085	027 2541086	027 2541087
	Mererani	P.O. Box 5123, Arusha	022 2211002	022 2211003	
	Sanya Juu	P.O. Box, Arusha	022 2161668		
	Ngaramtoni	P.O BOX 16806 Ngramtoni	022 2324793	022 2329711	
	Mto wa Mbu	P.O BOX 65 Mto wa Mbu	022 2324790	022 2324791	
KILIMANJARO	Hai	P.O. Box 129, Hai	027 2756129	027 2756129	027 2750649
	Mwanga	P.O. Box 93, Mwanga	027 2750115	027 2757747	027 2757689
	Nelson Mandela	P.O. Box 1121, Moshi	027 2752421	027 2755199	027 2751546
	Rombo	P.O. Box 25, Mkuu-Rombo	027 2757114	027 2757147	027 2757114
	Same	P.O. Box 74, Same	027 2758138	027 2758136	027 2750002
	Mawenzi	P.O. Box 1825, Moshi	027 2751063	027 2751061	027 2751081
	Tarakea	P.O. Box 11 Tarakea	027 2757566	027 2757566	027 2757826
	Himo	P.O. Box 183 Himo	027 2757605	027 2757605	027 2757608
	Hedaru				
	Mbuyuni				
TANGA	Handeni	P.O. Box 123, Handeni	027 2641761	027 2641740	027 2641761
	Korogwe	P.O. Box 165, Korogwe	027 2650068	027 2646364	027 2650095
	Lushoto	P.O. Box 24, Lushoto	027 2640097	027 2640024	027 2640149
	Madaraka	P.O. Box 1396, Tanga	027 2646452	027 2644371	027 2643793
	Mkwakwani	P.O. Box 5056, Tanga	027 2646484	027 2646485	027 2646483
	Mombo	P.O. Box 140Mombo	027 2641540	027 2641576	027 2641518
	Muheza	P.O. Box 414, Muheza	027 2641480	027 2641177	027 2641480
	Pangani	P.O. Box 90, Pangani	027 2630055	027 2630307	027 2630092
	Kilindi	P.O. Box 46, Kilindi	0788 800404	0788 800405	
	Bumbuli	P.O. Box 103 Kwemuae, Bumbuli-Lushoto	022 23244757		
	Mkata		022 2324101		

9. HIGHLANDS ZONE

REGION	BRANCH/UNIT	CONTACT ADDRESS	TEL. DIRECT	TEL. GENERAL	FAX NO.
MBEYA	Highland Zonal Office	P.O. Box 792, Mbeya	025 2502527	025 2504347	025 2502853
	Chunya	P.O. Box 65, Chunya	025 2520019	025 2520048	025 2520019
	Ileje	P.O. Box 17, Ileje	025 2570021	025 2570234	025 2570021
	Kyela	P.O. Box 74, Kyela	025 2540023	025 2540094	025 2540023
	Mbalizi Road	P.O. Box 282, Mbeya	025 2500890	025 2502547	025 2502413
	Mbarali	P.O. Box 75, Rujewa	025 2590196	025 2590052	025 2590051
	Mbozi	P.O, Box 4, Mbozi	025 2580022	025 2580041	025 2580022
	Mount Loleza	P.O. Box 922, Mbeya	025 2502879	025 2502880	025 2502879
	Mwanjelwa	P.O. Box 1768, Mbeya	025 2502826	025 2502462	025 2500070
	Tukuyu	P.O. Box 180, Tukuyu	025 2552149	025 2552253	025 2552149
	Tunduma	P.O. Box 140, Tunduma	025 2530665	025 2530049	025 2530665
	Usongwe	P.O. Box 4623, Mbeya	025 2560120	025 2560121	025 2560122
	Mlowo		0737 225162		
	Mkwajuni		022 2324787/8	0713 954775	
	Kasumulu	P.O.BOX 74 Kyela	0713 141519		
IRINGA	Mafinga	P.O. Box 90, Mafinga	026 2772108	026 2772011	026 2772108
	Kilolo	P.O. Box 2332, Kilolo	026 2968012	026 2968011	
	Mkwawa	P.O. Box 52, Iringa	026 2702036	026 2702038	026 2702054
	Ruaha	P.O. Box 26, Iringa	022 232 4857	022 232 4858	
NJOMBE	Makete	P.O. Box 24, Makete	026 2740027	026 2740028	026 2740101
	Njombe	P.O. Box 413, Njombe	026 2782785	026 2782778	026 2782785
	Makambako	P.O. Box 1030, Makambako	026 2730388	026 2730006	
	Ludewa	P.O. Box 10, Ludewa	026 2790102	026 2790019	026 2790102
	Wanging'ombe	P.O BOX 413 Njombe	022 2324387	0754 231334	
KATAVI	Mpanda	P.O. Box 55, Mpanda	025 2820315	025 2820034	025 2820315
	Mlele	P.O.box 55 Mpanda	0764 232773		
RUKWA	Nkasi	P.O. Box 12, Namanyere	025 2830010	025 2830007	025 2830010
	Sumbawanga	P.O. Box 37, Sumbawanga	025 2800256	025 2800258	025 2800256
	Kalambo	P.O. Box 37, Sumbawanga	022 2324372	0784 407933	
	Laela	P.O. Box 37, Sumbawanga	022 2324372	0753 491817	

10. LAKE ZONE

REGION	BRANCH/UNIT	CONTACT ADDRESS	TEL. DIRECT	TEL. GENERAL	FAX NO.
MWANZA	Lake Zonal Office	P.O. Box 1580, Mwanza	028 2501050	028 2500867	028 2500691
	Geita	P.O. Box 10, Geita	028 2520442	028 2520021	028 2520442
	Kenyatta Road	P.O. Box 1444, Mwanza	028 2500387	028 2502592	028 2501736
	Magu	P.O. Box 12, Magu			028 25301
	Misungwi	P.O. Box 122, Misungwi	0732 980747		073 2980747
	Nansio	P.O. Box 61, Nansio	028 2515051	028 2324524	028 2515091
	Katoro	P.O. Box, Katoro			
	Nyamongo	P.O. Box, Nyamongo	022 2324566		
	Ngudu	P.O. Box 68, Ngudu	028 2983109	028 2983108	073 2980919
	Pamba Road		022 2324579	022 234644	
	Regional Drive	P.O. Box 537, Mwanza	028 2541106	028 2541107	028 2541108
	Sengerema	P.O. Box 96, Sengerema	028 2590075	028 2590248	028 2590025
	PPF Agency	P.O. Box 1444 Mwanza	028 2506030	028 2506030	028 2506030
	Rock City	P.O. Box 7201 Mwanza	028 2981110		
	Igoma	P.O. BOX 1055 Mwanza	022 2324629	022 2324630	
MARA	Bunda	P.O. Box 53, Bunda	028 2621152	028 2621039	028 2621153
	Butiama	P.O. Box 35 Butiama	022- 221 1026		
	Mugumu	P.O. Box 4, Mugumu		732985970	
	Musoma	P.O. Box 561, Musoma	028 2620807	028 2620806	
	Tarime	P.O. Box 108, Tarime	028 2690918	028 2690062	028 2690100
	Rorya	P.O. Box 68, Shirati			
	Buzuruga	P.O. Box 1450, Mwanza	028 2570482	028 2570482	028 2570484
	Rorya	P.O. Box 68 Rorya	022 221 1027		
KAGERA	Biharamulo	P.O. Box 27, Biharamulo	028 2225017	028 2225017	028 2225155
	Bukoba	P.O. Box 1552, Bukoba	028 2220176	028 2220154	028 2220417
	Kayanga	P.O. Box 69, Karagwe	028 2227111	028 2227162	028 2227111
	Muleba	P.O. Box 8, Muleba	028 2224170	028 2224012	028 2224020
	Ngara	P.O. Box 92, Ngara	028 2226049	028 2226223	028 2226013
	Chato	P.O. Box 68, Chato	028 2982532	028 2982541	028 2982542
	Misenyi	P.O. Box 56, Misenyi	0732 983453	028 2222323	028 2222331
	Rusumo	P.O. Box , Rusumo	028 2982862		

	Kyerwa	P.O. Box 8, Kyerwa	022 2324647		
	Kaitaba		022 2324539		
	Nkwenda	P.O. Box 08, Nkwenda Kyerwa	022 2324647		
	Mtukula	P.O. Box 56, Kyaka	022 232 4078		
	Kabanga	P.O. Box 92, Ngara	022 2321106		

11. WESTERN ZONE

REGION	BRANCH/UNIT	CONTACT ADDRESS	TEL. DIRECT	TEL. GENERAL	FAX NO.
TABORA	Western Zonal Office	P.O. Box 681, Tabora	026 2606423	026 2606424	026 2606425
	Igunga	P.O. Box 80, Igunga	026 2650054	026 2650027	026 2650024
	Mihayo	P.O. Box 211, Mihayo	026 2604158	026 2604376	026 2604925
	Nzega	P.O. Box 163, Nzega	026 2692340	026 2692322	026 2692340
	Sikonge	P.O. Box 32, Sikonge	073 2988362	0732 988362	073 2988483
	Urambo	P.O. Box 156, Urambo	0732 988259	0732 988336	073 2988256
	Nkinga	P.O. Box 01, Nkinga	022 2324474		
KIGOMA	Kasulu	P.O. Box 70, Kasulu	028 281 0111	028 2810026	028 2810345
	Kibondo	P.O. Box 69, Kibondo	028 2820216	028 2820023	028 2820216
	Kigoma	P.O. Box 1067, Kigoma	028 2803328	028 2804705	028 2804586
	Uvinza	P.O. Box 3, Uvinza	022 2324455		
SIMIYU	Bariadi	P.O. Box 2, Bariadi	028 2700533	028 2700004	028 2700175
	Maswa	P.O. Box3, Maswa	028 2750372	028 2750321	028 2750372
	Mwanhuzi	P.O. Box 48, Meatu	028-2795292	028-2795080	028 2795292
	Itilima	P.O. Box 2, Bariadi	022 2324471		
SHINYANGA	Manonga	P.O. Box 811, Manonga	028 2763629	028 2763439	028 2763441
	Mwadui	P.O. Box 324, Mwadui	028 2763461		028 2763461
	Kakonko	P.O. Box, Kakonko	022 2211323/4		
	Kaliua	P.O. Box, Kaliua	0737 214715/4		
	Kishapu	P.O. Box, Kishapu	028 2770021/16		
	Kahama	P.O. Box 183, Kahama	028 2710063	028 2710083	028 2710103
	Kahama Business Center				
GEITA	Bukombe	P.O. Box 134, Bukombe	028 2520702	028 2520703	028 2520702

12. SOUTHERN ZONE

REGION	BRANCH/UNIT	CONTACT ADDRESS	TEL. DIRECT	TEL. GENERAL	FAX NO.
MTWARA	Southern Zonal Office	P.O. Box 625, Mtwara	023 2333329	023 2334020	023 2333667
	Masasi	P.O. Box 105, Masasi	023 2510024	023 2510058	023 2510024
	Mtwara	P.O. Box 508, Mtwara	023 2333951	023 2333946	023 2333983
	Ndanda	P.O. Box 7, Ndanda		0717 407538	
	Nanyumbu	P.O . Private Bag, Nanyumbu	025 2675005	025 2675003	
	Newala	P.O. Box 60, Newala	023 2410561	023 2410261	023 2410221
	Tandahimba	P.O. Box 15, Tandahimba	023 2410090	023 2410089	023 2410091
	Mtwara Business Center	P.O. Box 625, Tanu Rd. Mtwara	023 2334852		
LINDI	Kilwa	P.O. Box 13, Kilwa-Masoko	023 2013072	023 2013056	023 2013072
	Lindi	P.O. Box 1021, Lindi	023 2202188	023 2202474	023 2202018
	Liwale	P.O. Box 82, Liwale	073 2933304		073 2933123
	Nachingwea	P.O. Box 102, Nachingwea	0732 933139	073 2933297	073 2933139
	Ruangwa	P.O. Box 100, Ruangwa	0788 800403	0788 800406	0732 933136
RUVUMA	Litembo	Private Bag, Litembo	073 2950567	073 2950540	0732 950567
	Mbinga	P.O. Box 4, Mbinga	025 2640072	025 2640466	025 2640306
	Songea	P.O. Box 641, Songea	025 2602466	025 2602486	025 2602469
	Tunduru	P.O. Box 24, Tunduru	025 2680067	025 2680086	025 2680186
	Namtumbo	P.0. Box 66 Namtumbo	025 2602848	025 2602890	025 2602858
	Madaba	P.O. Box 1, Madaba	022 2324415		

Close to you

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