



TIB
DEVELOPMENT
BANK
Your Partner for Growth

ANNUAL REPORT | 2019



A medium
Industrialization
Growth



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BANK
Your Partner for Growth

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Industrialization
Growth**

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Our Vision

To be the premier development financier in Tanzania.



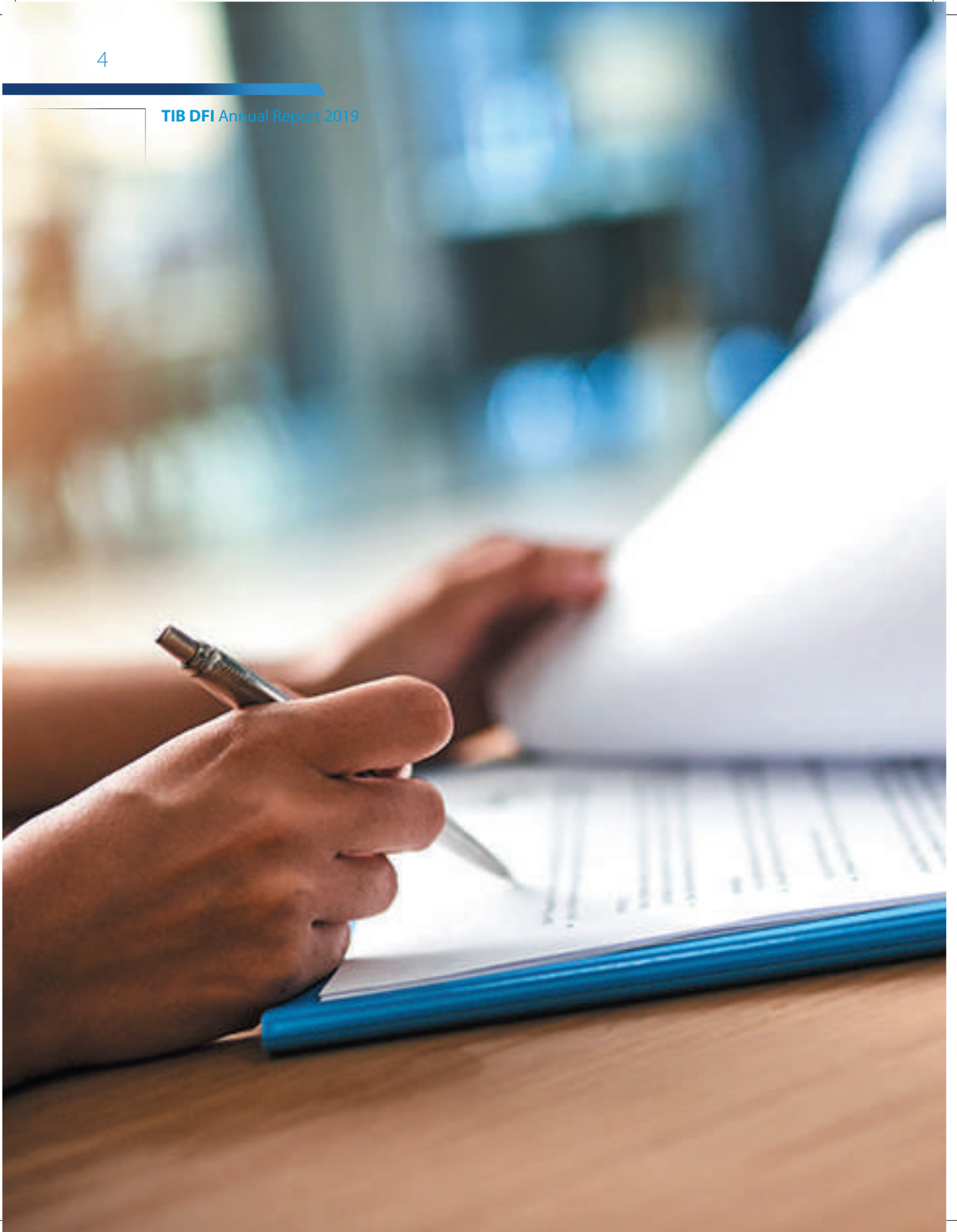
Our Values

Integrity, Innovation, Excellence and Customer Centricity.



Our Mission

To provide affordable development financing for an exclusive, diversified, vibrant and competitive national economy.



CORPORATE INFORMATION

Registered Office Company Secretary

Building No 3, Mlimani City Office Park
Sam Nujoma Road,
P. O. Box 9373, Dar es Salaam.
Tel: +255 22 2163600/601
E-mail: md@tib.co.tz
Website: www.tib.co.tz

PHYSICAL ADDRESS

Mlimani City Office Park,
Building No. 3,
Sam Nujoma Road.

MAIN BANKERS

Bank of Tanzania,
2 Mirambo Street,
11884 Dar es Salaam,
P. O. Box 2939,
Dar es Salaam, Tanzania.

TIB Corporate Bank Limited,
Mlimani City Branch,
P. O. Box 9102,
Dar es Salaam, Tanzania.

NBC Limited,
Corporate Branch,
P. O. Box 9062,
Dar es Salaam, Tanzania.

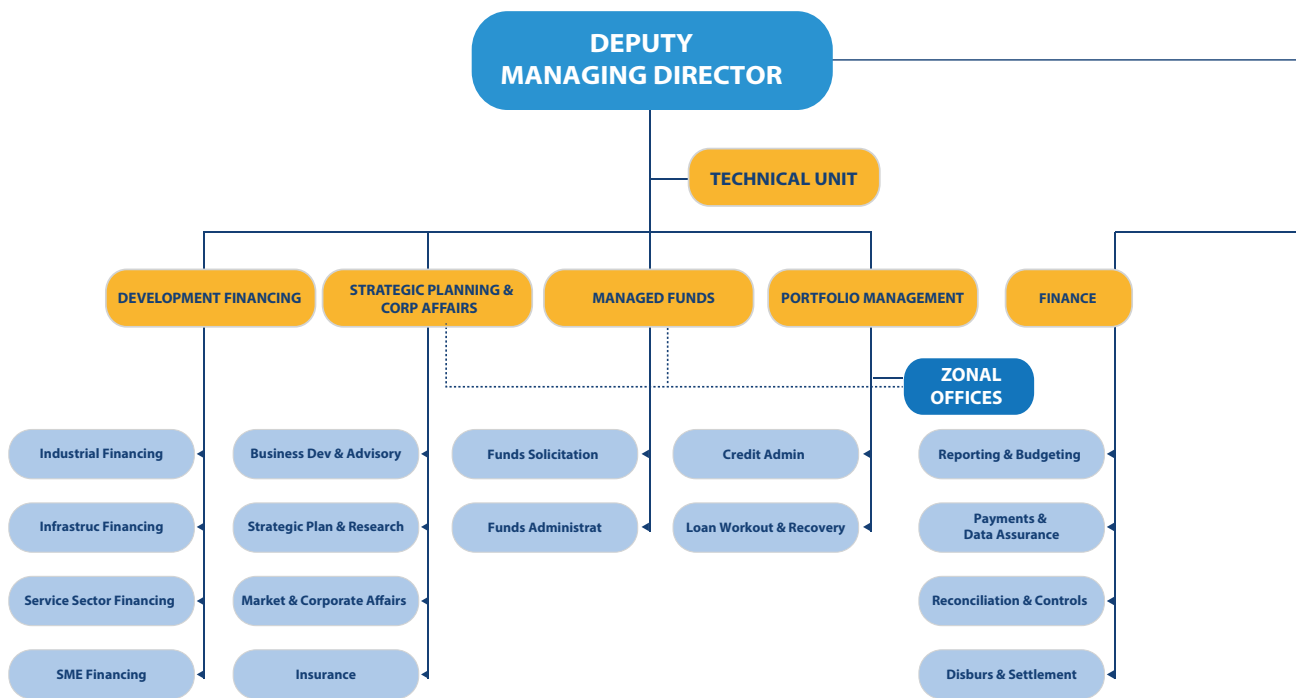
AUDITORS

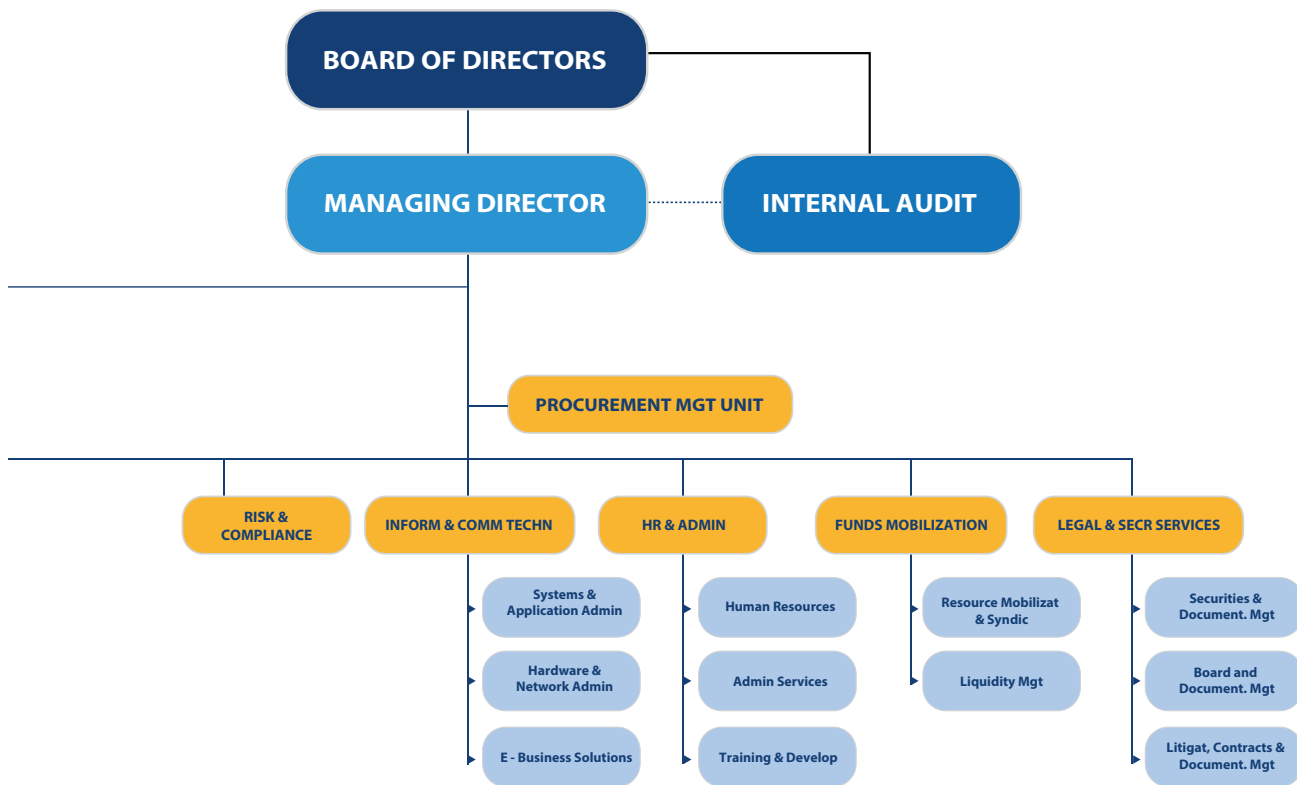
Principal auditor
The Controller and Auditor General,
National Audit Office,
Audit House,
4 Ukaguzi Road,
P.O. Box 950,
41104 Tambukareli,
Dodoma, Tanzania.

SUB-CONTRACTED AUDITOR

KPMG (Certified Public Accountants)
The Luminary, Plot No.574,
Haile Selassie Road,
Msasani Peninsula Area,
P. O. Box 1160,
Dar es Salaam, Tanzania.

ORGANIZATION STRUCTURE - TIB DFI





CHAIRPERSON STATEMENT



Dr. Maria S.H. Mashingo

Chairperson of the Board
of Directors, TIB

*“ I assure you, TIB Board will
continue to strengthen
its governance role to
enhance shareholders’
value. ”*

On behalf of the Board of Directors of TIB Development Bank, I am delighted to present to you the Annual Report and Audited Financial Statements for the year ended 31st December 2019.

Operating Context

It is my pleasure to present to you the TIB Development Bank Limited Annual Report and audited financial results for the year ended December 2019. Our report is being presented at the time when Bank of Tanzania (BOT) reports the monetary policy during 2019 remained accommodative in order to support the growth of credit to the private sector for supporting economic growth, while ensuring stability in money market interest rates.

Accordingly, during the year 2019 the bank continued to perform innovatively by offering development finance in the form of long term project finance, equity and asset finance in the key sectors of the economy namely infrastructure, industrialization, services, mining, oil and gas. This gears to facilitate transformation of our nation to middle income economy by 2025.

The overall bank's operating environment remained stable.

Real GDP growth was estimated at 6.8% in 2019, down slightly from 7.0% in 2018. According to the African Development Bank's Tanzanian Economic Outlook, as country we marked diversified economy, characterized by robust private consumption, substantial public spending, strong investment growth, and an upturn in exports underpinned the positive outlook.

BOT reports that in the year under review, the inflation remained at single-digit and below the medium-term target of 5.0 percent throughout 2019/20. The rate was also in line with the East African Community (EAC) and Southern African Development Community (SADC) convergence criteria of not more than 8.0 percent and 3.0 to 7.0 percent, respectively. Inflation is expected to be subdued and below the medium-term target of 5.0 percent in 2020/21, supported by anticipated adequate food supply in the country, adequate power supply, low oil prices in the world market, and prudent monetary and fiscal policies

The Tanzania Financial Stability Forum report shows that domestic financial system remained resilient, efficient and effective in 2019. Accordingly, Bank of Tanzania (BOT) confirms that the financial sector expanded and remained sound and stable. Categorically, the banking sector, which dominates provision of financial services, remained profitable, adequately capitalized, with a satisfactory level of liquidity and improved asset quality, despite challenges of relatively high non-performing loans. All banking sector performance indicators were within the regulatory requirements.

The ratio of non-performing loans (NPLs) to gross loans was 10.7 percent at the end of June 2019. This was attributed by BOT's in collaboration with banks by taking several measures to contain NPLs at not more than 5 percent. The measures include improvement of credit-underwriting process, use of credit reference system to reduce exposure to credit risk, and enhancement of loan recovery efforts.

CHAIRPERSON STATEMENT

Bank performance

I am proudly to report the bank's 2019 performance was highlighted by a growth in profit before tax of TZS 8.7 billion from TZS 0.57 billion reported in 2018 to 9.3 billion. Total operating income was TZS 31.7 billion 22% growth compared to TZS 26 billion reported in 2018, the results have been mainly driven by decrease in impairment charges.

Also the bank achieved a positive return on equity ("ROE") of 2.7% compared to a negative return of 0.2% reported in 2018.

The year 2019 saw the Bank's liquidity position improving as compared to the year 2018. This follows improvement in collections from public entities with significant Government shareholding. As a result, there is significant improvement in counterparty confidence as the bank settled significant amount of matured obligations from individual customers and commercial banks.

During the year under review, the bank obtained CMSA approval for issuance of a Medium Term Note of TZS 300 billion. Out of the approved amount, the first tranche will be TZS 135 billion for conversion of short term liabilities from pension funds and insurance companies into long term bonds. The bank will execute the issuance of the Medium Term Note after endorsement by the Ministry of Finance and Planning.

The relationship with external sources of fund remains robust as the bank was able to meet all obligations falling due from external funders. The bank initiated a dialogue with other external funders apart from the traditional sub-regional DFIs for resource mobilization and improvement of the credit enhancement mechanism.

Outlook and Appreciation

Acknowledging our role as a policy bank, we will take part in achieving country's development projects where possible by offering long term funding for development projects with a view to support the Government of Tanzania attain its national development goals of eradicating poverty and becoming a middle income country.

In doing so, we will harness partnerships towards the provision and delivery of adequate, reliable, affordable and sustainable infrastructure and social services in support of economic growth.

Through our fund mobilization directorate, we will leverage the banks' capital to mobilize sustainable financing in support of bankable infrastructure and private sector projects.

In resource mobilization the bank builds strategic partnerships with development finance institutions and private investor investors. The bank offers most competitive terms to investors as compared to other banks.

Firmly, I would like to extend my gratefulness to the Government through the Ministry of Finance, the Office of Treasury Registrar and Bank of Tanzania on their guidance in achieving bank's role and mandate as the premier national Development Finance Institution (DFI).



Categorically, I congratulate all Board Members for their unyielding support and commitment to all tasks assigned to us by the Government. Let me assure you, TIB Board will continue to strengthen its governance role to enhance shareholders' value. This includes working on our capitalization program; the bank will continue to engage the Government for capital injection to ensure the bank is adequately capitalized.

Personally, I would like to recognise Management and staff's commitment and their continued hard work, innovation, commitment and team work that made the bank cruise magnificently during the year. The board appreciates to have such dedicated team of staff in place. Thank you!

Indeed, I wish our shareholders, customers, management and other stakeholders a very fruitful and blessed year 2020.

Dr. Maria S.H. Mashingo

Chairperson of the
Board of Directors

TIB Development Bank Limited

Active fund management since 1992



BOARD OF DIRECTORS



Dr. Maria S. H. Mashingo
Board Chairperson



Mr. Charles G. Singili
MD & Member of the Board



Ms. Rose J. Aiko
Member



Brig. Gen. (rtd) Mabula B. Mashauri
Member



Dr. Arnold M. Kihale
Member



Dr. Said S. Mzee
Member



Mr. Maduka P. Kessy
Member



Prof. Razack B. Lokina
Member

MANAGING DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2019



Mr. Charles G. Singili
Managing Director, TIB

“ The bank performance was highlighted by a growth in profit before tax of TZS 8.7 billion from TZS 0.57 billion reported in 2018 to 9.3 billion. The results have been mainly driven by decrease in impairment charges.

”

Bank operations

The bank earmarked to implement the Government's focus on realizing the Second Five-Year Development Plan with the theme of "Nurturing Industrialization for Economic Transformation and Human Development." Our role as the premier national Development Finance Institution (DFI) with a view to support the Government of Tanzania attains its national development goals of eradicating poverty and becoming a middle income country. Corresponding to this thrust, I am pleased to report that the bank has continued to actively finance projects that were submitted by both private sector promoters and those put forward by public sector. During the period under review, the bank had an on – balance sheet gross portfolio amounting to TZS 628,780 million. The on balance sheet portfolio is comprised of 119 projects (out of which Term Loans are 86%, Overdraft 13% & 1% other loans of the total loan portfolio.)

By ownership; the public projects account for 17% of the entire portfolio, whereas private projects contribute 83% of the same.

During the period under review, the bank continued to implement FYDP II, which Tanzania has set a clear commitment to enhance transformation of the country's production, service and trading structures to make them commensurate with present patterns and trends in the regional and global scenes. The bank Loan portfolio comprised of the following sectors: Gas 6.0%; Agro-processing and agriculture 25.5%; Manufacturing 10.5%; Mining and Quarrying 22.6%; Tourism 3.8%, Hotel & Restaurant 8.3%; Real Estate 7.9%; Electricity 4.5%; Trade 3.5%; Education 2.4%; Transportation and Communication 1.1%; Financial Intermediaries 1.5%; Personal 1.0%; Building and Construction 0.7%; Other Services 0.4%; Leasing 0.1%, water 0.1 % and Fishing 0.1%.

The distribution according to priority sectors was in compliance with the TIB Development Bank Limited's Investment Policy, but also they aligned with the Bank of Tanzania (BOT) sectorial categories. This was necessary in order to trigger the strategic change that will allow the Government to create requisite conditions for it to deliver on the aspirations stipulated in the Tanzania Development Vision 2025.

Categorically, there are some notable achievements in 2019: the bank embarked on implementation of Credit and Liquidity stress testing tools. Credit stress test looked at the likelihood of existing accounts in loan portfolio migrating into different risk classes and ultimate loss impact to the bank's profit and core capital. Liquidity Stress testing to the funding risks tested the ability of the bank's risk bearing capacity. The stress testing featured in key sources of liquidity risk include loan repayments, loan disbursements, operation and administration expenditures, debt service and borrowing capacity. To address this, the bank obtained CMSA approval for issuance of a Medium Term Note of TZS 300 billion. Out of the approved amount, the first tranche will be TZS 135 billion for conversion of short term liabilities from pension funds and insurance companies into long term bonds. The bank will execute the issuance of the Medium Term Note after endorsement by the Ministry of Finance and Planning.

In its capitalization program, the bank has continued to engage the Government for capital injection to ensure the bank is adequately capitalized.

MANAGING DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

In general, the bank has successfully renegotiated for lower interest rates on its outstanding borrowings from various lenders. As a result, there was a 20 percent reduction in interest expenses in 2019 as compared to 2018. The move has significantly reduced the cost of borrowing for the bank.

The relationship with external sources of fund remains robust as the bank was able to meet all obligations falling due from external funders. The bank initiated a dialogue with other external funders apart from the traditional sub-regional DFIs for resource mobilization and improvement of the credit enhancement mechanism.

These engagements are viewed as long term initiatives which will give the bank the necessary platform to mobilize critical implementation financing for projects in cooperation with other development institutions.

Year 2019 also found the bank strengthening relationships with regional and other multilateral development finance institutions such as World Bank, KfW, DBSA, IFC, AfDB, BADEA, NORSAD and PTA bank.

Projects were jointly identified in various sectors such as water, power, transport, railways, airports, economic zones and municipal infrastructures.

Financial performance

The bank's 2019 performance was highlighted by a growth in profit before tax of TZS 8.7 billion from TZS 0.57 billion reported in 2018 to 9.3 billion. Total operating income was TZS 31.7 billion 22% growth compared to TZS 26 billion reported in 2018, the results have been mainly driven by decrease in impairment charges.

Also the bank achieved a positive return on equity ("ROE") of 2.7% compared to a negative return of 0.2% reported in 2018.

In terms of compliance, the bank has initially applied IFRS 16 from 1st January 2019. This reporting standard introduced accounting model for leases where the bank as a lessee has to recognize a right-of-use of assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. The adoption of IFRS 16 did not have material effect on the bank's financial statement.

By December 31st, 2019 the portfolio under Loan work out and recovery had a total exposure of TZS 272,484 million including charged off portfolio of TZS 145,237 million. Total collection from Loan Workout and Recovery, was TZS 3,819 million including the collection from charged off accounts for the year 2019 which was TZS 1,330 million.

Appreciation

I wish to express my sincere appreciation to the Government through the Ministry of Finance, the Office of Treasury Registrar and Bank of Tanzania and all other stakeholders for their steadfast support to the bank's efforts in quickening projects with developmental impact in Tanzania as earmarked in FYDP II. I am indebted to the guidance of the Board and contribution of Management and staff for their effort towards the delivery of our mandate as a Policy Bank.



Mr. Charles Singili
Managing Director, TIB.

**Industrialization starts
with the formation of
capital - it does not
matter how.**

F. Sionil Jose



MANAGEMENT



Mr. Charles G. Singili
Managing Director



Ms. Lilian M. Mbassy
Director, Managed Funds



Mr. Patrick M. Mongella
**Director, Strategic Planning
and Corporate Affairs**



Ms. Christine V. Mbonya
Director, Internal Audit



Ms. Esther N. Epaphra
**Director, Development
Financing**



Ms. Nyanso B. Masambaji
**Director, Portfolio
Management**



Mr. Menson L. Ngahatilwa
**Director, Legal and
Secretarial Services**



Ms. Mwasam S. Suleiman
Director, Finance



Mr. Robert J. Ndaki
**Director, Information and
Communication Technology**



Mr. Kulwa S. Deteba
**Director, Risk and
Compliance**



Mr. Oswald Leo
Director, Fund Mobilization



Mr. Daudi M. Masele
**Director, Human Resource
and Administration**

DIRECTORATE OF STRATEGIC PLANNING AND CORPORATE AFFAIRS



Mr. Patrick Mongella
Director of strategic Planning
and Corporate Affairs

The Directorate of Strategic Planning and Corporate Affairs' responsibility is to initiate the planned direction of the bank. During the year under review, this was accomplished through the development of nine (9) new strategic projects in the strategic areas of the economy. The bank has been playing a pivotal role of guiding the government agencies, ministries and the private sector on various strategic project valuation levels of their development and seeing to their financial closer, which together added to the bank's rising balance sheet. Throughout the year under review, the directorate played a spirited role in developing, harmonizing and communicating the bank's next five year corporate plan anchored around the country's FYDPII focusing on nurturing industrialisation. Directorate's responsibilities were discharged through its four departments, namely Business Development Unit, Advisory Services Unit, Research and Strategic Planning Unit and Marketing and Corporate Affairs Unit.

The responsibilities of the Directorate of Strategic Planning

and Corporate Affairs remained unchanged from the previous year with execution of its mandate through its four departments namely, Business Development, Advisory Services, Research, Strategic Planning and Marketing and Corporate Affairs. The directorate's core function is to plan (and drive??) the strategic direction of the bank. In 2019, the bank introduced (new products) in response to the Government's FYDP II program which anchors towards nurturing industrialisation and human development.

Business Development Department

The main purpose of the business development department is to build a strong pipeline of bankable development oriented projects ready for the bank's financing thereby growing the DFI business. Through a diversified structure of six (6) business development personnel supported by the Zonal office teams, the department identified eligible projects from public and private sector and worked with developers to ensure that their projects are developed to a level that whets the bank's appetite for financing the projects. Focus on

drumming up the business for the bank, meant the department attending various events and visiting different places around the country to orate the bank's desire to support development projects.

Business development endeavours during 2019 were influenced by the country's industrialization drive, which is articulated in the second Five Year Development Plan as well as the glaring infrastructure gap, which poses a great hindrance to socio-economic development in Tanzania. Under this backdrop, and guided by the bank's strategic objectives, the department pursued targets around seven key areas. First and foremost was the identification and development of industrial and infrastructure projects at national and local government level. Working within the confinements of the countries prudential guidelines for development financial institutions, the department reviewed projects concepts guiding them through the process to achieve bankability.

The department played a key role as custodians of the bank's strategic risk, technical assistance and business development policies and frameworks. These guiding documents were reviewed and updated to suit the prevailing business and economic environment. A key development was

the introduction of a new credit process whereby the department spearheaded introduction of utilization of the Credit Quest (CQ) system and provided secretarial services for the bank's Business Review Committee.

Year 2019 also found the bank strengthening relationships with regional and other multilateral development finance institutions such as World Bank, KfW, DBSA, IFC, AfDB, BADEA, NORSAD and PTA bank. Projects were jointly identified in various sectors such as water, power, transport, railways, airports, economic zones and municipal infrastructures.

International and domestic financial institutions played a key role in the department's endeavours to support the private sector, particularly small and medium scale enterprises, so as to ensure they gain access to finance and infrastructure for growth of their businesses. In this particular area the bank continued to work with the Local Government Loan Board (LGLB) to develop the capacity of LGAs in developing bankable projects. Two project preparation workshops were conducted for LGAs. The first workshop was in Dodoma and it covered LGAs from Morogoro, Dodoma, Singida. The second workshop was held in Mtwara, whereby LGA officials from Lindi and Mtwara were trained.

Further, the bank collaborated with KfW through the IFF-OBA initiative to develop and finance commercially viable projects in the water sector. The initiative was implemented through a financing program that involved provision of long-term financing solutions to urban water supply authorities across the country.

The department has actively participated in various meetings and conferences, where interactions with various stakeholders enabled the bank to identify key development challenges in the various sectors and gained an opportunity to establish new contacts and relationships with potential customers.

As the year progressed towards the end, the department consolidated services to customers by assisting preparation of mining, industrial and energy infrastructure projects in various parts of the country and maintained the bank's role as the project promoters' partner for growth.

Advisory Services Department

Advisory Services unit focused on providing expertise on developing projects with public-private partnership characteristics. The sectors of focus included air transport and oil and gas. The unit during the year contributed towards the credit review process for projects submitted to the bank.

DIRECTORATE OF STRATEGIC PLANNING AND CORPORATE AFFAIRS

Strategic Planning and Research

Reporting to the director of strategic planning and corporate affairs, the research and planning is responsible for directing the strategic planning activities of the Bank and conducting in-house research and in collaborating with other research agencies carry analysis that would help the bank to make an informed investment decision that meet the future investment needs, as well as overseeing update data on macroeconomic trends are available as part of investment decision making. Thus, research and planning department perform a central role of which was to gain an upper hand on business development, market trends for projects under consideration for loan request. During the period under evaluation, the department supported that bank through strategic sector of interest profiling, in-house facts creation and analysis and when necessary for evidence not accessible from the banks engage and administer expertise from bodies with authority on those sectors. During 2019, the department provided in-house research and circulated paper to support an informed decision making on projects sponsored by both public and private sector.

TIB-DFI like any other financial institution, appreciate that business in current investment market situation has become a very tough and risky. Any investment decision needs a good approach and data that can help to make a well-versed investment decisions between the bank and clientele. To accumulate information and statistics as part of its research and development, with the determination to evaluating whether or not to loan finance to projects put forward, for the periods of 2019, amongst the studies look at were in the tourism industries, civil explosives, agro-processing facilities and technological minerals, mining and quarrying and cement business have completed. Worked with UNIDO to prepare credit guarantee schemes appropriate for SMEs into alternative sources of energy and SIDO on Industrial park projects for Dodoma, Morogoro and Dar es Salaam. While some of these projected has been completed, others are now at final feasibility study level. The department maintains its intimate knowledge base of the requirements and terms of analysing financial structuring or strategic mega projects to safeguard the projects meet those criteria for commercially financing.

Marketing and Corporate Affairs Department

The Marketing and Corporate Affairs Department plays a pivotal role in coordinating the bank's publicity, corporate responsibility including overseeing the maintenance of good relations between the bank and its clients as well as the general public. Specifically, the department liaises with other departments in the bank to market the bank's products and services as well as manage the bank's brand dynamically internally and externally.

During the year under review, was the bank officially launched its Customer Service Charter, where representatives from bank's clients took part in this event. Moreover, in order to maintain bank's brand, on May 14, 2019 staff were trained on the brand manual/guideline. The objectives aimed to enable staff to understand the proper use of all required features of brand guideline, maintain brand identity of the bank and consistency in communicating bank's brand.

Furthermore, Marketing and Corporate Affairs organized and managed various corporate events. The most remarkable event accomplished by the bank during the period under review was winning the 3rd position in the financial institution category during 43rd Dar es Salaam International Trade fair held in Dar es Salaam, Tanzania.

DIRECTORATE OF PORTFOLIO MANAGEMENT



Ms. Nyanso Masambaji
Director of Portfolio Management

Directorate Structure and Department Review:

The directorate is comprised of two functional departments at head office namely Credit Administration, Loan Workout and Recovery; and one unit responsible for insurance brokerage functions.

The directorate also manages four (4) zones which are Dar es Salaam for coastal and nearby regions, Arusha for northern regions, Mwanza for Lake regions, and Mbeya for Southern highland regions.

Collectively, the division consists of 46 staff members.

The Portfolio Management Directorate deals with managing on-balance sheet accounts, charged off accounts, and Managed Funds accounts.

The Directorate is responsible for the management of the following functions:-

DIRECTORATE OF PORTFOLIO MANAGEMENT

Projects Under Implementation:

In collaboration with in-house technical team; the main focus of this function is to ensure that the project implementation is carried out according to the approved terms and conditions as stipulated in the loan agreements.

This process involves sequencing of files review, project site visit, disbursements, monitoring of the projects' progress against time, budget, and other resources as per approved financing plan, and other risk management instruments like Investment Policy, Portfolio Management Manuals, etc. This function is managed by zones, and the Zonal Managers are overall in-charge.

Completed Projects:

This function is responsible for monitoring and supervising all completed projects; the process involves revenues collection (interests, principals, and other income as per repayment schedules and loan contracts), ensuring compliances of all regulatory and non-regulatory covenants, work-out of deteriorating assets, and implementation of NPL Management/Reduction strategies among other things.

This function is also managed by zones, and Zonal Managers are overall in-charge.

Credit Administration:

The key function of this department is to provide administrative support to the lending activities of the bank. It includes booking of loans, ensure documentation checklist is in compliance with loan agreement/letter of offer, effecting disbursements, checking whether the repayments are done as per the loan agreement, loan classification, review of the credit proposals, and regular review of the portfolio to ensure compliances.

Further, Credit Administration is also responsible to oversee, assess, analyze and reporting in regards to the bank's portfolio performance. This is a centralized function at the head office, and the manager of the department is in-charge of the function.

Loan Recovery & Workout

This function is responsible for all recovery measures including liquidation of assets within the shortest time possible and at minimal cost. The department is stationed at the head office, and the manager of the department is in-charge of this function.

Insurance Brokerage

The main responsibility of this unit is to work in line with the bank's core business functions to ensure that all bank's assets, staff and borrowers' assets pledged as collaterals are adequately insured to protect the interest of the bank against various risks. For the year under review the Brokerage Unit created the revenue in tune of TZS 120 million from the insurance services.

Overall Review

As at December 31st, 2019 the bank had an on – balance sheet gross portfolio amounting to TZS 628,780 million. The on balance sheet portfolio is comprised of 119 projects (out of which Term Loans are 86%, Overdraft 13% & 1% staff loans of the total loan portfolio.)

By ownership; the public projects account for 17% of the entire portfolio, whereas private projects contribute 83% of the same.

From sectorial perspective; TIB Loan portfolio comprised of the following sectors: Gas 6.0%; Agro-processing and agriculture 25.5%; Manufacturing 10.5%; Mining and Quarrying 22.6%; Tourism 3.8%, Hotel & Restaurant 8.3%; Real Estate 7.9%; Electricity 4.5%; Trade 3.5%; Education 2.4%; Transportation and Communication 1.1%; Financial Intermediaries 1.5%; Personal 1.0%; Building and Construction 0.7%; Other Services 0.4%; Leasing 0.1%, water 0.1 % and Fishing 0.1%.

The distribution according to priority sectors was in compliance with the TIB Development Bank Limited's Investment

Policy, but also they aligned with the Bank of Tanzania (BOT) sectorial categories.

The portfolio is regionally distributed among five zones namely Dar-es-Salaam – 37.8%; Lake – 45.0%; Arusha -12.8%; Mbeya -2.3% and Zanzibar -2.1%.

By December 31st, 2019 the portfolio under Loan work out and recovery had a total exposure of TZS 272,484 million including charged off portfolio of TZS 145,237 million. Total collection from Loan Workout and Recovery, was TZS 3,819 million including the collection from charged off accounts for the year 2019 which was TZS 1,330 million.

The Portfolio Management Directorate continued to face challenges such as promoters rush to Court to seek injunctions which forestall the bank from realizing the bank's money on time, diversion of funds by some of the promoters, delays in project implementation due to change in project concepts by promoters, some regulatory permits takes time to be fulfilled, and longtime taken to secure auction permits together with unsuccessful auctions due to current liquidity challenges in the market.

On the other hand, some projects operated under tight liquidity positions, leading to failure to meet their regular repayment obligations precipitating an increase in Non-Performing Loan (NPLs).

Court procedures and poor conditions of security assets were hurdles. More than TZS 78,185 million of the portfolio under recovery was locked in court cases. To avoid the long – winding litigations, the Directorate with support from bank's management is exploring other measures to unlock those 'road blocks' so that the bank can recover its investments.

DIRECTORATE OF DEVELOPMENT FINANCING PERFORMANCE FOR THE YEAR



Ms. Esther Epaphra
Director of Development Financing

The Directorate of Development Financing within the bank is responsible for undertaking detail appraisal of all projects proposals received by the bank and advice on their suitability for funding by establishing the project's viability on commercial, financial, economic, technical, social and environmental aspects.

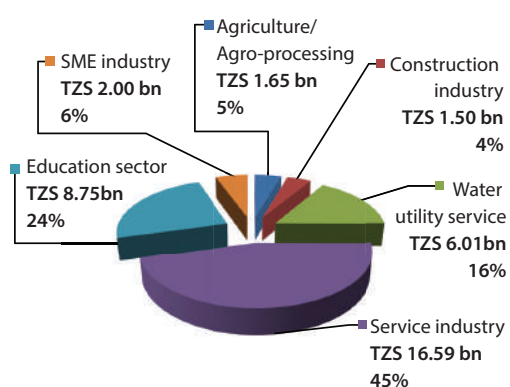
During 2019, the bank continued to sort bankable projects that were in line with government's FYDP II objectives of industrialization and human development transformation. The Directorate appraised and obtained approval for funding of projects worth TZS 36.5 billion during 2019 which is an annual increment of 62% compared to TZS 22.4 billion approved in 2018.

Among the major sectoral that where covered in 2019 are Business services, Education and Water as highlighted in Table below.

Sectoral Approvals

	2018		2019	
	TZS	Millions % of total	TZS	Millions % of total
Agriculture/Agro-processing	375	1.7	1,655	4.5
Business services	3,000	13.4	16,585	45.4
Construction	-	-	1,497	4.1
Education	-	-	8,746	24.0
Financial intermediation	-	-	2,000	5.5
Manufacturing	3,685	16.5	-	-
Mining	11,400	50.9	-	-
Tourism & hospitality	3,511	15.7	-	-
Water	425	1.9	6,013	16.5
TOTAL	22,396	100.0	36,496	100.0

2019 Approvals by sector



Of the approved project, 2019 saw more funding being allocated to Public entities projects and SME compared to 2018 as highlighted in the Table below. The Bank continues to recognize the importance of SME in bringing development to the country and notes that both Public and Private sectors need to work together in achieving this goal.

	2018		2019	
	TZS	Millions % of total	TZS	Millions % of total
Private - SME	375	1.7	3,655	10.0
Private - Corporation	21,596	96.4	18,082	49.5
Public	425	1.9	14,759	40.4
TOTAL	22,396	100.0	36,496	100.0

In 2019, the directorate worked with other directorates to oversee the re-engineering of the whole credit process of the bank. The exercise resulted in a more improved investment policy; removal of several bottleneck and duplicate procedures; and improved customer service delivery. The bank realizes that improvement in the credit processes will continue to be a continual process when needs be so as to have effective and efficient process.

Outlook for 2020

The bank will continue to seek project that have a development impact and in line with the government's FYDP II objectives of industrialization and human development transformation. In particular, projects to improve Tanzania's water infrastructure, Mining sector, SME financing, Manufacturing and Agro-processing will be focused in 2020.

DIRECTORATE OF LEGAL AND SECRETARIAL SERVICES



Mr. Menson Ngahatilwa
Director of Legal and Secretarial Services

Overview

The Division's main objectives continued to be provision of legal services to the Board and Management in all legal related matters as and when they arise or where the bank was part of that respective matter (be contract/ agreement or litigation) with the main objective of ensuring that the bank was legally protected and was operating in accordance with the laws of Tanzania; and to minimize legal risks which may arise in the course of operations of the bank.

The Functions of the three Departments, each headed by a Manager, are as follows:

a) Legal Advisory and Litigations

This Department is responsible for:-

1. Overseeing all litigations, receiverships/ liquidations in the bank handled in-house and by outside retained lawyers/ advocates/law firms

2. Preparation of litigation and law firms' management policy and ensure adherence to the service level agreements (SLA) in respect of the matters assigned
3. Provision of legal advice to the bank on contractual matters/ labour issues and any other legal issue that is assigned to the directorate.
4. Provision of legal advices on all issues relating to the bank's service providers such as valuers, insurance brokers, security service, ICT, etc. including preparation of SLAs, and monitoring their performance, etc.
5. Provision of advisory services to all Divisions, Departments, and Units in the bank

During the year

During 2019 the Department handled all the Court cases where the bank was a party thereto by either representing the bank or working closely with the retained

external lawyers/law firms in prosecuting the cases. Some of these cases were successfully concluded in favour of the bank; while the rest are at different stages of prosecution and are being followed-up closely to ensure the bank's interest are well protected.

b) Board and Management Secretarial Services

The Department is responsible for:-

1. Provision of secretarial services to all Board of Directors and its Committees, Management and its Committees
2. Maintaining the Board almanac and ensure implementation of Board and its Committees Charters; coordinate appointment, remuneration and all welfare of the Board of Directors
3. Provisions of secretarial services to the bank's subsidiaries, namely TIB Rasilimali Limited
4. Updating the records and the bank and Board of Directors to BRELA
5. The department made follow up for appointment of the Board members to the appointing authorities.

During the year

1. During 2019 the Department (successfully) coordinated the Board and its Committees Meetings as well as Management Meetings.
2. Secretarial services were also offered to the bank's subsidiary i.e. TIB Rasilimali Limited Board Meetings. The Department further disseminated the resolutions/decisions of the various forums herein before to the respective Members of staff for implementation.
3. The Department further updated the records of the bank at BRELA as required by the law

c) Credit Management

The Credit Management Department was responsible for all credit related matters of the bank as follows:-

1. Conducting official searches in all registries, Brela, Land Offices, TRA, etc.
2. Preparation of all legal loan documentation including registration of the same at the relevant registries
3. Ensuring safe custody of all securities and discharging them upon approval of the bank.

4. Support all loan recovery processes from issuing of statutory notices, and appointment of law firm for instituting civil cases
5. Provision of business advisory services and transactional structures – from negotiations stage, preparation of MOUs and due diligence

During the year

During the year 2019, the Department carried out its activities as per the approved action Program.

The said activities included the preparation of various contracts/agreements such as credit facility agreements, debentures, mortgage deeds, loan guarantees in respect of credit facilities granted to the bank's borrowers, security perfection, conveyancing and registration of (the same) at various registries within the country; Memorandum of Understanding; service contracts with all service providers; agreements for staff related issues; etc.

Members of the Division participated in various workshops organized by the Tanganyika Law Society and Ministry of Justice and Constitutional Affairs.

DIRECTORATE OF MANAGED FUND



Ms. Lilian Mbassy
Director of Managed Fund

MANAGED FUNDS ROLE

The main objective of the directorate is to administer the bank's Agency Funds Portfolio and related services on behalf of the fund owners. This objective is in-line with Bank's broad goals and strategic objectives. This entails:-

- (i) To promote the National economic growth through provision of development financing.
- (ii) To promote development of local entrepreneurship for a well-diversified economy.
- (iii) To promote good corporate governance and efficient corporate services.

WHAT WE DO

To achieve the above objectives the roles of the Managed Funds Directorate among others include:-

- (i) Solicitation of new business/funds to manage.
- (ii) Collection of non-interest income for the bank i.e. agency fees and management fees.
- (iii) Monitoring and supervision of projects through our Zonal Offices to ensure that projects are implemented as per the intended purpose.
- (iv) Administering all disbursements to beneficiaries and ensure funds are utilized for the intended purposes.
- (v) Preparation and submission of periodic reports to principals/fund owners and other stakeholders.

ACHIEVEMENTS 2019

- (i) The portfolio position stood at TZS 138.4 billion
- (ii) Total collection from loan repayments for the year 2019 was TZS 5.0 billion
- (iii) A cumulative management fee 2009-2019 is TZS 6.56 billion.
- (iv) The bank was awarded new Fund worth USD 4.5 million to Manage on behalf of the fund owner.
- (v) Stimulated new products within the bank such as:
 1. Expansion of water and sanitation services
 2. Renewable Energy Financing.
- (vi) The bank participated in developmental projects which have direct impact to the Country through management of 11 Funds worth TZS 264.4 billion in different sectors as follows;

SN	PROJECT NAME	NAME OF FUND OWNER	SIZE OF FUND	BALANCE
1	Administration of the Rural Energy Funds	Rural Energy Agency (REA) in Tanzania	TZS 569.4 billion equivalent to USD 258.8 million	NIL
2	Administration of Tanzania Energy Development Access Project (TEDAP) Credit Line	World Bank –IDA through Rural Energy Agency (REA).	USD 23 million equivalent to TZS 35.6 billion	USD 1.35 million
3	Administration of Tanzania Rural Electrification expansion program(TREEP) CREDIT LINE	World Bank-IDA through Rural Energy Agency (REA)	USD 42 million equivalents to TZS 96.6 billion.	USD 42.0 million
4	Agriculture Financing Window Fund	United Republic of Tanzania through Ministry of Finance and Planning	TZS 42 billion equivalent to USD 19 million	TZS 44.23 billion
5	Credit Facility and Grants to Small Scale Miners in Tanzania	United Republic of Tanzania through Ministry of Minerals and Energy (MEM)	Credit Facility of TZS 2.3 Billion equivalent to USD 1.0 million. Grant Facilities of USD 3.50 million	TZS 1.67 billion
6	Result Based Financing (RBF) Fund (Renewable Energy on Solar PV)	SNV Netherlands Development Organization.	EUR 1.5 million	EUR 1,201,964.96
7	FLORICULTURE Financing	Ministry of Finance and Bank of Tanzania (BOT)	TZS 50.7 billion	TZS 69.17 billion
8	Sumbawanga Agricultural and Animal Food Industries Limited(SAAFI)	Ministry of Finance and Bank of Tanzania (BOT)	TZS 14 billion	TZS 27.6 billion
9	Revolving Fund Scheme for supporting water utilities to expand distribution networks	Ministry of Water and Irrigation supported by the French Development Agency(AFD)	EUR 2 million	EUR 2.0 million
10	Promotion of bioethanol as clean alternative cooking fuel in Tanzania	UNIDO	USD 1.1 million	USD 1.094 million
11	Accelerating Solar Water Pumping via Innovative Financing	World Bank	USD 4.5 million	USD 4.5 million

DIRECTORATE OF MANAGED FUND (CONTINUED)

OUTLOOK FOR 2020

- (i) Participating in ensuring availability of adequate, safe and clean water to the communities in the rural off-grid areas of the country starting with Singida and Dodoma, and transforming the targeted community water organizations to become more sustainable both financially and technically.
- (ii) Participating in the acceleration of market development for the Pico-Solar Products and Home Solar Systems in off grid rural areas by supporting the private sector to access these areas and establish distribution and after sale services for the products supplied.
- (iii) Participating in the renewable energy project focusing on creating a market-enabling environment for the introduction of bioethanol fueled stoves and the ongoing production and distribution of ethanol as a cooking fuel. Bioethanol as a cooking fuel in combination with a smart, safe and efficient stove has been identified and proven as an excellent modern energy service especially for middle income homes that rely pre-dominantly on environmentally damaging charcoal.
- (iv) Enhance awareness of TIB funds management services across the fund owners community, strengthen current relationships with fund owners and forging new partnerships to foster growth of business for the bank and accelerate delivery of much needed development impact to the communities.

DIRECTORATE OF INTERNAL AUDIT



Ms. Christine Mbonya
Director of Internal Auditor

The Internal Audit Directorate provides independent, objective assurance and consulting services designed to add value and improve the bank's operations. The internal audit activity helps the bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

For the year 2019 the planned audit activities took into account the strategic objectives to be pursued by the bank and also the various risks to which the operating units are exposed as per the overall risk assessment done. Thus the planned internal audit activities for year 2019 were intended to assist the bank in achieving its objectives but on the other hand focus on the identification of the existing and emerging risks that may impede achievement of the strategic objectives of the bank as a whole and ensure they are properly mitigated.

During the year the directorate managed to achieve its planned activities and the results of the audit work on all activities were reported to the Board of Directors through Audit and Risk Committee for directives and guidance and BOT on quarterly basis in line with good corporate governance principles and practices and regulatory requirement respectively. Follow ups on implementation status of recommendations that were made for improving internal controls from Internal Auditors, External Auditors and BOT examiners were made and the results were also reported to BOT on quarterly basis.

DIRECTORATE OF HUMAN RESOURCES AND ADMINISTRATION



Mr. Masele Daudi
Director of Human Resources and Administration

1. INTRODUCTION

For year 2019, the Directorate of Human Resources and Administration focused on capacity building by organizing various training to bridge required skills and knowledge for sustainable bank's performance, administer staff remuneration and other benefits to ensure availability of motivated high-performing workforce, provisions of strategic direction and advice to the bank's wide human resource and Administration policies such as Succession Planning, Talent Management, Career Development, Recruitment, Leadership, compensation and delivery of quality general administrative services.

2. DUTIES PERFORMED FOR THE PERIOD UNDER REVIEW

In the year 2019, the directorate's achieved the following:

- 2.1 Managing various recruitments process for newly recruited employees to fill in various vacancies as per operational requirements. Total numbers of 21 employees were recruited as replacement and 11 staff left the Bank in the year 2019 due to various reasons.
- 2.2 The Directorate continued to monitor and whenever necessary to review an Organization structure to reflect changes and re-alignment of roles to improve efficiency and strengthen Zone operations.
- 2.3 The Directorate implemented Succession plan and Talent Management programs. The program implemented through training programs to impart knowledge and skills to employees so as to align with operational requirements. These training were in-house, short term and long term training locally/abroad, management/leadership development training whereby total number of 153 employees was trained in professional, compliance and certification programs.

- 2.4 The Directorate coordinated performance appraisal by using Balanced Scorecard System. The system was used during Mid-Year and Year-End employees' performance evaluations.
- 2.5 For year 2019, the Bank benefited from partnership in nurturing employee's knowledge and skills in which the bank partnered with the Japan International Cooperation Agency (JICA), Association of African Development Finance Institutions (AADFI) and Southern Africa Development Cooperation – Development Finance Resource Centre (SADC-DFRC) for getting subsidized training opportunities.
- 2.6 The Directorate continued to provide timely general administrative services to ensure staff operates in healthy and conducive working environment. Other services, such as Estate maintenance, repairs and maintenance of motor vehicles, fuel and lubricant management, repair and purchasing of furniture's and equipment's, rentals, cleaning services, insurance, supporting local travels to staff and stationaries and supplies management.
- 3. DIRECTORATE FOCUS FOR YEAR, 2020**
- The Directorate will continue driving employee engagement initiatives in 2020 with general and specific expectations to enhance employee's culture of innovation and productivity. In the year 2020, the Directorate will focus on coordinating and implementing the following;
- 3.1 Reviewing the Schemes of Services, workload analysis and salary benchmarking, to align organization structure with current roles and responsibilities.
- 3.2 Redesign the current HR service delivery model and organizational structure to deliver strategic and consultative services to the bank.
- 3.3 Continue to review business operations and enhancement of Zonal Offices to improve various operations and monitoring of banks portfolio.
- 3.4 Continue managing the Succession planning and talent management as well as recruitment of a diverse workforce.
- 3.5 Enhance training needs assessment plan that align and integrate with TIB training model/plan that support performance management and learning plans.
- 3.6 Continue partnering with regional DFI's such Southern Africa Development Cooperation – Development Finance Resource Centre (SADC-DFRC), Japan International Cooperation Agency (JICA) and Association of African Development Finance Institutions (AADFI) for subsidized training opportunities.
- 3.7 Administer the 2020 TIB Employee Engagement and Satisfaction Survey and disseminate results and action plan to bank management and employees.
- 3.8 The directorate will continue coordinating performance appraisal by ensuring employees performance evaluation conducted as per bank's policy.
- 3.9 The Directorate will continue to support the bank by providing timely general administrative services to ensure staff operates in healthy and conducive working environment. Includes Estate maintenance, maintenance of bank asset, motor vehicles, fuel management, furniture and equipment to staff, rentals, cleaning services, insurance, local travels to staff, stationaries and supplies management.

DIRECTORATE OF FUND MOBILIZATION



Mr. Oswald Leo
Director of Fund Mobilization

The year 2019 saw the Bank's liquidity position improving as compared to the year 2018. This follows improvement in collections from public entities with significant Government shareholding. As a result, there is significant improvement in counterparty confidence as the bank settled significant amount of matured obligations from individual customers and commercial banks.

During the year under review, the bank obtained CMSA approval for issuance of a Medium Term Note of TZS 300 billion. Out of the approved amount, the first tranche will be TZS 135 billion for conversion of short term liabilities from pension

funds and insurance companies into long term bonds. The bank will execute the issuance of the Medium Term Note after endorsement by the Ministry of Finance and Planning.

The bank leveraged on improved collections to free encumbered assets and as a tool for partial reduction of expensive liabilities and re-negotiation of interest rates. The negotiations with pension funds and insurance companies have yielded positive results with all of them agreeing to continue supporting the bank with deposits at lower rates. The pension funds and insurance companies have also shown interest to invest in the Medium Term Note.

As a result, there was a **20 percent** reduction in interest expenses in 2019 as compared to 2018



In its capitalization program, the bank has continued to engage the Government for capital injection to ensure the bank is adequately capitalized.

In general, the bank has successfully renegotiated for lower interest rates on its outstanding borrowings from various lenders. As a result, there was a 20 percent reduction in interest expenses in 2019 as compared to 2018. The move has significantly reduced the cost of borrowing for the bank.

The relationship with external sources of fund remains robust as the bank was able to meet all obligations falling due from external funders. The bank initiated a dialogue with other external funders apart from the traditional sub-regional DFIs for resource mobilization and improvement of the credit enhancement mechanism.

The bank has achieved a significant milestone by completing the groundwork that will lead into transformation of the balance sheet in line with the bank's mandate. The bank has also laid the foundation for enhanced resource mobilization.



DIRECTORATE OF RISK AND COMPLIANCE



Mr. Kulwa S. Deteba
Director of Risk and Compliance

The Bank is exposed to a number of risks potentially impacting its business operations, financial positions. The Bank encounters risk as part of the normal course of its business and designs risk management processes to manage these risks. The Bank's success is dependent on its ability to identify, understand and manage the risks presented by its business activities so that it can appropriately balance its mandate and profitability.

The bank incurs greatly credit risk from loans and advances to customers. The bank manages credit risk through its business origination, evaluation assessment process, supported by credit policy, controls and monitoring. Portfolio Risk Committee is responsible for constant monitoring of credit quality, credit performance collateral requirements, credit assessments, risk grading, loan classification, provision and reporting.

In year 2019 the bank embarked on implementation of Credit and Liquidity stress testing tools. Credit stress test looked at the likelihood of existing accounts in loan portfolio migrating into different risk classes and ultimate loss impact to the bank's profit and core capital. Liquidity Stress testing to the funding risks tested the ability of the bank's risk bearing capacity. The stress testing featured in key sources of liquidity risk include loan repayments, loan disbursements, operation and administration expenditures, debt service and borrowing capacity.

The bank has also strengthened the monitoring of the current portfolio and continues to proactively undertake portfolio restructuring measures and review of credit risk assessment process to enhance efficiency.

Liquidity risk is still a challenge, the bank continued to experience liquidity pressure in both local and foreign funding. Loan collection from various bank's customers offer significant portion of liquidity to the bank to meet daily obligations. Assets and Liability Committee is responsible for continuous monitoring of liquidity risk of the bank. The bank is in the process of issuance of bond of Medium Term Note (MTN) to address liquidity risk. The structuring of the note will help to alleviate the liquidity constraint of the bank.



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

The Directorate of Risk and Compliance continued to implement its mandate, including ensuring compliance to all policies and manuals is assured throughout all levels of organization, instituting a culture of risk awareness and risk based approach to decision making.

DIRECTORATE OF INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)



Mr. Robert Ndaki
Director of Information Technology and Communication

OVERVIEW

The Information and Communication Technology (ICT) Directorate is a shared service centre supporting the TIB Group (TIB Development Bank Ltd, TIB Corporate Bank Ltd, and TIB Rasilimali Ltd). It is responsible for preparing, implementing, monitoring, and evaluating ICT Strategic plan for the Group to achieve its strategic business objectives. The Directorate oversee the management of ICT infrastructure ensuring reliable information is maintained to support business decisions and generate business value from its ICT based investments. Through effective and efficient use of ICT, the bank will be able to achieve its strategic goals and realize business benefits by:-

- i. Achieving operational excellence through use of reliable and efficient technology
- ii. Maintaining ICT- related risks at acceptable level
- iii. Optimizing costs of ICT services
- iv. Complying with policies, laws, regulations and contractual agreements.

The Directorate has three departments; Hardware and Network, Systems and Applications and E-Business solutions.

Hardware and Network

This department is responsible for maintaining and managing the bank's network infrastructure and ICT equipment.

Systems and Applications

This department manages systems and core applications used by the bank to support business processes.

E-Business solutions

This department manages electronic business solutions used by the bank to support electronic channels related processes.

STRATEGIC OBJECTIVES

The Directorate strategic objectives are:-

- i. Improve ICT Tools and Technology
- ii. Improve ICT Knowledge and Skills
- iii. Promote ICT Professionalism
- iv. Reduce ICT Related Risks
- v. Improve Efficiency of Business Processes
- vi. Strengthen ICT Stakeholder Relationship Management
- vii. Manage ICT Capital Investment – Value for Money
- viii. Improve Customer and Stakeholder satisfaction.

ACHIEVEMENTS OVERVIEW

During the year of 2019, the Directorate continued to provide technical support to three entities i.e. TIB Development Bank Ltd, TIB Corporate Bank Ltd and TIB Rasilimali Ltd to ensure smooth business operations.

Apart from providing technical support, the ICT Directorate accomplished the following ICT projects as per bank strategic plan:

The Directorate finalized implementation of insurance services management system which facilitates automation of insurance processes.

Also the Directorate upgraded the operating systems of all computers and servers to latest version, which enables the bank to operate on a safe ICT infrastructure.

In addition, the Directorate trained staff (business users) on both credit origination and core banking systems. The training improved utilization of bank systems which in turn improved bank performance.

Further, the Group Website and intranet was also reviewed to support business requirements.

Furthermore, to support the business expansion strategy for TIB corporate Bank Ltd, the Directorate extended the network to cover new branches (Dodoma & TPA one stop centre), and restructured the local Area Network for Mbeya branch. The Directorate also coordinated customization of the core banking system's TRA-TaxBank interface to support TRA initiatives of integrating TRA-TaxBank with GePG.

DIRECTORATE OF FINANCE



Ms. Mwasam Suleiman
Director of Finance

The bank's 2019 performance was highlighted by a growth in profit before tax of TZS 8.7 billion from TZS 0.57 billion reported in 2018 to 9.3 billion. Total operating income was TZS 31.7 billion 22% growth compared to TZS 26 billion reported in 2018, the results have been mainly driven by decrease in impairment charges.

Also the bank achieved a positive return on equity ("ROE") of 2.7% compared to a negative return of 0.2% reported in 2018.

In terms of compliance, the bank has initially applied IFRS 16 from 1st January 2019. This reporting standard introduced accounting model for leases where the bank as a lessee has to recognize a right-of-use of assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. The adoption of IFRS 16 did not have material effect on the bank's financial statement.

On the other hand, the bank is still facing challenge on compliance to capital adequacy requirements. During the year 2019 the bank's ratio of Core and total capital to risk weighted assets amounted to 9%

compared to required minimum capital ratio of 13% and 15% respectively. The bank continued to engage the regulator and agreed on the capital restoration plan.

Outlook

In the year ahead the bank will remain optimistic of stable and supportive local business environment. We take note of the recent global economic developments including the emergence of the Corona virus (Covid – 19) outbreak that may have impact in 2020 performance particularly for the tourism and hotel businesses due to a drop of world travel demand.

Financial Sustainability remains a key strategic agenda and the bank will continue efforts on cost containment, income diversification, balance sheet strengthening, and liquidity management for the financial prospects.

The substantial pipeline opportunities in the bank's five year strategic plan is expected to drive improved disbursements in the year ahead. The increase in disbursement level will increase income by generating additional employment.

You must **trust** and **believe**
in a better future or life
becomes impossible

– **Trust Us** –



**We are focused on building
a strong infrastructure
financing for the development
of our nation**





DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2019

1. INTRODUCTION

The Directors have pleasure to present this report together with the audited consolidated and separate financial statements for the year ended 31 December 2019 which disclose the state of affairs of TIB Development Bank Limited ("the Bank") and its subsidiaries TIB Corporate Bank Limited and TIB Rasilimali Limited (together, "the Group"). These consolidated and separate financial statements have been authorised to be issued by the Permanent Secretary - Treasury and can be amended by the Directors and regulatory bodies if found to be misleading after they have been issued to the public.

The Group financial statements for the year ended 31 December 2019 were authorised for issue on.....2020.

2. INCORPORATION

The Bank is incorporated in Tanzania under the Companies Act, 2002, and is licensed to undertake development banking business under Section 7 of the Banking and Financial Institutions Act, 2006.

The Bank has a 100% controlling interest in two entities namely TIB Corporate Bank Limited (TIB CBL), which is incorporated in Tanzania and is licensed to undertake commercial banking business under Section 7 of the Banking and Financial Institutions Act, 2006, and TIB Rasilimali Limited (TIB RSL) which is incorporated in Tanzania and licensed under Capital Markets and Securities Authority Act Cap 79, 1994 to deal with investment advisory, securities brokerage and other related services.

3. VISION AND MISSION

Vision statement:

To be the premier development financier in Tanzania by 2022.

Mission statement:

To provide affordable development financing for an inclusive, diversified, vibrant competitive national economy.

4. PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of developmental banking and related services as stipulated in the Banking and Financial Institutions Act, 2006. The two subsidiaries are complementing developmental activities through commercial banking activities as well as through capital market business. The principal activities of the Bank includes among others:

- Provision of Medium and Long term credit facilities as well as Equity Financing;
- Administration of Funds on behalf of the Government and other stakeholders;
- Provision of Technical support services to Small and Medium-Sized Enterprises (SMEs) e.g. through preparation of business plans and feasibility studies as well as by conducting training;
- Provision of Advisory services.

The activities of the Bank are discharged in collaboration with its subsidiaries.

The Development Financing Institution's (DFI) principal function is to catalyse the process of national economic growth through provision of medium and long term financing for agribusinesses, agro-industries, and for infrastructure development in the country together with provisioning of technical support for efficient service delivery to economic sectors.

4. PRINCIPAL ACTIVITIES (Continued)

TIB CBL on the other hand provides strategic commercial banking services to both the parent company and TIB RSL, their clients, and to the general public.

TIB RSL provides investment services in the capital market space such as investment advisory, share dealings and stock brokerage. Other activities of the Company include issuing and trading in fixed income products such as bonds and commercial papers.

This structure enables the group to offer a wide range of services to its customers and other stakeholders.

5. BUSINESS OBJECTIVE AND STRATEGIES

The Bank's strategic plan has detailed the objectives of the Bank and its subsidiaries and strategies to achieve the objectives. Overall, the objectives aim at creating a profitable and sustainable institution making positive economic contribution to the country.

One of the key strategic objectives of the Bank in the current plan is to enhance customer and stakeholders satisfaction through the impact of projects financed by the Bank and its subsidiaries and generation of profit and value creation to the shareholders. Other objectives of the Bank and its subsidiaries are to increase access to development financing facilities, improving fund mobilization, improve quality and delivery of products and services ultimately increasing profitability of the Bank and its subsidiaries.

The Board of Directors has approved strategies to achieve this long term objective to create and preserve value of the Bank and its subsidiaries.

The strategies implementation is monitored by the Board on quarterly basis with corrective measures taken. Currently the main focus of the Bank is to improve the quality of the loans already issued through close and proactive monitoring to ensure that implementation of the projects is completed as initially envisaged in order to receive repayments as planned.

Long term lending that the Bank is doing requires flexibility to adapt to the realities witnessed during projects implementation and as such the Bank adopts flexible but firm policies. Since some of the projects take long time to implement, the bank –re-assesses all business assumptions and aligns them to the reality at the time of completion in order to have realistic repayment plans.

6. BOARD OF DIRECTORS

Majority of the members of the Board of Directors are non-executive directors. The tenure of the Board is three years. The Chairman of the Board and the Managing Director are presidential appointees, whereas all other members of the Board are appointed by the Minister for Finance and Planning. The Chairperson of the Board was appointed on 22 October 2018.

The Board is comprised of seven (7) non-executive Directors and one executive Director who is also the Managing Director of the Bank. The Managing Director was appointed on 01 May 2016 while other Board members were appointed on 5 July 2016.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

6. BOARD OF DIRECTORS (Continued)

Table 1: Members of the Board of Directors who served up to 5th July 2019

S/No	Full Name	Position	Age	Qualification	Nationality	Date of Appointment
1	Dr. Maria S.H. Mashingo	Board Chairman	60	PhD in Animal Science	Tanzanian	22 th October 2018*
2	Mr. Maduka P. Kessy	Director	56	BA Economics, MSc. Development Planning	Tanzanian	5 th July 2016
3	Dr. Said S. Mzee	Director	51	PhD in Finance	Tanzanian	5 th July 2016
4	Dr. Arnold M. Kihale	Director	57	PhD (Economics and Finance)	Tanzanian	5 th July 2016
5	Ms. Rose J. Aiko	Director	45	Master of Arts (Economics)	Tanzanian	5 th July 2016
6	Brig. Gen (rtd) Mabula B. Mashauri	Director	67	BSc Engineering; Registered Engineer	Tanzanian	5 th July 2016
7	Prof. Razack B. Lokina	Director	50	Professor of Environmental & Resource Economics	Tanzanian	5 th July 2016
8	Mr. Charles G. Singili	Managing Director	61	BCOM – Accounting; CPA (T) - (Certified Public Accountant) NBAA registered.	Tanzanian	1 st May 2016

*With the exception of the board chairman and managing director, the directors' terms ended on 5th July 2019 and are yet to be reappointed

7. COMPANY SECRETARY

During the year Mr. Menson Ngahatilwa, a qualified Lawyer and an admitted advocate of the High Court of Tanzania and subordinate courts except for Primary court, served as the Company Secretary.

8. CORPORATE GOVERNANCE

The Board of Directors is comprised of seven (7) non-executive Directors and the Managing Director. The Board takes overall responsibility for the company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of the company against approved strategies and targets. The Board is also responsible for setting a robust system of internal control including ensuring that policies and procedures are in place and are adhered

to in line with good corporate governance principles and best governance practices as well as ensuring that the institution has a motivated work force.

In order to perform its duties properly the Board met four (4) times up to 5 July 2019 when tenure of the Board expired and deliberated on a wide range of issues including overall bank strategy, policy approvals, staffing issues, budget approvals, financial reporting and reports from the Board committees. The Board delegates the day to day management of the business to Managing Director assisted by Senior Management. Senior Management team is invited to attend Board meetings and facilitates the effective control of all the company's operations.

The Board is committed to the principles of good corporate governance and recognize the importance of integrity, competency,

8. CORPORATE GOVERNANCE (Continued)

responsibility, fairness, transparency and accountability as well as the need to conduct the business in accordance with the generally accepted best practices. In so doing the Directors therefore confirm that:

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the Bank and monitor executive management;
- The positions of Chairman and Managing Director are held by different people;
- The Chairman of the Board of Directors is non-executive;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and monitoring of the institution performance;

- The Board is not involved in day to day operations of the Bank the task which is vested to management team under Managing Director.

The Board has formed Committees which act on behalf of the Board in specific areas to direct the Bank effectively and accelerate the decision making process.

Board and Committee Meetings

The Board has three (3) committees namely Board Investment Committee (BIC), Board Audit and Risk Committee (BARC) and Board Human Resources Committee (BHRC). The number of meetings held by the Board and its committees is detailed in the table 2 below. Due to small number of members in the committees there were times members were co-opted to participate in other committee meetings.

Table 2: Number of Meetings attended by the Board members

S/No	Name	Full Board	BIC	BARC	BHRC
	Total number of meeting held	4	2	3	1
1	Dr. Maria S. H.Mashingo	4	-	-	-
2	Mr. Maduka P. Kessy	2	2	2	-
3	Dr. Said S. Mzee	3	-	2	1
4	Dr. Arnold M. Kihaule	3	1	-	1
5	Ms. Rose J. Aiko	4	2	3	-
6	Brig. Gen (rtd) Mabula B. Mashauri	4	-	3	1
7	Prof. Razack B. Lokina	4	2	-	1
8	Mr. Charles G. Singili	4	2	3	1

Board Investment Committee

The function of the Committee is to assist the Board of Directors in fulfilling its responsibilities by providing oversight of the Bank's investment policies and management activities relating to the identification, assessment, measurement, monitoring, and management of the Bank's investment risk. The Committee provides oversight to the Bank's business that is non-funded, such as Fund Management and Advisory Services. In addition, the Committee reviews the Bank's investment strategy, liquidity, policies, trends in portfolio quality and adequacy of provision for investment losses, and provide recommendations to the Board.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

8. CORPORATE GOVERNANCE (Continued)

Table 3: The Board Investment Committee Members

Name	Position	Nationality	Qualifications
Mr. Maduka P. Kessy	Member	Tanzanian	BA Economics, MSc. Development Planning
Dr. Arnold M. Kihaule	Member	Tanzanian	PhD (Economics and Finance)
Ms. Rose J. Aiko	Member	Tanzanian	Master of Arts (Economics)
Prof. Razack B. Lokina	Member	Tanzanian	Professor of Environmental & Resource Economics

The Board Investment Committee reports to the main Board and met 2 times up to 5th July 2019 when tenure of the Board expired during the year and deliberated on investment related matters especially loans monitoring and progress reports. The committee also approved rescheduling, new loan requests and policy documents.

Board Human Resources and Remuneration Committee

The primary function of this Committee is to assist the Board in fulfilling its oversight responsibility to shareholders by ensuring coherent remuneration policies and practices that fairly and responsibly reward staff. It considers, and approves changes in philosophy and/or general composition of remuneration packages to staff and recommends to Treasury Registrar for changes of the Managing Director remuneration package and on fees and allowances to the members of the Board of Directors. It also considers and recommends appointments, retirements, resignation or dismissals of members of the Bank's Executive Management and oversees all human resource policies within the Bank.

The Human Resources and Remuneration Committee members who served during the year up to 5th July 2019 are as indicated below:

Table 4: The Human Resources and Remuneration Committee Members

Name	Position	Nationality	Qualification
Brig. Gen. (rtd) Mabula B. Mashauri	Chairman	Tanzanian	BSc Engineering; Registered Engineer
Dr. Arnold M. Kihaule	Member	Tanzanian	PhD (Economics and Finance)
Dr. Said S. Mzee	Member	Tanzanian	PhD in Finance
Prof. Razack B. Lokina	Member	Tanzanian	Professor of Environmental & Resource Economics

The Human Resources and Remunerations Committee reports to the main Board and meets when there is an agenda to discuss. During the year the Committee met 1 times and deliberated on staff recruitments and placements as well as policy matters.

8. CORPORATE GOVERNANCE (Continued)

Audit and Risk Committee

The functions of the Audit and Risk Committee are to assist the Board in meeting its responsibilities by setting an effective system of financial reporting, internal control and risk management; and to assist Board in discharging its responsibilities under the Banking and Financial Institutions Act, 2006 for keeping under review the internal financial controls of the Bank with a view to securing the proper conduct of its financial affairs.

The Committee is responsible for providing independent assurance to Board that the Bank's risk and control procedures are adequate.

The Committee, which meets regularly, has detailed terms of reference that include: receiving reports from, and reviewing the work of, the internal and external auditors; reviewing the annual financial statements prior to their submission to Board; reviewing the appropriateness of the bank's risk management framework and its implementation; considering the appropriateness of the accounting policies and procedures adopted and reviewing the Bank's risk matrix and specific business controls.

The members who served on the Committee during year up to 5th July 2019 are as shown below:

Table 5: The Audit and Risk Committee Members

Name	Position	Nationality	Qualification
Dr. Said S. Mzee	Chairman	Tanzanian	PhD in Finance
Ms. Rose. J. Aiko	Member	Tanzanian	Master of Arts (Economics)
Brig. Gen (rtd) Mabula B. Mashauri	Member	Tanzanian	BSc Engineering; Registered Engineer
Mr. Maduka P. Kessy	Member	Tanzanian	BA Economics, MSc. Development Planning

The Audit and Risk Committee reports to Board of Directors and met 3 times up to 5th July 2019 when the tenure of the Board expired and deliberated on the internal and external auditors' reports, bank's performance and overall risk management.

9. REMUNERATION POLICIES OF THE BOARD

The level of Directors fees and any other payments to the Board members are usually approved by the Annual General Meeting after which recommendations are sent to the Treasury Registrar for approval before they are implemented. The compensation of the management team is approved by the Board of Directors.

During the year the Group paid directors fees to all Board members amounted to TZS 177 million (2018: TZS 216 million). The Bank (DFI) paid TZS 67 million (2018: TZS 106 million).

Other Board expenses as well as compensation of management are shown on Note 36 of the financial statements.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

10. CAPITAL STRUCTURE AND SHAREHOLDING

Capital structure

The Bank's capital structure for the year ended 31 December 2019 is shown below.

Table 6: Authorised, called up and fully paid

	2019	2018
	TZS 'Million	TZS 'Million
Authorised share capital :1,000,000,000 ordinary shares of TZS 1,000 each	1,000,000	1,000,000
Issued and fully paid up shares: 219,137,661 shares @ TZS 1,000) – (2018: 219,137,661 shares @ TZS 1,000).	219,138	219,138

Shareholding

The Group had two (2) shareholders during the year namely, Treasury Registrar (on behalf of the Government of Tanzania) and National Insurance Corporation of Tanzania Limited. Table 7 provides further details including the number and value of shares held by each shareholder during the year.

Table 7: List of Shareholders

Name of the shareholder	2019			2018		
	Number of Shares held	Value TZS Million)	%	Number of shares held	Value TZS Million	%
Treasury Registrar (on behalf of the Government of Tanzania)	219,127,661	219,128	99.9954	219,127,661	219,128	99.9954
National Insurance Corporation of Tanzania Limited	10,000	10	0.0046	10,000	10	0.0046
	219,137,661	219,138	100.0000	219,137,661	219,138	100.0000

None of the directors hold any share of the Bank

As at the end of December 2019 the Bank's core capital stood at TZS 56,442 million which was above the regulatory minimum of TZS 50,000 million. However, the ratio of core capital to total risk weighted assets was 9% and was below the minimum regulatory requirement of 13%. The Bank has engaged the regulator and agreed on remedial measures and therefore there is no negative impact expected. In the meantime the bank is implementing strategies to improve the quality of loans which will release loan impairment provision and boost the capital. In addition, there is commitment of the shareholder to add the paid up capital of the bank.

10. CAPITAL STRUCTURE AND SHAREHOLDING (Continued)

As a long term lender, the Bank primarily depends on capital and other long term funding sources. Given Tanzania's relatively shallow market in long term funding sources, in the interim, the Bank depends on capital from the shareholder.

11. MANAGEMENT OF THE BANK

The Bank is under the supervision of the Board of Directors and the day-to-day management is entrusted to the Managing Director who is assisted by the Deputy Managing Director, Directors and Heads of independent departments and unit.

By end of 31 December 2019, organisational structure of the Bank comprised of the following directorates/independent departments/units.

Directorates:

- Strategic Planning and Corporate Affairs;
- Development Financing;
- Portfolio Management;
- Managed Funds;
- Fund Mobilization;
- Finance;
- Information and Communications Technology;
- Human Resources and Administration; and
- Legal and Secretariats.

Independent Directorates and units:

- Risk and Compliance;
- Internal Audit;
- Procurement Management Unit; and
- Technical Services Unit.

The Managing Director reports to the Board and in turn the Deputy Managing Director (DMD). Directorates responsible for business namely Strategic Planning and Corporate Affairs, Development Financing, Portfolio Management, Managed Funds and Technical Services Unit functionally report to the DMD.

During the year the post of DMD was still vacant and the directorates supposed to report to DMD reported directly to the Managing Director.

Internal Audit

The Bank has an independent internal audit department headed by the Director of Internal Audit who functionally reports to the Board Audit and Risk Committee and administratively to the Managing Director.

12. ACCOUNTING POLICIES

The accounting policies of the Bank are approved by the Board of Directors and are subject to annual reviews. The policies used in the preparation of the accounts are set on Note 5 of the financial statements and they are in line with the International Financial Reporting Standards (IFRS).

13. PERFORMANCE FOR THE YEAR

The financial statements show that the Group made a profit of TZS 760 million before tax (2018: loss of TZS 8,158 million). On the other hand the Group assets fell to TZS 856,510 million compared to TZS 963,920 million in 2018.

The performance of the Bank (DFI) shows that there was a profit of TZS 9,321 million before tax compared to a profit of TZS 570 million recorded in year 2018. The results have been largely driven by decrease in impairment loss.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

13. PERFORMANCE FOR THE YEAR (Continued)

During the year, the Bank experienced balance sheet shrinkage whereby total assets decreased to TZS 635,401 million from TZS 678,639 million recorded in 2018.

Table 8: Summary of Performance (TZS Millions)

	GROUP			BANK		
	2019	2018	Change	2019	2018	Change
Net Interest income	62,202	65,913	-6%	47,421	53,840	-12%
Non-interest income	8,508	5,148	65%	2,621	4,444	-41%
Impairment provisions	(24,533)	(35,787)	-31%	-19,495	(32,182)	-39%
Operating expenses	(46,467)	(48,985)	-5%	(22,276)	(25,532)	-13%
Profit/(Loss) Before Tax	760	(8,158)	-109%	9,321	570	1,535%
Cash, Bank, Investments	107,733	166,055	-35%	25,205	36,486	-31%
Loans	630,943	684,105	-8%	466,281	501,409	-7%
Other Assets	117,834	113,759	4%	143,886	140,744	2%
Total Assets	856,510	963,920	-11%	635,401	678,639	-6%
Deposits	557,200	648,803	-14%	326,229	360,254	-9%
Long Term Borrowing	49,040	66,030	-26%	49,040	66,031	-26%
Other Liabilities	31,475	27,644	14%	25,271	23,115	9%
Shareholders' fund	218,795	221,443	-1%	234,861	229,239	2%
Total Liabilities and Capital	856,510	963,920	-11%	635,401	678,639	-6%

Detailed information on the financial performance is contained on pages 22 to 26 and the accompanied notes.

The Bank used the following key indicators to measure achievement of the Bank's strategies. The Board of Directors continued to place importance in the management of loans with the view to reduce the non-performing loans which have been impacting the performance of the bank due to high impairment provisions. The Board is implementing a strategy to improve the quality of the Bank's loans and formation of a new committee dealing with Investment decisions is part of that strategy.

13. PERFORMANCE FOR THE YEAR (Continued)

The key performance ratios of the Bank are indicated hereunder:

Table 9: Key Performance Indicators

Indicator	GROUP			BANK		
	2019	2018	Change	2019	2018	Change
Return on assets	-0.1%	-0.8%	-0.7%	10%	0.1%	9.9%
Return on equity	-0.6%	-3.3%	2.7%	2.7%	-0.2%	2.9%
Non-interest income to gross income	7.9%	4.4%	3.5%	3.3%	4.7%	-1.4%
Interest expense to interest income	37.7%	40.7%	3.0%	38.4%	40.7%	2.3%
Operating expenses to gross income	42.9%	42.1%	0.8%	28.0%	26.8%	1.2%
Non-performing loans to total advances	46.2%	36.2%	10.0%	46.2%	40.6%	5.6%
Loans to total assets	73.7%	70.1%	3.6%	73.4%	74.9%	-1.5%
Growth of loans and advances	-7.8%	1.8%	-9.6%	-7.0%	-6.8%	-0.2%
Growth of assets	-11.1%	0.3%	-11.4%	-6.4%	-11.7%	5.3%
Tier 1 Capital	1.3%	7.4%	-6.1%	9.1%	14.1%	-5.0%

14. THE FINANCIAL POSITION

The financial position of the Group shows that total assets declined to TZS 856,510 million from TZS 963,920 million in 2018.

15. CASHFLOW AND LIQUIDITY MANAGEMENT

Cash flow

During the year most of the cash inflows resulted from loan repayments. The funds were mostly used to clear maturing funding obligations and other investments.

The DFI as a long term lender is shifting from reliance on short term deposits to long term borrowing. As such during the year the Bank continued to engage different lenders with regards to long term borrowings. The Bank is also continuing to engage with the main shareholder to increase the paid up share capital to enable the Bank to play a bigger role in development financing.

Liquidity Management

The Group places very high importance in liquidity management and details on liquidity risk management are covered under Note 40.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

16. FUTURE DEVELOPMENT PLANS

Despite the subsequent restructuring by the Government of Tanzania to hive off TIB Corporate Bank Limited from the Group and merge it with TPB Bank Plc, the Group will continue to focus on the Government priorities especially industrialization which goes hand in hand with the development of enabling infrastructure to facilitate the industrialization process. The Bank has therefore taken the initiative to incorporate the Five Year National Development Plan II (FYDP II) in its strategy and is expected to play a key role in the Government infrastructure development and industrialization programme.

The Group will continue to stimulate innovations and product offerings through continuous training and development of its staff and the use of cutting edge technology. This move will lead to increase of the products to the market, and improvement in service delivery, hence profitability and economic impact in the nation.

Following completion of its restructuring and installation of the new management team, the bank expects to re-start issuance of new loans during the year.

17. RESULTS AND DIVIDEND

During the year 2019, the Group recorded a loss after tax of TZS 1,232 million (2018: loss of TZS 7,245 million). The Bank's operations recorded a profit after tax of TZS 6,271 million (2018: loss of TZS 544 million). The Board of Directors does not recommend payment of dividend for the year ended 31 December 2019 because of unsatisfactory performance and the fact that the Group still requires more capital to build capacity to participate in bigger strategic industrial and enabling infrastructure projects per the new mandate of the Bank.

18. PRINCIPAL RISKS

The Group is inherently exposed to credit risk since lending activities form a bulk of its business. The other risks include liquidity risks and financial risks of interest rate and foreign exchange risks. In addition, the Group is exposed to operational risk.

Detailed information on these risks including definition and how the Bank manages these risks is covered in Note 40 of the accounts.

19. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control system of the Bank and its subsidiaries. Management ensures 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 behaviours 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 of 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.

19. RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

The Board assessed the internal control systems throughout the financial year ended 31 December 2019 and the Directors are satisfied that they met accepted criteria.

The Board carries risk and internal control assessment through its Audit and Risk Committee on quarterly basis.

20. ADMINISTRATION OF GOVERNMENT AND OTHER STAKEHOLDERS' FUNDS

During the year the Bank continued to manage different funds on behalf of the Government and different stakeholders and collected fees amounting to TZS 149 million compared to TZS 412 million in 2018. These fees are part of the Fees and commissions income shown in Note 8.

Details on the managed funds are included in Note 43.

21. SERIOUS PREJUDICIAL MATTER

As at the end of the reporting period the Group did not have any uncertain issue warranting reporting.

22. SOLVENCY

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

23. RESOURCES

Motivated and skilled staff team is a key resource to the success of the Group. The Board will therefore ensure that the Group continues to attract and retain a motivated staff team while at the same time taking timely action against those who will be found to have acted unethically.

Modern technology is an important resource when operating in this competitive environment. The Bank boasts of one of the best banking technologies in the world which not only provide a scalable platform but also enables the Bank to provide timely and accurate reports.

Committed shareholder and other key stakeholders are also viewed to be an important resource to the Bank and its subsidiaries. Strategies are therefore in place to ensure that stakeholders' engagements continuously improve.

24. EMPLOYEES WELFARE

Relationship between management and employees

There were continuous good relations between employees and management as well as management with the Trade Union.

The Bank is an equal opportunity employer

The Bank, through its Human Resources policy gives an equal access to employment opportunities to all and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, ethnicity, religion or disability which does not impair ability to discharge duties.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

24. EMPLOYEES WELFARE (Continued)

Training

Training and development of staff capacity is one of the key priorities of the Bank as re-orientation to development banking continues. During the year the Bank spent TZS 354 million (Group TZS 561 million) to train staff on various programs compared to TZS 397 million spent in 2018 (Group TZS 655 million). The Bank will continue to train, re-train and develop staff in order to improve their service delivery and innovation in development financing.

Staff loans and advances

Loans are available to all employees depending on the assessment of the need and ability to pay in compliance with the Staff Loan Policy. The Bank also supports staff through provision of space and permission to run a Savings and Credit Cooperative Society (SACCOS) to assist in improving their welfare.

Medical facilities

All members of staff plus a maximum of four dependants for each employee are availed with medical insurance paid for by the Bank. During the year under review, these services were provided by the National Health Insurance Fund (NHIF).

Persons with Special Needs

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

Retirement benefits

The Group operated an unfunded lump sum Gratuity Agreement with effect from June 2013. The arrangement is unfunded thus benefits are paid out of the Group's general revenues. Upon retirement, and having more than ten (10) years of service, the arrangement provides a benefit of 12 times monthly Basic Salary. The Bank also provides long service awards to permanent staff based on pre-determined formula approved by the Board.

In respect of Contract employees at the Bank, a benefit equal to 25% of the gross salary drawn by the respective employee during the contractual term is provided. No benefits are provided on withdrawn or death in service.

The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods. The calculation of defined benefit obligations is performed annually by a qualified actuary. The Group's obligation is disclosed under Note 37.

The Group also pays contributions to publicly administered pension plans on a mandatory basis which qualifies as a defined contribution plan.

Workers compensation fund

This is a social security scheme established by the Government responsible for compensating workers who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment. Under this arrangement, TIB Development Bank Limited as a public institution is required to contribute to the fund 0.5% of the monthly basic salaries it has paid to its staff for which all the dues were settled by end of December 2019.

25. GENDER PARITY

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

As at 31 December 2019 the Bank had the following distribution of employees by gender.

Table 10: Gender Parity

Gender	GROUP		BANK	
	2019	2018	2019	2018
Male	191	174	108	99
Female	118	111	54	54
Total	309	285	162	153

26. RELATED PARTY TRANSACTIONS

Transactions with related parties during the year as well as balances outstanding from those transactions as at 31 December 2019 are disclosed in Note 36 to the financial statements.

27. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. In addition the Bank did not make any charitable donation during the year other than those made under corporate social responsibility as reported under item 31 of the directors' report.

28. ENVIRONMENTAL CONTROL

The Group believes in pursuing development without compromising on the sustainability of the environment in which it operates. To that effect, the Bank has in place a Social and Environmental Policy which takes into account best practises in dealing with social and environmental sustainability.

The Bank operates according to the provisions of its Social and Environmental Policy and as such it requires an Environmental Impact Assessment report approved by the National Environment Management Council (NEMC) for all projects considered to have an impact to the environment. The Bank monitors funded projects to assess their compliance to the environment policies. In order to remain up to date the Bank trains its staff on best practises and modern approach regarding social and environmental management issues.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

29. TREASURY POLICIES AND OBJECTIVES

The Group is constantly exposed to market risks as most of its transactions are affected by changes in interest and foreign exchange rates.

As a result, the Group has put in place Assets and Liabilities Management policies to govern its operations which are prone to these changes. The policies ensure that the Bank does not take excessive risks which may impact its earnings and capital. Detailed analysis on how the policies were implemented is covered under risk management disclosures on Note 40.

The existence of high interest rates during the year continued to impact the Bank's interest expenses in addition to once again forcing postponement of the corporate bond issue plans.

30. CORPORATE SOCIAL RESPONSIBILITY

The Bank has a Corporate Social Responsibility (CSR) Policy whose approach to the funding of community development projects takes on a developmental approach in a manner that will upgrade the quality of life in under privileged communities. The aim is to develop an environment conducive to wealth creation, self-sufficiency and economic growth. The focus areas are Education, Health, Job Creation and Entrepreneurship.

During the year, the Bank did made charitable donations amounting to TZS 320 million (2018: TZS 19 million).

31. RELATIONSHIP WITH STAKEHOLDERS

The Bank maintained a cordial relationship with all its stakeholders including staff, customers, shareholders, regulators and the public at large. The Group views this relationship with stakeholders as an important asset to be handled carefully in order to achieve its objectives and will therefore continue to cultivate good relationship with all its stakeholders.

32. AUDITORS

The Controller and Auditor-General (CAG) is the statutory auditor for the Bank pursuant to the provisions of Article 143 of the Constitution of the United Republic of Tanzania of 1977 (as revised in 2005). However, in accordance with sections 30 – 33 of the Public Audit Act No. 11 of 2008, the CAG appointed KPMG to carry out jointly, the audit of the Bank's financial statements for the year ended 31 December 2019.

BY ORDER OF

Mr. Doto James

Permanent Secretary - Treasury



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Mr. Charles G. Singili

Managing Director



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STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31ST DECEMBER 2019

The Company's Directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view of TIB Development Bank Limited and its subsidiaries, TIB Corporate Bank Limited and TIB Rasilimali Limited (together "the Group"), comprising the consolidated and separate statement of financial position as at 31 December 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the Group and Bank financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Group and Bank to continue as going concern at least for the next twelve months from the date of approval of these financial statements

The auditors are responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements

The consolidated and separate financial statements of the Group and Bank, as identified in the first paragraph, were approved and authorised for issue by the directors on.. *25 August*...2020

Mr. Doto James

Permanent Secretary - Treasury



Mr. Charles G. Singili

Managing Director



DECLARATION OF THE DIRECTOR OF FINANCE OF TIB DEVELOPMENT BANK LIMITED

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 true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I, Muhammad S. Suleiman being the Director of Finance of TIB Development Bank Limited hereby acknowledge my responsibility of ensuring that the consolidated and separate financial statements for the year ended 31st December 2019 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the consolidated and separate financial statements of TIB Development Bank Limited and its subsidiaries, TIB Corporate Bank Limited and TIB Rasilimali Limited, comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by: 

Position: Director of Finance

NBAA Membership No.: ACPA 3654

Date: 25 August 2020

INDEPENDENT AUDITOR'S REPORT

THE CONTROLLER AND AUDITOR GENERAL'S REPORT TO THE SHAREHOLDERS OF TIB DEVELOPMENT BANK LIMITED

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

I have audited the consolidated and separate financial statements of TIB Development Bank Limited ("the Group and Bank"), set out on pages 22 to 104 which comprise the consolidated and separate statement of financial position as at 31 December 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, comprising as summary of significant accounting policies and other explanatory information.

In my opinion, the accompanying consolidated and separate financial statements give true and fair view of the consolidated and separate financial position of TIB Development Bank Limited as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of my report. I am independent of the Group and Bank in accordance with International Ethics Standards Board for Accountants' Code of Ethics for

Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to my audit of the consolidated and separate financial statements in Tanzania, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

I draw attention to Note 44 of the consolidated and separate financial statements, which describes the reorganisation done by the Government of Tanzania subsequent to year end to merge TIB Corporate Bank Limited, a subsidiary of TIB Development Bank Limited, with TPB Bank Plc. As a result, TIB Development Bank Limited will lose its controlling interest in TIB Corporate Bank Limited. My opinion is not modified in respect of this matter.

I further draw attention to Note 45 to the consolidated and separate financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2018 has been restated. My opinion is not modified in respect of this matter.

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

THE CONTROLLER AND AUDITOR GENERAL'S REPORT TO THE SHAREHOLDERS OF TIB DEVELOPMENT BANK LIMITED (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit Matters (Continued)

The key audit matter	How the matter was addressed in our audit
Impairment loss on loans and advances to customers in the consolidated and separate financial statements	
Refer to Note 5 (J) and Note 21.	
<p>The Group's and Bank's gross loans and advances to customers amounted to TZS 810,732 million and TZS 628,804 million respectively as at 31 December 2019. The Group's and Bank's total impairment allowance amounted to TZS 178,023 million and TZS 161,288 million respectively as at 31 December 2019.</p> <p>Measurement of impairment losses on loans and advances to customers is deemed a key audit matter as the determination of expected credit losses is highly subjective as it involves significant level of judgement applied by management and is a significant estimate. The key areas where we identified significant levels of management judgement and therefore increased levels of audit focus on impairment charge on loans and advances to customers are:</p> <ul style="list-style-type: none"> ■ Quantitative and qualitative criteria used in determining criteria for significant increase in credit risk and default for classification of loans and advances to customers; ■ Choosing appropriate models and assumptions for the determination of probabilities of default (PD), exposures at default (EAD) and loss given default (LGD) and ultimately measurement of Expected Credit Loss ("ECL"); ■ Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated impact on ECL; ■ Estimation of cash flows from collateral realisation for secured facilities used in the determination of loss given default; and ■ Establishing groups of similar financial assets based on the shared risk characteristics for the purposes of measuring general ECL. My audit procedures in this area included, among others: <p>My audit procedures in this area included, among others:</p>	<ul style="list-style-type: none"> ■ Performing an independent assessment of the adequacy of the Group and Bank's credit process controls and whether these were effectively complied with during the period under audit. ■ Performing procedures to evidence existence of customers including obtaining customer confirmations and inspecting customer correspondences and security files as well as obtaining an understanding and evaluating the management methodology for identifying non-performing loans. ■ Evaluating the management model used to determine the impairment amount. This included challenging reasonability of management assumptions through among others evaluating prior year assumptions against actuals in the current year. ■ For specific impairment allowances, independently assessing the appropriateness of provisioning methodologies and policies for a sample of loans across the portfolio selected on the basis of risk. Assessing the levels of provisions booked based on the detailed loan and counterparty information in the credit file and performing calculations within a sample of discounted cash flow models. ■ For collective allowances, independently assessing the appropriateness of the modelling and methodology used by reference to the accounting standards and market practices and model calculations testing through re-performance. ■ Evaluating the adequacy of the financial statements disclosures, including disclosures of key assumptions and judgements on determination of ECL.

**THE CONTROLLER AND AUDITOR
GENERAL'S REPORT TO THE SHAREHOLDERS
OF TIB DEVELOPMENT BANK LIMITED
(Continued)**

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Other Information

The directors are responsible for the other information. The other information comprises General Information, Directors' Report, the Statement of Directors' Responsibilities and the Declaration of the Director of Finance, but does not include the consolidated and separate financial statements and my auditor's report thereon.

My opinion on the consolidated and separate financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated and separate financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Directors for the Consolidated and Separate Financial Statements

As stated on page 15, the directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with IFRSs and

in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006, and for such internal control as directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

My objectives is to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my 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 separate financial statements.

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

INDEPENDENT AUDITOR'S REPORT

THE CONTROLLER AND AUDITOR GENERAL'S REPORT TO THE SHAREHOLDERS OF TIB DEVELOPMENT BANK LIMITED (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (Continued)

- Identify and assess the risks of material misstatement of the consolidated and separate 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 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 Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are

inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my 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 separate financial statements, including the disclosures, and whether the consolidated and separate 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 Bank and entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. I am responsible for the direction, supervision and performance of the Group and Bank audit. I remain solely responsible for my audit opinion.

I communicate with 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 I identify during my audit.

From the matters communicated with directors, I determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters.

In addition, section 10 (2) of the Public Audit Act, 2008 requires me to satisfy myself that the financial statements have been kept in accordance with the appropriate accounting standards; reasonable precautions have been taken to safeguard the collection of revenue, the receipt, custody, disposal, issue and proper use of public property, and that the laws, directions and instructions applicable thereto have been duly observed, expenditures of public monies have been properly authorized.

THE CONTROLLER AND AUDITOR GENERAL'S REPORT TO THE SHAREHOLDERS OF TIB DEVELOPMENT BANK LIMITED (Continued)

Report on the Audit of the Consolidated and Separate Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (Continued)

Further, section 48 (3) of the Public Procurement Act, 2011 (as amended in 2016) requires me to state in my audit report whether or not the audited entity has complied with the provisions of the law and its regulations.

Report on other legal and regulatory requirements

Companies Act, 2002

As required by the Companies Act, 2002, I report to you based on my audit, that:

- In my opinion, proper accounting records have been kept by the Bank;
- The individual accounts are in agreement with the accounting records of the Bank; and
- I obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

Banking and Financial Institutions Act, 2006

As required by Banking and Financial Institutions Act, 2006 and its regulations I report to you based on my audit that:

- As included in Note 35 to the financial statements, the Bank has not fully complied with the minimum capital requirements as required by sections 19(2) of the Bank and Financial Institution Act, 2006 and its regulations. The Bank's ratios of core and total capital to risk weighted assets amounted to 9% for each as compared to the required minimum capital ratio of 13% and 15% respectively.

- Except for the matter noted above, nothing has come to my attention that causes me to believe that the Bank has not complied with the Banking and Financial Institutions Act, 2006 and its regulations.

Public Procurement Act, 2011

As required by Public Procurement Act, 2011 and its regulations I report to you based on my audit that nothing has come to my attention that causes me to believe that the Group and Bank have not complied with the Public Procurement Act, 2011 and its regulations issued in 2013.

Signed by:

Charles Edward Kichere

Controller and Auditor General
National Audit Office
Dodoma

22 September, 2020



CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2019

	Notes	GROUP		BANK	
		2019	2018	2019	2018
		TZS Millions	TZS Millions	TZS Millions	TZS Millions
Interest and similar income	6	99,844	111,082	76,966	90,799
Interest and similar expense	7	(37,642)	(45,169)	(29,545)	(36,959)
Net interest income		62,202	65,913	47,421	53,840
Impairment losses on loans and advances	21	(24,533)	(35,787)	(19,495)	(32,182)
Net operating income after loan impairment		37,669	30,126	27,926	21,658
Fees, commissions and other income	8	5,656	6,170	2,123	1,553
Net fees, commissions and other income		5,656	6,170	2,123	1,553
Foreign currency dealing and exchange income	9	2,332	2,124	(35)	405
Gains on value of shares and investments	10	387	(79)	400	-
Recoveries from charged off loans	11	1,330	2,486	1,330	2,486
Total operating income		47,374	40,827	31,744	26,102
Personnel expenses	12	28,106	26,818	14,190	13,799
Occupancy expenses	13	3,022	5,110	1,536	1,955
General and administration expenses	14	11,940	14,711	6,176	9,131
Depreciation of property and equipment	26	3,307	2,134	459	587
Amortization of intangible assets	27	239	212	62	60
Total operating expenses		46,614	48,985	22,423	25,532
Profit/(loss) before tax		760	(8,158)	9,321	570
Income tax (expense)/credit	28	(1,992)	913	(3,050)	(1,114)
Profit/(loss) for the year		(1,232)	(7,245)	6,271	(544)
Other comprehensive income					
Items that will not be classified to profit and loss					
Re-measurement gains on employment benefit obligations	37	253	1,332	427	1,413
Revaluation surplus		-	78	-	-
Valuation of Investments	23	(1,359)	(77)	(1,353)	(23)
Income tax effect		332	(400)	278	(417)
Other comprehensive income, net of tax		(774)	933	(648)	973
Total comprehensive income for the year		(2,006)	(6,313)	5,623	429

The Notes on pages 27 to 104 form an integral part of these financial statements.
Auditor's report is on pages 17 to 21

	GROUP	BANK
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CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION AS AT 31ST DECEMBER 2019

	Notes	2019	2018	2017	2019	2018	2017
		TZS	(Restated)	(Restated)	TZS	(Restated)	(Restated)
		Million	TZS	TZS	Million	TZS	Millions
		Million	Million	Millions	Million	Million	Millions
Assets							
Cash and balances with Bank of Tanzania	15	7,878	92,931	99,289	29	108	50,000
Balance with other banks	16	29,780	5,075	3,479	2,162	423	670
Placements with other banks	17	6,629	10,117	54,956	-	2,611	48,133
Trading assets	18	353	365	1,894	-	-	-
Investment securities measured at amortized cost	19	63,093	57,568	52,187	23,043	33,344	36,374
Loans and advances	21	630,943	684,105	671,914	466,281	501,409	537,819
Accounts receivable and Prepayments	22	11,918	11,957	5,008	11,528	10,478	3,616
Investment securities designated at FVOCI-Equity investments	23	15,621	16,980	15,707	15,106	16,459	15,638
Investment in subsidiary	24	-	-	-	39,251	39,251	22,251
Investment property	25	34,200	33,800	33,800	34,200	33,800	33,800
Property and equipment	26	6,153	4,819	5,495	361	768	1,233
Intangible assets	27	574	1,431	517	171	59	119
Tax recoverable	28	-	-	1,573	-	-	740
Deferred tax asset	28	49,368	44,772	21,004	43,269	39,929	18,496
Total assets		856,510	963,920	966,823	635,401	678,639	768,889
Liabilities and equity							
Deposits	29	557,200	648,803	639,209	326,229	360,254	442,828
Payables and Accruals	30	9,654	10,486	6,232	3,847	7,027	8,518
Deferred Income	31	641	1,475	1,457	341	912	1,044
Long-term Borrowing	32	49,040	66,030	73,785	49,040	66,031	73,785
Government Grants	33	83	487	467	20	219	418
Tax Payable	28	17,066	11,453	-	18,236	12,330	-
Employment benefit liabilities	37	4,031	3,743	4,224	2,827	2,627	3,321
Total liabilities		637,715	742,477	725,374	400,540	449,400	529,914
Shareholders' equity							
Share capital	34	219,138	219,138	202,138	219,138	219,138	202,138
Advance towards share capital		5,281	5,281	5,281	5,281	5,281	5,281
Retained earnings		(155,608)	(100,747)	(92,621)	(116,560)	(87,171)	(91,364)
Non distributable reserve		141,545	87,166	116,468	118,569	82,611	113,524
General reserve		-	1,213	791	-	-	-
Fair value and asset revaluation reserve		1,939	2,892	2,892	1,933	2,880	2,896
Technical assistance		6,500	6,500	6,500	6,500	6,500	6,500
Total equity		218,795	221,443	241,449	234,861	229,239	238,975
Total liabilities and equity		856,510	963,920	966,823	635,401	678,639	768,889

These financial statements were approved by the Board of Directors for issue on 25 August, 2020 and were signed on its behalf by:


Permanent Secretary - Treasury


Managing Director

The Notes on pages 27 to 104 form an integral part of these financial statements. Auditor's report is on pages 17 to 21.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2019

	GROUP									
	Share capital	Retained earnings	*Non – distributable reserve	General Reserve	Fair Value Reserve	Asset Revaluation reserve	Technical assistance	Advance towards share capital	Total	
	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million
2019										
At 01 January	219,138	(100,747)	87,166	1,213	2,838	54	6,500	5,281		221,443
Loss for the year	-	(1,232)	-	-	-	-	-	-	-	(1,232)
Statutory reserve adjustment ¹	-	(640)	-	-	-	-	-	-	-	(642)
Other comprehensive income	-	177	-	-	(953)	-	-	-	-	(774)
Transfer to general reserve	-	1,213	-	(1,213)	-	-	-	-	-	-
Transfer to regulatory reserve	-	(54,379)	54,379	-	-	-	-	-	-	-
As at 31 December	219,138	(155,608)	141,545	-	1,885	54	6,500	5,281	5,281	218,795
2018										
At 01 January 2018 (as previously stated)	202,138	(100,769)	116,468	791	2,892	-	6,500	5,281		233,301
Restatement adjustment	-	8,148	-	-	-	-	-	-	-	8,148
Impact of initial application of IFRS 9 (Net of Tax)	-	(30,694)	-	-	-	-	-	-	-	(30,694)
At 1 January 2018 (as re-stated)	202,138	(123,315)	116,468	791	2,892	-	6,500	5,281		210,755
Loss for the year	-	(7,245)	-	-	-	-	-	-	-	(7,245)
Statutory reserve adjustment	-	(3,206)	3,206	-	-	-	-	-	-	-
Additional Capital	17,000	-	-	-	-	-	-	-	-	17,000
Other comprehensive income	-	933	-	-	(54)	54	-	-	-	933
Transfer to general reserve	-	(422)	-	422	-	-	-	-	-	-
Transfer to regulatory reserve	-	32,508	(32,508)	-	-	-	-	-	-	-
At 31 December 2018 (as re-stated)	219,138	(100,747)	87,166	1,213	2,838	54	6,500	5,281	5,281	221,443

*Non distributable reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution and is excluded in calculation of the Bank's core capital.

Statutory reserve adjustment 1 – relates to the intercompany balance written off during the year.

Restatement adjustment – relates to the correction of value of the property as included in Note 45.

The Notes on pages 27 to 104 form an integral part of these financial statements. Auditors' report is on pages 17-21.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2019

	BANK							Total
	Share capital	Retained earnings	Distributable reserve	Non distributable reserve	Fair Value Reserve	Technical assistance	Advance towards share capital	
	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million
2019								
At 01 January	219,138	(87,171)	82,611		2,880	6,500	5,281	229,239
Profit for the year	-	6,271	-	-	-	-	-	6,271
Other comprehensive income	-	298	-	-	(947)	-	-	(649)
Transfer to regulatory reserve	-	(35,958)	35,958	-	-	-	-	-
At 31 December	219,138	(116,560)	118,569		1,933	6,500	5,281	234,861
2018								
At 01 January 2018 (as previously stated)	202,138	(99,512)	113,524		2,896	6,500	5,281	230,827
Prior year adjustment (Note 45)	-	8,148	-	-	-	-	-	8,148
Impact of initial application of IFRS 9 (Net of Tax)	-	(30,371)	-	-	-	-	-	(30,371)
At 1 January 2018 (as re-stated)	202,138	(121,735)	113,524		2,896	6,500	5,281	208,604
Loss for the year	-	(544)	-	-	-	-	-	(544)
Additional Capital	17,000	-	-	-	-	-	-	17,000
Other comprehensive income	-	989	-	-	(16)	-	-	973
Transfer to regulatory reserve	-	34,119	(34,119)	-	-	-	-	-
Statutory reserve adjustment ¹	-	-	3,206	-	-	-	-	3,206
At 31 December 2018 (as re-stated)	219,138	(87,171)	82,611		2,880	6,500	5,281	229,239

This relates to the adjustment of statutory reserve for the loans which were returned by TIB Corporate Bank Limited (the subsidiary) to TIB Development Bank Limited.

The Notes on pages 27 to 104 form an integral part of these financial statements. Auditors' report is on pages 17-21.

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2019

	Notes	GROUP		BANK	
		2019	2018	2019	2018
		TZS Millions	TZS Millions	TZS Millions	TZS Millions
Cash flow from operating activities					
Interest receipt	38	26,071	43,690	21,207	24,253
Interest payments	38	(35,663)	(33,861)	(28,436)	(24,345)
Proceeds from commissions and other income	38	6,957	1,323	2,684	(2,910)
Payments to employees and suppliers	38	(44,130)	(72,906)	(24,481)	(26,469)
Dividends received		45	297	32	218
Income tax paid	28	(1,344)	(192)	(774)	-
(Investments)/Repayments on longer placements		2,357	(4,757)	61	(61)
Net payments on statutory minimum reserve		31,745	(8,853)	-	-
(Investments)/Repayments on loans and advances	38	92,283	(20,696)	71,189	24,803
(Investments)/Repayments on debt securities		(4,197)	(4,154)	10,301	3,030
Proceeds (repayment) of deposits		(85,416)	21,163	(39,070)	(85,756)
Net cash flow (used in)/generated from operations		(11,292)	(78,946)	12,713	(87,237)
Cash flow from investing activities					
Purchases of equipment	26	(1,246)	(1,479)	(54)	(121)
Purchases of intangible assets	27	(174)	(921)	(174)	-
Proceeds on disposal		86	-	86	-
Increase in financial assets held for trading		-	1,446	-	-
Net cash flow used in investing activities		(1,334)	(954)	(142)	(121)
Cash flow from financing activities					
Repayments of long term borrowing	32	(13,461)	(10,725)	(13,461)	(10,725)
Lease payments	42	(1,707)	-	-	-
(Additional)/disposal of trading assets		-	(500)	-	-
Capital Injection		-	17,000	-	-
Net cash flow (used in)/generated from financing activities		(15,168)	5,775	(13,461)	(10,725)
Net Increase in cash and cash equivalents		(27,794)	(74,125)	(890)	(98,083)
Cash and cash equivalents					
At the beginning of the year		71,739	145,864	3,181	101,264
At the end of the year	20	43,945	71,739	2,291	3,181

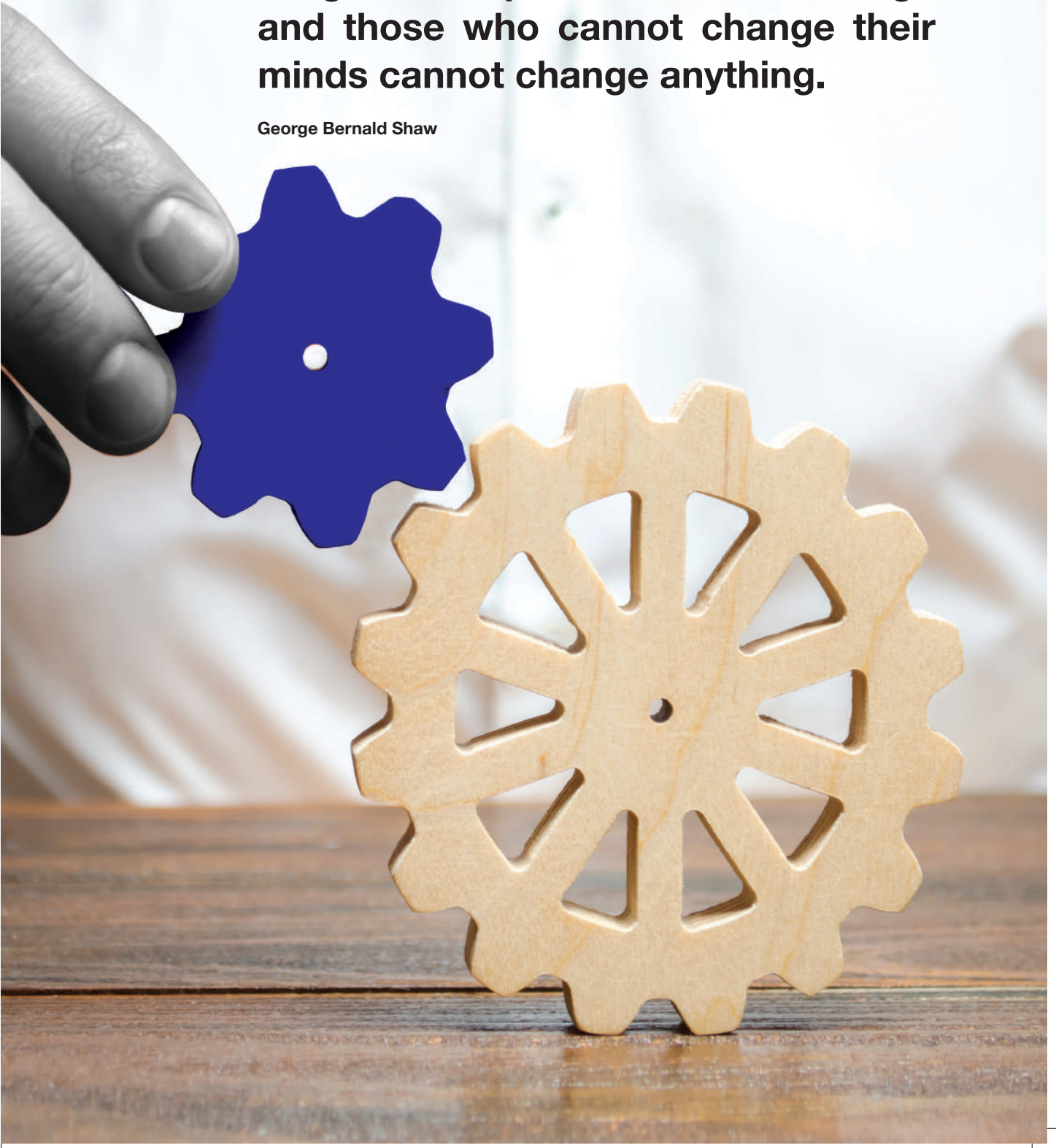
The Notes on pages 27 to 104 form an integral part of these financial statements.

Auditors' report is on pages 17-21.

Progress

**Progress is impossible without change
and those who cannot change their
minds cannot change anything.**

George Bernard Shaw



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

1. REPORTING ENTITY

TIB Development Bank Limited is a limited liability company incorporated in Tanzania under the Companies Act 2002, and is domiciled in the United Republic of Tanzania. The Bank is regulated by the Bank of Tanzania. The Bank's registered office is at:

Mlimani City Office Park,
Building No. 3 Sam Nujoma Road, Dar es Salaam.

These consolidated and separate financial statements comprise the Bank and its subsidiaries namely TIB Corporate Bank Limited and TIB Rasilimali Limited (together known as the "Group").

TIB Development Bank Limited is primarily involved in provision of development financing. TIB Corporate Bank provides commercial banking services whereas TIB Rasilimali Limited provides stock brokerage and investment advisory services.

2. BASIS OF ACCOUNTING

a) Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Tanzania Companies Act, 2002. Details of the Group and Bank's accounting policies are included in Note 5. Changes in significant accounting policies are described in Note 4.

b) Basis of measurement

The consolidated and separate financial statements have been prepared on the historical cost basis except for the financial instruments at fair value through profit or loss which are measured at fair value.

c) Functional and presentation currency

These consolidated and separate financial statements are presented in Tanzanian shillings, which is the Group and Bank's functional currency and presentation currency. Except as indicated, financial information presented in Tanzania shillings has been rounded to the nearest millions.

d) Presentation of financial statements

The Bank and its subsidiaries present the statement of financial position broadly in order of liquidity. Information regarding recoverability or settlement within or after 12 months after reporting period is disclosed in the notes.

e) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent Company within the Group. Control exists when the holding company is exposed, or has rights to; variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. Subsidiaries are consolidated from the date on which the holding company acquires effective control. Consolidation is discontinued from the date that control over the subsidiary is lost.

(ii) Transactions eliminated on consolidation

Inter-company transactions, balances and any unrealised income and expenses arising from intra company transactions are eliminated on consolidation. Unrealised losses are eliminated on the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. BASIS OF ACCOUNTING (Continued)

e) Basis of consolidation (Continued)

(iii) Managed funds

The Bank manages a number of government funds which are maintained off-the statement of financial position. Determination of whether the Bank controls such funds usually focuses on the assessment of the aggregate economic interest of the Bank and the Government rights to remove the fund manager.

All the risks and rewards arising from managed funds are directly channelled to the Ministry of Finance. As a result the Bank has concluded that it acts as an agent for the Government and therefore has not consolidated these funds.

(iv) Loss of control

When the Group loses control over the subsidiary, it derecognises the assets and liabilities of the subsidiary. Any resulting gain or loss is recognised in the statement of profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3. USE OF JUDGEMENTS AND ESTIMATES

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

(i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated and separate financial statements is included in the following note:

- Leases: whether an arrangement contains a lease - Note 4

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes:

- Note 5(J) (viii) – impairment of financial assets
- Note 18, Note 23 and Note 39- determination of fair value of financial instruments
- Note 21 – impairment test: key assumptions underlying recoverable amounts;
- Note 28 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used;
- Note 37 – measurement of employment benefit obligation; key actuarial assumptions;
- Note 41 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has initially applied IFRS 16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019 and all do not have a material effect on the Group and Bank's financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for leases. As a result, the Group and Bank, as a lessee, has to recognise a right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated- i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

Previously, the Group and Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 determining whether and arrangement contains a lease. The Group and Bank now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right of control the use of an identified asset for a period of time in exchange for consideration.

Previously, the Group and Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining

whether an arrangement contains a lease. The Group and Bank now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group and Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group and Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

The Group and bank leases many assets, including properties.

As a lessee, the Group and Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the bank recognises right of use assets and lease liabilities for most leases- i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group and Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for leases of branches and office premises the Group and Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. As a lessee (Continued)

On transition, for these leases, no lease liabilities were recognised because of the recognition exemption.

The Group and Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group and Bank:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets the types of assets that we envisage being treated as low value assets which includes the commercial premises for its head offices and branches.

The Bank did not recognise “right-of-use assets” and liabilities for short term lease as at the date of initial application. The bank is in plans to move and has changed its lease contracts to monthly tenures. The bank recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

Expenses relating to short term leases incurred in the year is as stated under Note 42.

C. As a lessor

The bank leases out residential properties for its staff situated at Upanga area, Ilala municipal.

The bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The bank has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

Revenue relating to lease out properties is as stated under Note 8.

D. Impact on financial statements

- Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities with no impact on retained earnings.

The bank applied an exemption as explained under Note 4 (B) and therefore did not recognise right of use assets and lease liabilities.

The table below summarises the position as at 1 January 2019 for the group.

	Group 1 January 2019 “million’
Right-of-use assets presented in property and equipment	3,396,888
Lease liabilities	3,396,888

When measuring lease liabilities for leases that were classified as operating leases, the discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 10.08 %.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Impact on financial statements (continued)

	Group 1 January 2019 "thousands"	Bank 1 January 2019 "thousands"
Operating lease commitment at 31 December 2018 as disclosed in the bank's financial statements	4,127,698	235,765
Discounted using the incremental borrowing rate at 1 January 2019		
Finance lease liabilities recognised as at 31 December 2018	4,021,321	214,176
— Recognition exemption for leases with less than 12 months of lease term at transition	(624,433)	(214,176)
Lease liabilities recognised at 1 January 2019	3,396,888	-

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised TZS 3.4 billion of right-of-use assets (Bank: Nil) and TZS 1.9 billion of lease liabilities (Bank: Nil) as at 31 December 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the Group recognised TZS 1.3 billion of depreciation charges on right-of-use assets and TZS 275 million of interest costs from these leases. No depreciation is recognised for the right-of-use that meets the definition of investment property.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Net interest income

Interest income and expense are recognised in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 5 (j).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(A) Net interest income (Continued)

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes interest on financial assets and financial liabilities measured at amortised cost and interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost. Interest income and expense on all trading assets and liabilities were considered to be incidental to the Group's trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in net trading income. Interest income and expense on other financial assets and financial liabilities carried at FVTPL were presented in net income from other financial instruments at FVTPL.

Interest revenue and interest charges which are calculated using the effective interest method are separately presented in the statement of profit or loss and other comprehensive income. Interest on loans and advances at amortised cost, and debt instruments at fair value through other comprehensive income, as well as the interest expense on financial liabilities held at amortised cost, are calculated using the effective interest rate method. This results in the allocation of interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(A) Net interest income (Continued)

Presentation (continued)

The effective interest method requires the Group and Bank to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

The Group and Bank presents Revenue from contracts with customers in "fees and commission income". Revenue from contracts with customers is measured based on the consideration specified in a contract with a customer and excludes amounts on behalf of third parties. The Group and Bank recognises the revenue from contracts with customer when it transfers control over to the customers.

Fees earned for the provision of services over a period of time:

Fees earned for the provision of services over a period of time such as from administration of Government Funds is recognised as revenue as the service is provided.

Commitment fees:

Commitment fees relate to loan commitments where it is not probable that the loan will be drawn. Such fees are regarded as a return for the provision of a service and are amortised over the commitment period. Commitment fees for loans that are likely to be drawn down are deferred and are recognized as an adjustment to the effective interest rate on the loan.

Net trading income:

'Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

Fees and commission income and expenses that are integral to the effective interest rates on a financial asset or financial liability are included in measurement of effective interest.

Fees and commission income are recognised as follows;

- Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time such as from administration of Government Funds are accrued over the respective period.

These fees include commission income, asset management, custody and other management and advisory fees. The fees are recognised as the related services are performed.

Loan facility fees are apportioned over the life of the loan facility. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate (EIR) on the loan.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(A) Net interest income (Continued)

Presentation (continued)

When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

- Fee income from transaction services

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 recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(B) Other income

Other income is recognized in the period in which it is earned.

Other income comprises gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. Furthermore gains on disposals of non-financial assets are also recognized in this class of income. Other income is recognized in the period in which it is earned.

(C) Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

Dividend income is recognised when the Group's right to receive the payment is established. Dividends are presented as other operating income based on the nature of investments currently held.

(D) Employees benefits

• Short term benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognized in the profit or loss in the period the employees render the services.

• Defined Contributions Pension obligations

The Group operates a defined contribution plan whereby each of its employees and the Group contribute to the state owned and managed (statutory) funds namely the Public Service Social Security Fund (PSSSF). The Bank contributes 15% of basic salary while the employees contribute 5%. Apart from these monthly contributions, the Group has no further commitments or obligations to these funds. The contributions are charged to the profit or loss in the year to which they relate.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Employees benefits (Continued)

- **Workers Compensation Fund**

This is a social security scheme established for compensating workers who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment. The Group as a public institution is required to contribute to the fund 0.5% of the monthly basic salaries. The Group remits the contributions on month to month basis and costs recognised in respective months.

- **Defined benefit plan**

The Group operates an unfunded lump sum benefit plan with effect from June 2013. The arrangement is unfunded thus, benefits are paid out of the Group's general revenues. Upon retirement, and having more than ten (10) years of service, the arrangement provides a benefit of 12 times monthly Basic Salary. The Group also provides long service awards to permanent staff. In respect of Contract employees at the Bank, a benefit equal to 25% of the gross salary drawn by the respective employee during the contractual term. No benefits are provided on withdrawn or death in service.

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods. The calculation of defined benefit obligations is performed annually by a qualified actuary.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Re-measurements, comprising of actuarial gains and losses are

recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income (OCI) in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

The arrangement provides benefits of a defined benefit nature (i.e. salary and service related). Therefore one of the main risks relating to the benefits under the arrangement is the rates of salary growth. As the benefits are based on the final salary, any changes in salary that differ from the salary escalation rate assumed will have a direct bearing on the benefits paid under the arrangement.

- **Bonus plans**

The Group recognises a liability and expense for bonuses based on a formula that takes into account the profit attributable to the Government (the ultimate shareholder). The Group recognises a provision for bonuses when there is a contractual obligation or a past practice that has created a constructive obligation.

- **Termination benefits**

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for restructuring. If benefits are not expected to be whole settled within 12 months at the reporting date, then they are discontinued.

- **Other employee benefits**

The Bank provides free medical treatment to staff and their dependants. The cost is charged to the profit or loss. The estimated monetary liability for employees' accrued leave entitlement at the reporting date is recognized as an expense accrual.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(E) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

- **Bank levies**

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

- **Financial guarantees**

Financial guarantees are contracts that require the Group or Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of the underlying instrument. Loan commitments are firm promises to provide credit under specified terms and conditions.

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within 'other liabilities') at fair value, being the premium received.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized, and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the profit or loss in 'Impairment loss'. The premium received is recognized in the profit or loss in 'Other operating income' on a straight line basis over the life of the guarantee.

(F) Property and equipment

Property and equipment (including equipment under operating leases where the Group is the lessor) is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses.

- **Recognition and Measurement**

Items of property and equipment are measured at cost, which includes capitalised borrowing costs where applicable, less accumulated depreciation and any accumulated impairment losses.

If significant parts of the property or equipment have different useful lives then they are accounted for as separate items of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in the statement of profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Subsequent Cost

Subsequent cost is expensed through the statement of profit or loss unless it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repair and maintenance costs are expensed as incurred.

(ii) Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Description of items	Useful lives
Furniture and equipment	8 Years
Machinery and automation	4 Years
IT equipment	4 Years
Motor vehicles	4 Years
Buildings	25 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(G) Leases

The Bank has initially applied IFRS 16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for leases. As a result, the bank, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The bank has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated- i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Policy from 1 January 2019

The Bank as a lessee

The bank leases many assets, including head office building and Branches. As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the bank has recognised right of use asset which is depreciated on a straight line basis over ten years and lease liabilities for most leases- i.e. these leases are on-balance sheet.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(G) Leases (continued)

At commencement or on modification of a contract that contains a lease component, the bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of branches and office premises the bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the bank's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application. The bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review and used hindsight when determining the lease term.

The Bank as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Leasehold improvements

These include improvements made on leased Group buildings for its head office and zones.

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(G) Leases (continued)

Policy from 1 January 2019 (continued)

Leasehold improvements (continued)

Description of items	Useful lives
Leasehold improvements	4 Years

Policy before 1 January 2019

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight line basis over the lease term and are not recognised in the Bank's statement of financial position. Contingent rental payable are recognized as an expense in the period in which they are incurred.

Bank as a lessor

If the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Leasehold improvements

These include improvements made on leased Group buildings for its head office and zones.

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

Description of items	Useful lives
Leasehold improvements	4 Years

(H) Intangible assets

The Group's intangible assets include the value of Computer software.

- **Recognition and Measurement**

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(H) Intangible assets (Continued)

- **Amortization**

The amortization expense on intangible assets with finite lives is recognized in the profit or loss in the expense category consistent with the function of the intangible asset. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Description of items	Useful lives
Computer software	4 years

The useful lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortized over the useful economic life.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

- **Subsequent expenditure**

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

- (I) **Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that non-financial asset (other than investment properties and deferred tax asset) may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU's) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(J) Financial instruments

i. Recognition and initial measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(J) Financial instruments (Continued)

(ii) Classification (Continued)

Business model assessment (Continued)

- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(J) Financial instruments (Continued)

(iii) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

(iv) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amounts of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(v) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired.

In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset;
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(J) Financial instruments (Continued)

(v) Modifications of financial assets and financial liabilities (Continued)

Financial assets (Continued)

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented

Together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial

assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(vii) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(J) Financial instruments (Continued)

(vii) Fair value measurement (Continued)

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(J) Financial instruments (Continued)

(viii) Impairment

Policy applicable from 1 January 2018

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
 - lease receivables;
 - financial guarantee contracts issued; and
 - loan commitments issued.
- No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(J) Financial instruments (Continued)

(viii) Impairment

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see (iv)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(J) Financial instruments (Continued)

(viii) Impairment

Credit-impaired financial assets (Continued)

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through Voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;

- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'other income' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K) Loans and advances

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost ; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

'Loans and advances' were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Group did not intend to sell immediately or in the near term.

(L) Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Fair value gain and losses on such equity instruments are never reclassified to profit and loss and no impairment is recognized in profit and loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(M) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as items not recognized in the statement of financial position and are disclosed as part of contingent liabilities off – balance sheet.

(N) Cash and cash equivalents

Cash and cash equivalents referred in the statement of cash flows comprise cash on hand, non-restricted current accounts with Bank of Tanzania, deposits held at call with banks with an original maturity of three months or less, due from banks on demand, held to maturity investments and investments with maturity periods of three months or less in money market instruments and are used in the management of short term commitments. These balances are measured at amortized costs.

(O) Foreign currency translation

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non–trading activities are taken to ‘Other operating income’ in the profit or loss, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognized in profit or loss.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non–monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

(P) Income Tax

Income tax expense comprises of current and deferred tax. It is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or OCI.

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(P) Income Tax (Continued)

(ii) Deferred tax (Continued)

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the profit or loss. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(iii) Value added tax

Revenues, expenses and assets are recognized exclusive of the amount of value added tax. The input taxes and output taxes are recognized in different account and the Bank submits VAT returns to Revenue Authority on monthly basis.

(Q) Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(R) Capital and revenue grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognized as deferred income and released as income in equal instalments over the expected useful life of the related asset.

When the Bank receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the profit or loss over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments.

When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

Grants received from donor agencies and other private organizations of revenue nature are dealt with in the profit and loss account over the period in which the related expense is incurred.

(S) Regulatory Reserve

Regulatory reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution. Regulatory reserves are excluded in calculations of the Bank's core capital.

(T) Fair value and asset valuation reserve

This reserve comprises the cumulative net change in the fair value of equity investments till the assets are derecognised or impaired and assets valuation reserve.

(U) Technical assistance reserve

This reserve was established by a resolution of the Bank's Board of Directors in 2007. The purpose of the reserve is to provide funds for financing technical support and training to new development projects whereby the government has identifies those projects are strategic project for national development and community support.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(V) *New standards, amendments and interpretations effective during the year*

(i) *IFRS 16: Leases*

The Group and bank applied IFRS 16 using the modified retrospective approach and therefore the comparative information presented for 2018 has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed under Note 4.

(ii) *IFRIC 23 Clarification on accounting for Income tax exposures*

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

i) *Amendments to IFRS 9 Prepayment Features with Negative Compensation*

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendment applies to annual periods beginning on or after 1 January 2019. The adoption of this standard did not have a material impact on the Group and bank's financial statements.

A. *New standards, amendments and interpretations issued but not yet effective*

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

New standard or amendments	Effective for annual periods beginning on or after
• Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
• Amendments to the Conceptual Framework in IFRS Standards	1 January 2020
• IFRS 17 Insurance Contracts	1 January 2021

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
6. INTEREST AND SIMILAR INCOME				
Loans and advances	92,462	103,167	72,610	85,406
Government/Corporate securities - held to maturity	6,731	6,550	4,339	5,093
Placements	651	1,365	17	300
	99,844	111,082	76,966	90,799
7. INTEREST AND SIMILAR EXPENSE				
Fixed deposits	20,805	27,134	14,481	19,890
Savings deposits	1,322	1,828	-	-
Notice accounts and borrowing	15,515	16,207	15,064	17,069
	37,642	45,169	29,545	36,959
8. FEES, COMMISSIONS AND OTHER INCOME				
Loans appraisal fee	1,381	2,013	748	372
SAAFI administration fee	-	111	-	111
Income from insurance brokerage	87	158	87	158
Commission on TEDAP	58	51	58	51
Fees from flower projects	-	92	-	92
Fees income from Commodity Import Support	-	42	-	42
Agency fees from Agricultural Window	40	16	40	16
Results based management fee	51	100	51	100
Fee Income from UNIDO	12	-	12	-
Rental income	34	27	34	27
Write back over-accrued expenses	423	92	372	-
Restructuring fees on loans	22	4	22	4
Income from grants	404	411	199	199
Dividend Income	45	297	32	218
TISS charges	88	93	-	-
Teller charges and commissions	786	608	-	-
Cash withdrawal charges	320	323	-	-
LC commissions and collections	971	1,143	-	-
Guarantees commissions	208	133	208	133
ATM commission	39	38	-	-
Gain from assets disposal	97	-	97	-
Dealing and agency commissions	250	373	-	-
Professional fees	2	4	-	-
Residual value of lease rentals	11	22	11	22
Other income	351	71	152	8
	5,680	6,222	2,123	1,553
Collection commissions and charges	(24)	(52)	-	-
Net fees, commissions and other income	5,656	6,170	2,123	1,553

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
9. FOREIGN CURRENCY DEALING AND EXCHANGE INCOME				
Foreign currency dealing (buying and selling of forex)	2,332	2,124	(35)	405
	2,332	2,124	(35)	405
10. GAINS ON VALUE OF SHARES AND INVESTMENTS				
Gain (loss) on Fair value of shares	(13)	(79)	-	-
Revaluation Gain on Land	400	-	400	-
	387	(79)	400	-
11. RECOVERIES FROM CHARGED OFF LOANS				
Recoveries from charged off loans	1,330	2,486	1,330	2,486
	1,330	2,486	1,330	2,486
12. PERSONNEL EXPENSES				
Wages and salaries	19,939	18,392	9,727	9,091
Social security costs	2,623	2,463	1,376	1,286
Skills and Development levy	980	913	493	463
Sub-total	23,542	21,768	11,596	10,840
Training cost	561	655	354	397
Staff passage and leave allowances	1,305	1,494	550	769
Staff medical insurance	1,059	979	558	520
Staff terminal benefit	79	33	34	-
Staff transfer/1st appointments	166	252	80	217
Office sundries	210	193	130	129
Employment benefits	916	1,183	850	848
Staff loan fair valuation expenses	117	128	-	26
Other employment costs	151	133	38	53
Sub-total	4,564	5,050	2,594	2,959
Total	28,106	26,818	14,190	13,799

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
13. OCCUPANCY EXPENSES				
Expenses relating to short term and low value leases	1,858	3,763	1,213	1,400
Repairs and maintenance bank premises and residential	394	580	142	307
Repairs and maintenance office Machine and automations	37	38	-	4
Repairs and maintenance office furniture & Equipment	410	346	43	34
Water and light	318	382	134	209
Insurance premium on electronic and office equipment	3	1	2	1
Other occupancy cost (land rent)	2	-	2	-
	3,022	5,110	1,536	1,955
14. GENERAL AND ADMINISTRATION EXPENSES				
Auditors' remuneration	369	369	233	233
Directors' emoluments	177	216	67	106
Board of Directors expenses	156	306	88	160
Correspondent Bank and SWIFT Charges	147	129	10	7
Communication costs	710	739	287	306
Travelling and accommodation	832	969	781	784
Local authority service charges	153	123	105	85
Insurance cost	1,193	1,084	559	533
Marketing and advertising cost	1,510	1,033	501	264
Printing, consumables and stationeries	304	329	155	173
Repairs and fuel motor vehicles	1,441	1,207	415	329
Security cost	689	655	184	176
Umoja switch expenses	129	129	-	-
System management fees and licence	1,016	1,006	327	386
Consultancy expenses	382	431	333	321
Regional integration costs	7	-	7	-
Subscription and contribution	174	130	122	85
Provisions on sundry receivables	8	134	-	134
Written off Assets (other than loans)	68	-	-	-
TUICO and Workers council expenses	24	15	9	5
Borrowing costs	760	735	730	712
Excise duty	42	374	32	370
VAT expenses	912	762	628	762
Expenses on loan recovery	-	1	-	1
Loss on disposal of fixed assets	12	7	12	7
Interest and payment on late payment	569	3,122	569	3,122
Other operating expenses	156	706	22	70
	11,940	14,711	6,176	9,131

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
15. CASH AND BALANCES WITH BANK OF TANZANIA				
Cash				
Cash in hand-Local currency	3,494	2,456	-	-
Cash in hand-Foreign currency	1,797	1,636	-	-
	5,291	4,092	-	-
Balance with Bank of Tanzania				
Balance in local currency	694	9,735	19	108
Balance in foreign currency	1,893	47,359	10	-
	2,587	57,094	29	108
Statutory Minimum Reserve	-	31,745	-	-
	7,878	92,931	29	108
16. BALANCE WITH OTHER BANKS				
Balance in local currency	1,071	1,120	721	282
Balance in foreign currency	28,709	3,955	1,441	141
	29,780	5,075	2,162	423
17. PLACEMENTS WITH OTHER BANKS				
Maturity period within three months	-	2,480	-	2,541
Interest receivable within 3 months	4,708	2,144	-	9
Maturity period of more than three months	1,921	5,493	-	61
	6,629	10,117	-	2,611
18. TRADING ASSETS				
Financial Sector	133	101	-	-
Manufacturing Sector	171	227	-	-
Other Sectors	49	37	-	-
	353	365	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
19. INVESTMENT SECURITIES MEASURED AT AMORTIZED COST				
Treasury bills-held to maturity				
Interest receivable within three months	1,479	755	-	-
Maturity of over three months	37,614	22,565	-	-
	39,093	23,320	-	-
Treasury bonds-held to maturity				
Maturity period within three months	100	100	100	100
Interest receivable over three months	3	3	-	-
Maturity period above two years	23,897	34,145	22,943	33,244
	24,000	34,248	23,043	33,344
Total¹	63,093	57,568	23,043	33,344
20. CASH AND CASH EQUIVALENTS				
Cash	5,291	4,092	-	-
Balances with Bank of Tanzania	2,587	57,094	29	108
Balance with other banks	29,780	5,075	2,162	423
Placements with other banks	4,708	4,624	-	2,550
Government securities held to maturity within 3 months	1,579	854	100	100
Total²	43,945	71,739	2,291	3,181

1 Group holds various fixed income securities issued by the Government. Treasury bills and bonds are issued at a fixed coupon rate and the bank hold them to maturity. As at year end, a total of TZS 20 billion were pledged as collateral, for short term inter-bank borrowing.

2 At the end of the period there was no any amount of cash and cash equivalents that was not freely available for use within the Group. Cash and cash equivalents exclude reserve requirements of the Bank of Tanzania.

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
21. LOANS AND ADVANCES				
Advances to customers (gross)	693,766	743,768	519,304	558,606
Accrued interest receivable	103,849	93,160	104,104	89,678
	797,615	836,928	623,408	648,284
<u>Less: Allowances for losses on loans and advances</u>	(178,023)	(163,877)	(161,288)	(150,819)
Advances to customers net	619,592	673,051	462,120	497,465
Loans and Advances to staff	13,104	12,278	5,391	5,175
Accrued interest on staff loans	13	12	5	4
Staff loans fair value provisions	(1,766)	(1,236)	(1,235)	(1,235)
Net loans and advances	630,943	684,105	466,281	501,409
Gross loans				
Advances to Customers (gross)	693,766	743,768	519,304	558,606
Loans and Advances to Staff	13,104	12,278	5,391	5,175
Accrued interest receivable (customers)	103,849	93,160	104,104	89,678
Accrued interest on staff loans	13	12	5	4
Total Gross Loans	810,732	849,218	628,804	653,463
Movement in allowance for impairment losses on loans and advances:				
At 01 January	163,877	85,001	150,819	75,937
Impact of initial application of IFRS 9	-	43,848	-	43,387
At 1 January - restated	163,877	128,849	150,819	119,324
Charge for the year	24,533	35,787	19,495	32,182
Charged off and written-off loans	(10,387)	(759)	(9,026)	(687)
At 31 December	178,023	163,877	161,288	150,819

Non - performing loans

Non-performing loans and advances for the Group amounted to TZS 290,919 million equivalents to 46.16% while for the Bank it amounted to TZS 260,850 million equivalents to 46.16%. The Group NPLs in previous year amounted to TZS 306,984 million equivalent to 36.15% while the Bank's NPLs amounted to TZS 265,425 million equivalents to 40.62%.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

21. LOANS AND ADVANCES (Continued)

	GROUP		BANK	
	2019 TZS Millions	2018 TZS Millions	2019 TZS Millions	2018 TZS Millions
Lending concentration				
Agriculture and agro processing	168,129	150,945	160,360	149,702
Oil company and gas	37,632	95,753	37,632	95,753
Electricity	28,257	40,519	28,257	40,519
Manufacturing	113,532	82,819	66,141	61,931
Real estate	49,870	54,659	49,870	54,659
Building, construction	11,521	13,458	4,296	4,534
Transport and communication	18,667	12,634	6,621	6,826
Tourism and forestry	24,312	21,521	24,312	21,521
Trade	95,232	137,569	21,700	19,696
Mining and quarrying	142,545	114,626	142,447	114,626
Education and health	15,212	14,789	15,212	14,789
Hotel & restaurants	54,832	53,283	52,324	51,397
Financial intermediaries	13,864	10,318	9,318	8,513
Leasing	653	564	653	564
Individuals and SMEs	26,179	21,911	5,988	5,461
Fishing	547	474	547	474
Water	453	-	453	-
Other services	9,295	23,376	2,673	2,498
	810,732	849,218	628,804	653,463
22. ACCOUNTS RECEIVABLE AND PREPAYMENTS¹				
Accounts receivable	18,636	18,548	17,425	17,426
Intercompany receivables	-	-	1,243	381
Prepaid expenses	2,000	2,219	1,460	1,427
	20,636	20,767	20,128	19,234
Less: Allowances for losses	(8,718)	(8,810)	(8,600)	(8,756)
	11,918	11,957	11,528	10,478
<i>Movement in allowance for losses on accounts receivable</i>				
At 01 January	8,810	9,904	8,756	9,904
Expenses for the year	-	134	-	134
(Recoveries)/Charge offs	(92)	(1,228)	(156)	(1,282)
At 31 December	8,718	8,810	8,600	8,756

¹ These are non-interest bearing instruments made up of accrued income and prepayments which are receivable within one year.

22. ACCOUNTS RECEIVABLE AND PREPAYMENTS (Continued)

	GROUP		BANK	
	2019 TZS Millions	2018 TZS Millions	2019 TZS Millions	2018 TZS Millions
As at 31 December, the ageing analysis of accounts receivable is as follows:				
<i>Past due but not impaired</i>	9,665	838	9,665	838
Less than 30 days	145	523	145	523
Within 30 - 60 days	117	10,096	117	8,057
Within 60 - 90 days	62	7	62	7
Over 90 days	8,647	7,084	8,677	8,382
	18,636	18,548	18,667	17,807

23. INVESTMENT SECURITIES DESIGNATED AT FVOCI- EQUITY INVESTMENTS

Unquoted shares of Tanzania Mortgage Refinance Company Limited(TMRC)	1,451	2,433	1,451	2,433
Unquoted shares of Tanzania Mercantile Exchange	457	500	457	500
Unquoted shares of Umoja Switch Company Limited	208	20	208	20
Unquoted shares of NORSAD Finance Limited	9,823	10,977	9,823	10,976
Preference shares of NORSAD Finance Limited	3,168	2,530	3,167	2,530
Unquoted corporate bond	514	520	-	-
Total	15,621	16,980	15,106	16,459
Valuation of Norsad Finance Limited				
Fair Value of TIB Investments	12,991	13,506	12,991	13,506
Historical Value	13,506	13,506	13,506	13,506
Loss	(515)	-	(515)	-
Valuation of TMRC Limited				
Fair Value of TIB Investments	1,451	2,433	1,451	2,433
Historical Value	2,433	2,456	2,433	2,456
Loss	(982)	(23)	(982)	(23)
Valuation of TMX Limited				
Fair Value of TIB Investments	456	500	456	500
Historical Value	500	500	500	500
Loss	(44)	-	(44)	-
Valuation of Umoja Switch Company Limited				
Fair Value of TIB Investments	208	20	208	20
Historical Value	20	20	20	20
Gain	188	-	188	-
Bond Valuation				
Fair Value of Rasilimali Investments	520	520	-	-
Historical Value	526	574	-	-
Loss	(6)	(54)	-	-
Total valuation to other comprehensive income	(1,359)	(77)	(1,353)	(23)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
24. INVESTMENT IN SUBSIDIARY				
Investment in TIB-CBL	-	-	37,000	37,000
Investment in Rasilimali	-	-	2,251	2,251
Total	-	-	39,251	39,251

The Bank owns 100% of the issued and paid up ordinary share capital of TIB-Corporate Bank Limited and Rasilimali Limited. These two companies are incorporated in Tanzania under the Tanzanian Companies Act, 2002. The principal activities of TIB-Corporate Bank Limited are commercial banking services and for Rasilimali Limited are securities dealing and Investment advisory services. There was no additional investment made during the year (2018: 17 billion).

On 1 June 2020 The Government of the United Republic of Tanzania, being the ultimate shareholder of TIB Corporate Bank Limited and TPB Bank Plc decided to merge the two banks to form one commercial bank effective from 1st June 2020 as disclosed in Note 44.

	GROUP			BANK		
	2019	2018	2017	2019	2018	2017
	TZS Millions	(Restated) TZS Millions	(Restated) TZS Millions	TZS Millions	(Restated) TZS Millions	(Restated) TZS Millions
25. INVESTMENT PROPERTY						
At 1 January (as previously stated)	33,800	22,160	22,160	33,800	22,160	22,160
Prior year adjustment (Note 45)	-	11,640	11,640	-	11,640	11,640
At 1 January 2018 (as re-stated)	33,800	33,800	33,800	33,800	33,800	33,800
Revaluation gain	400	-	-	400	-	-
As at 31 December	34,200	33,800	33,800	34,200	33,800	33,800

The Bank owns investment properties in form of plots at Ohio and Masaki which have been earmarked for construction of the Bank's investments for leasing and small portion will be used for office purposes. During the year the valuation was made and it was noted that there was an increase in value partly due prior year errors where by valuation report as of 2016 was based on incorrect plot size. Corrections have been made as disclosed in Note 45.

26. PROPERTY AND EQUIPMENT

	GROUP								Total
	Leasehold improvements	Buildings	Motor vehicles	Machinery and automation	IT Equipment	Furniture and equipment	Work In Progress		
	TZS Millions	TZS Millions	TZS Millions	TZS Millions	TZS Millions	TZS Millions	TZS Millions	TZS Millions	TZS Millions
2019									
Cost									
At 01 January	5,114	252	3,245	1,001	3,830	2,235	1,275	16,952	
Recognition of right of use asset on initial application of IFRS 16	-	3,397	-	-	-	-	-	-	3,397
Adjusted balance at 1 January 2019	5,114	3,649	3,245	1,001	3,830	2,235	1,275	20,349	
Additions	-	-	-	10	26	18	1,192	1,246	
Transfer from work in progress	804	-	180	-	437	347	(1,768)	-	
Disposal	-	-	(310)	(22)	(127)	(47)	-	(506)	
At 31 December	5,918	3,649	3,115	989	4,166	2,553	699	21,089	
Depreciation									
At 01 January	3,773	221	2,690	249	3,348	1,849	-	12,131	
Disposal	-	-	(310)	(22)	(127)	(42)	-	(502)	
Charge for the year	671	1,321	285	8	542	480	-	3,307	
At 31 December	4,444	1,542	2,665	235	3,763	2,287	-	14,936	
Net book value									
At 31 December	1,474	2,107	450	754	403	266	699	6,153	

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

26. PROPERTY AND EQUIPMENT (Continued)

	GROUP								Total TZS Millions
	Leasehold improvements TZS Millions	Buildings TZS Millions	Motor Vehicles TZS Millions	Machinery and automation TZS Millions	IT Equipment TZS Millions	Furniture and equipment TZS Millions	Work In Progress TZS Millions		
2018									
Cost									
At 01 January	5,110	252	3,245	992	3,671	2,283	-	15,553	
Additions	-	-	-	9	110	22	1,338	1,479	
Accumulated depreciation reversal on revaluation	-	-	-	-	2	(85)	-	(83)	
Transfer	4	-	-	-	47	15	(66)	-	
Disposal	-	-	-	-	-	-	-	-	
At 31 December	5,114	252	3,245	1,001	3,830	2,235	1,272	16,949	
Depreciation									
At 01 January	3,162	211	2,330	240	2,729	1,474	-	10,146	
Accumulated depreciation reversal on revaluation	-	-	-	-	(31)	(119)	-	(150)	
Disposal	-	-	-	-	-	-	-	-	
Charge for the year	611	10	360	9	650	494	-	2,134	
At 31 December	3,773	221	2,690	249	3,348	1,849	-	12,130	
Net book value									
At 31 December	1,341	31	555	752	481	386	1,274	4,819	

No Property or Equipment was placed as security to raise liabilities (2018: NIL)

26. PROPERTY AND EQUIPMENT (Continued)

	BANK							Total TZS Millions
	Leasehold improvements	Buildings	Motor vehicles	Machinery and automation	IT Equipment	Furniture and equipment		
	TZS Millions	TZS Millions	TZS Millions	TZS Millions	TZS Millions	TZS Millions		
2019								
Cost								
At 01 January	2,153	252	2,132	261	2,688	1,048	8,534	
Additions	-	-	-	10	26	18	54	
Disposal	-	-	(310)	(22)	(127)	(47)	(506)	
At 31 December	2,153	252	1,822	249	2,586	1,020	8,082	
Depreciation								
At 01 January	2,085	221	2,075	248	2,358	780	7,767	
Disposal	-	-	(310)	(22)	(127)	(46)	(505)	
Charge for the year	19	10	56	8	287	79	459	
At 31 December	2,104	231	1,821	234	2,518	813	7,721	
Net book value								
At 31 December	49	21	1	15	68	207	361	
2018								
Cost								
At 01 January	2,153	252	2,132	252	2,595	1,029	8,413	
Additions	-	-	-	9	93	19	121	
At 31 December	2,153	252	2,132	261	2,688	1,048	8,534	
Depreciation								
At 01 January	2,066	211	1,937	239	2,043	684	7,180	
Charge for the year	19	10	138	9	315	96	587	
At 31 December	2,085	221	2,075	248	2,358	780	7,767	
Net book value								
At 31 December	68	31	58	13	330	268	768	

No Property or Equipment was placed as security to raise liabilities (2018: NIL)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions

27. INTANGIBLE ASSETS

Cost

At 1 January	3,870	3,745	2,989	2,989
Additions	174	921	174	-
Accumulated depreciation reversal on revaluation	-	(4)	-	-
As at 31 December	4,044	4,662	3,163	2,989

Amortisations

At 1 January	3,231	3,030	2,930	2,870
Amortisation during the year	239	212	62	60
Accumulated depreciation reversal on revaluation	-	(11)	-	-
As at 31 December	3,470	3,231	2,992	2,930

Net book value

As at 31 December	574	1,431	171	59
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28. TAX

	GROUP			BANK		
	2019	2018	2017 (Restated)	2019	2018	2017 (Restated)
a) Tax expense						
Current year income tax	6,388	10,096	-	6,111	9,948	-
Deferred tax -asset charged to profit or loss	(4,396)	(10,932)	(11,402)	(3,061)	(8,834)	(8,911)
Prior year deferred tax over/(under) provision	-	(77)	-	-	-	-
	1,992	(913)	(11,402)	3,050	1,114	(8,911)
b) Reconciliation of tax expense to tax based on accounting profit:						
Accounting profit before taxation	760	(8,158)	(29,602)	9,321	570	(20,921)
Tax applicable rate of 30%	228	(2,447)	(8,881)	2,796	171	(6,276)
Effects of non-qualifying capital allowances	(23)	-	289	(23)	-	289
Permanently disallowed expenditure and income	277	951	247	277	951	247
Nontaxable income (final payment)	-	-	-	-	(8)	-
(Under)/ over provision of Prior year taxes -Deferred	-	(9)	139	-	-	-
Tax on revenue (Alternative minimum tax)	144	148	-	-	-	-
Adoption of IFRS 16	512	-	-	-	-	-
Under provision of Prior year taxes -current	-	-	(3,346)	-	-	(3,346)
Permanent differences	854	444	175	-	-	175
Tax (income)/expense	1,992	(913)	(11,402)	3,050	1,114	(8,911)
	165	(905)	-	-	-	-
c) Deferred tax						
Accelerated depreciation for tax purposes	(83)	(1,233)	(960)	(83)	(1,126)	(962)
Change in fair value of equity investment	400	(6,158)	(6,158)	12,040	(6,158)	(6,158)
Change in fair value of property investment	(896)	22,028	22,160	(1,376)	22,137	22,160

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

28. TAX (Continued)

	GROUP			BANK		
	2019	2018	2017 (Restated)	2019	2018	2017 (Restated)
c) Deferred tax (Continued)						
<i>Re-measurement gains on employment benefits actuarial valuation</i>	351	807	(251)	427	834	(578)
<i>General provisions</i>	(163,523)	(130,766)	(89,888)	(155,238)	(115,238)	(87,734)
<i>Deferred tax assets as a result of tax losses</i>	(809)	(1,081)	(6,894)	-	-	(357)
<i>Gain on Foreign Exchange Revaluation</i>	-	337	337	-	337	337
<i>Prior Year Adjustment – investment properties</i>	-	11,640	11,640	-	11,640	11,640
<i>Prior Year Adjustment</i>	-	(44,815)	-	-	(44,815)	-
	(164,560)	(149,240)	(70,014)	(144,230)	(133,096)	(61,652)
<i>Deferred tax (assets)/ liability thereon</i>	(49,368)	(44,772)	(21,004)	(43,269)	(39,929)	(18,496)
	(49,368)	(44,772)	(21,004)	(43,269)	(39,929)	(18,496)
<i>Less: opening deferred tax</i>	(44,772)	(21,004)	(9,602)	(39,929)	(21,988)	(9,585)
<i>Less: Prior year adjustment</i>	(200)	(12,836)	-	(279)	(9,107)	-
<i>Deferred tax (asset) / liability release</i>	(4,396)	(10,932)	(11,402)	(3,061)	(8,834)	(8,911)
Statement of profit or loss and other comprehensive income break-down						
<i>Charged to profit or loss</i>	(4,396)	(10,932)	(11,402)	(3,061)	(8,834)	(8,911)
<i>Charged to other comprehensive income</i>	(332)	259	(1,920)	(278)	417	(2,021)
	(4,728)	(10,673)	(13,322)	3,339	8,417	(10,932)
d) Tax recoverable						
<i>Tax payable brought forward</i>	11,453	(1,573)	(1,551)	12,330	(740)	(738)
<i>Tax charge for the year</i>	6,388	10,096	-	6,111	9,948	-
<i>Tax payments during the year</i>	(1,344)	(192)	(22)	(774)	-	(2)
<i>Interest and payment on under estimation and later payment</i>	569	3,122	-	569	3,122	-
<i>Tax (recoverable)/ Payable</i>	17,066	11,453	(1,573)	18,236	12,330	(740)

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
29. DEPOSITS				
Interest bearing deposits				
Customer accounts	395,143	312,859	186,756	88,689
Interest payable	18,306	13,669	16,544	12,457
Banks and other financial institutions	73,708	96,827	120,094	146,828
Interest payable	2,947	705	2,835	1,188
	490,104	424,060	326,229	249,162
Non-interest bearing deposits				
Customer accounts	67,096	224,743	-	111,092
	557,200	648,803	326,229	360,254
Maturity Analysis				
Payable on demand	477,771	490,753	172,334	142,439
With Maturity of 3 months or less	50,087	83,039	50,087	67,737
With Maturity over 3 months	29,342	75,011	103,808	150,078
	557,200	648,803	326,229	360,254
30. PAYABLES AND ACCRUALS				
Accruals	7,586	5,526	636	1,330
Other liabilities	2,068	4,960	2,746	5,221
Intercompany Liability	-	-	465	476
	9,654	10,486	3,847	7,027
31. DEFERRED INCOME				
Deferred fees income on loans	641	1,475	341	912
	641	1,475	341	912
32. LONG TERM BORROWINGS				
Principal Amount	48,497	65,213	48,497	65,213
Interest payable	543	817	543	818
	49,040	66,030	49,040	66,031
Movement in Long Term Borrowing				
At the beginning of the period	66,030	73,785	66,030	73,785
Interest accrued	7,284	5,529	7,284	5,529
Impact of exchange rate movement	(6,723)	1,577	(6,723)	1,578
Principal Repayments	(13,461)	(10,725)	(13,461)	(10,725)
Interest repayments	(4,090)	(4,136)	(4,090)	(4,136)
At the end of the period	49,040	66,030	49,040	66,031

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

32. LONG TERM BORROWINGS (Continued)

During the year 2019 the bank received no new long term funds. The bank maintained and continued to service interest and pay principal on long term loan facilities as agreed.

In 2015, Bank obtained and fully utilized a loan facility from East Africa amounting USD 20 million to refinance and expand the borrowers existing medium term loan portfolio to Eligible Enterprise. The loan bears an interest of 6.5%+3m Libor paid on quarterly basis for 10 years.

In 2015, Bank obtained and fully utilized a loan facility from Shelter Afrique amounting USD 10 million to refinance and expand the borrowers existing medium term loan portfolio to Eligible Enterprise. The loan bears an interest of 7.81% paid on semi-annual basis for 7 years with the first installment being due after 2 year grace period from loan disbursement date.

In 2017, Bank obtained a loan facility from BADEA Bank amounting USD 10 million, however only USD 2.5 has been utilized by the Bank. The purpose of the loan facility is to be used to finance Eligible projects for the benefit of the eligible sub-borrowers and within the territory of the united Republic of Tanzania.

Eligible projects means any, new expansion or rehabilitation of or investment in fixed or current assets related to such assets(including land, buildings, machinery, all means of production, installation costs, civil works and technology). The loan bears an interest of 5% paid on semi-annual basis for 6.5 years.

During the year 2019 the bank received no new long-term funds. The bank maintained and continued to service interest and pay principal on long term loan facilities as agreed.

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions

33. GOVERNMENT GRANTS

Capital Grants

At the beginning of the period	487	898	219	418
Released to the statement of profit or loss	(404)	(411)	(199)	(199)
As at 31 December	83	487	20	219

Capital Grants are the IT equipment received from Prime Minister's Office to support bank's operations. Capital grants are amortized to profit or loss based on estimated useful life assessed.

34. SHARE CAPITAL

Authorised share capital

The total authorised share capital of the bank is 1,000,000 shares of TZS 1,000 each.

1,000,000	1,000,000	1,000,000	1,000,000
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Authorised, called up and fully paid

219,137,661 ordinary shares of TZS 1,000 each
(2017: 202,137,661 ordinary shares)

219,138	219,138	219,138	219,138
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Advance towards share Capital

5,281	5,281	5,281	5,281
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Shares in NORSAD Finance Limited, acquired by TIB at no consideration from the Government

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

35. REGULATORY CAPITAL

The Bank partially complied with minimum capital requirements as required by sections 16 and 17 of the Banking and Financial Institutions Act, 2006 and the Bank of Tanzania Capital Adequacy Regulations 2008. The Bank's core capital amounted to TZS 57,698 million while the total capital amounted to TZS 57,698 million and were above the required minimum of TZS 50,000 for the development financing institution. The Bank's ratio of Core and total capital to risk weighted assets amounted to 9% compared to required minimum capital ratio of 13% and 15% respectively.

The bank continued to engage the regulator and agreed on the capital restoration plan. The bank's capital is computed in accordance with these regulations as follows:

	GROUP		BANK	
	2019	2018	2019	2018
Share capital	219,138	219,138	219,138	219,138
Retained earning	(155,608)	(100,747)	(116,560)	(87,171)
	63,530	118,391	102,578	131,967
Add				
Capital Grant	83	487	20	219
Less:				
Prepaid expenses	2,000	2,219	1,460	1,427
Intangible assets	574	1,431	171	59
Deferred tax assets	49,368	44,772	43,269	39,929
	51,942	48,423	44,900	41,415
Core capital (Tier 1)	11,671	70,455	57,698	90,771
Add: Supplementary capital (Tier 2)	-	1,213	-	-
Tier 1 Capital & Tier 2 Capital	11,671	71,668	57,698	90,771
Required capital	50,000	50,000	50,000	50,000
Risk - weighted assets				
On financial position	689,068	715,471	560,544	592,005
Off financial position	91,873	98,066	57,741	63,935
Total risk - weighted assets	757,604	813,537	618,285	655,940
Bank Ratios				
Tier 1 (BoT Minimum 13%)	1.5%	7.4%	9%	14%
Tier 1 + Tier 2 (BoT Minimum 15%)	1.5%	7.5%	9%	14%

36. RELATED PARTY DISCLOSURES

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions and payments made on behalf of each other to be recovered later. The volumes of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows

	GROUP		BANK	
	2019	2018	2019	2018
a. Loans to Key management personnel				
At the beginning of the year	2,634	2,747	246	360
Loans issued during the year	1,285	1,320	200	234
Loan repayments during the year	(986)	(1,079)	(255)	(348)
As at the end of the year	2,933	2,988	191	246
b. Key management compensation				
Salaries and other short-term benefits	4,645	4,596	2,196	2,147
Contributions to Pension funds	619	619	275	275
Post-employment benefits	375	912	-	537
	5,639	6,127	2,471	2,959
Directors' remuneration				
<i>Made up of:</i>				
Directors' emoluments (Note 14)	177	216	67	106
	177	216	67	106
c. Cash and short term funds				
Related companies:				
TIB Corporate Bank Limited	-	-	436	390
d. Accounts Receivables				
TIB Corporate Bank Limited	567	-	567	85
TIB Rasilimali Limited	676	-	676	296
As at the end of the year	1,243	-	1,243	381
e. Interbank borrowings and deposits				
TIB Corporate Bank Limited	74,466	-	74,466	75,206
As at the end of the year	74,466	-	74,466	75,206
f. Accounts Payable				
TIB Corporate Bank Limited	405	-	405	476
TIB Rasilimali Limited	60	-	60	-
As at the end of the year	405	-	465	476
g. Fees received from the Government for managing projects				
Managed funds Note 43	98	201	98	201

Transactions entered into with the related parties are at an arm's length in the ordinary course of business. These transactions are carried out on normal commercial terms and at prevailing market rates.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

37. EMPLOYMENT BENEFIT OBLIGATION

The Group operates an unfunded lump sum Gratuity Agreement which (since it is unfunded) is paid out of the Group's general revenues. Upon retirement, and having more than ten (10) years of service, the arrangement provides a benefit of 12 times monthly Basic Salary. The Group also provides long service awards to permanent staff. In respect of Contract employees at the Group, a benefit equal to 25% of the gross salary drawn by the respective employee during the contractual term. No benefits are provided on withdrawn or death in service.

The Group adopted a set of demographic assumptions on valuation of employment obligation as described below:

Demographic assumptions:

A 10% probability of employees retiring at age 55, with the balance retiring at age 60.

Mortality is assumed to follow the A194-52 mortality tables published by continuous Mortality Investigation (of the Institute & faculty of Actuaries) reflecting the experience collected from UK insurance Companies between 1949-1952. In the absence of similar table in Tanzania, this is considered to represent the trend in Tanzania.

Terminations (voluntary or resignation) are assumed to follow the Specimen Salaried Male/Female Similar Schemes table. No allowance for retrenchment, redundancies or dismissals.

The above demographic assumptions were applied to all benefits excluding the benefits that are paid at the end of every contract. Due to the short term nature of the contracts, no allowance for death, disability or withdrawal before the end of the contract period made.

37. EMPLOYMENT BENEFIT OBLIGATION (Continued)

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
Financial assumptions:				
Discount rate of 14.5% per annum as at 31 December 2019 (2018: 14.94%)				
Salary escalation rate of 10% per annum as at 31 December 2019 (2018:10%)				
The amount recognised in the statement of financial position is as follows:				
Present value of unfunded obligation	4,031	3,743	2,827	2,627
Net underfunding in funded plan	4,031	3,743	2,827	2,627
Defined benefit obligation/(asset) recognised in the statement of financial position	4,031	3,743	2,827	2,627
Reconciliation of benefit obligation				
Opening benefits Obligation	3,743	3,951	2,627	3,321
Current service cost (employer)	531	746	486	510
Interest cost	477	697	408	491
Actuarial (gain)/loss due to change in assumptions	(1)	(308)	82	(112)
Actuarial (gain) / loss due to Experience	(252)	(1,024)	(509)	(1,301)
Benefit paid	(467)	(319)	(267)	(282)
Closing Benefit obligation	4,031	3,743	2,827	2,627

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

37. EMPLOYMENT BENEFIT OBLIGATION (Continued)

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
Reconciliation of assets				
Employer Contributions	(467)	(319)	(267)	(282)
Benefits paid	467	319	267	282
Closing market value of assets	-	-	-	-
The amount recognised in the statement of profit or loss are as follows:				
Service costs				
Current service cost (employer)	531	746	486	510
Total service costs	531	746	486	510
Interest cost				
Interest cost on defined benefit obligation	477	697	408	491
Net Interest cost on benefits sheet liability	477	697	408	491
Total included in profit and loss in respect of scheme	1,008	1,443	894	1,001
Re-measurement in the statement of other comprehensive income (OCI)				
Actuarial (gain)loss-obligation	(253)	(1,332)	(427)	(1,413)
Amount recognised in OCI in the financial year	(253)	(1,332)	(427)	(1,413)
Reconciliation				
Net liability at start of the period	3,743	3,951	2,627	3,321
Net expense recognised in the income statement	1,008	1,443	894	1,001
Employer contributions	(467)	(319)	(267)	(282)
Amount recognised in OCI	(253)	(1,332)	(427)	(1,413)
Net liability at end of period	4,031	3,743	2,827	2,627

Sensitivity analysis

The actuarial liability estimated at 31 December 2019 is mainly sensitive to the financial assumptions used.

A 1% p.a. reduction in the discount rate will increase the actuarial liability estimated at 31 December 2019 to around TZS 3,031 million (with all other assumptions remaining the same). If the discount rate is increased by 1% p.a. then the actuarial liability estimated would fall to around TZS 2,647 million.

Alternatively, a 1% p.a. increase in the salary increase assumption will increase the actuarial liability estimated at 31 December 2019 to around TZS 3,038 million (with all other assumptions remaining the same). If the salary increase assumption is reduced by 1% p.a. then the actuarial liability estimated would fall to around TZS 2,638 million.

38. CASH FLOW FROM OPERATING ACTIVITIES

	GROUP		BANK	
	2019	2018	2019	2018
	TZS Millions	TZS Millions	TZS Millions	TZS Millions
Interest Receipt				
Opening Balance Interest Receivable	93,169	72,162	90,782	70,621
Interest Income	99,844	111,082	76,966	90,799
Closing Balance Interest receivable	(111,043)	(93,169)	(104,912)	(90,782)
Interest charged off and written off	(14,270)	-	-	-
Foreign exchange impact	-	1,070	-	1,070
Less: Capitalised Interest	(41,629)	(47,455)	(41,629)	(47,455)
(a) Interest Receipt	26,071	43,690	21,207	24,253
Interest Payments				
Opening balance interest payable	15,191	14,347	13,645	11,496
Interest expenses	37,642	45,169	29,545	36,959
Foreign exchange impact	4,626	3,454	4,625	3,454
Less: Capitalised Interest	-	(13,918)	-	(13,918)
Closing Balance interest payable	(21,796)	(15,191)	(19,379)	(13,646)
(b) Interest Payments	35,663	33,861	28,436	24,345
Net fee commission receipts				
Opening Balance of Receivables	19,845	12,422	17,426	10,808
Closing Balance of grants	83	487	20	219
Fee Income	6,986	7,411	3,453	4,039
Less: Opening Balance of grants	(487)	(467)	(219)	(418)
Less: Closing Balance of Receivables - Note 22	(18,636)	(18,548)	(17,425)	(17,426)
Add: Closing Balance of deferred income	641	1,475	341	912
Less: Opening Balance of deferred income	(1,475)	(1,457)	(912)	(1,044)
(c) Net fee commission receipts	6,957	1,323	2,684	(2,910)
Payments to employees and suppliers				
Opening balance Accounts Payable	10,486	6,232	7,027	8,518
Opening balance Prepayments	2,219	2,519	1,427	1,520
Cash Operating Expenses	44,926	76,860	23,180	24,885
Less:				
Closing balance accounts payable - Note 30	(11,501)	(10,486)	(5,693)	(7,027)
Closing balance prepayments - Note 22	(2,000)	(2,219)	(1,460)	(1,427)
(d) Payments to employees and suppliers	44,130	72,906	24,481	26,469
(e) Loans Principal Movement				
Closing Balance - Gross Loans – Note 21	706,870	756,046	524,695	563,781
Add: Charged off loans	10,387	759	9,026	687
Less: Capitalised Interest	(53,494)	(61,112)	(41,129)	(50,577)
Less: Foreign Exchange Impact	-	6,852	-	6,852
Less: Opening Balance - Gross Loans – Note 21	(756,046)	(681,849)	(563,781)	(545,546)
Disbursement (collection of principal loans)	(92,283)	20,696	(71,189)	(24,803)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

39. FAIR VALUE MEASUREMENT

Valuation methodology

The Bank establishes fair value for held to maturity financial assets using valuation technique that takes into account discount and interest earned at the reporting date. The current market information is available on the Bank of Tanzania website for market interest rates on loans and advances, deposits and borrowings

The Bank establishes fair value of available for sale financial assets based on the share prices of unquoted equity shares available from the issuer of the equity instrument at the reporting date. Fair values of held for trading financial assets are established based on prices/market information of such instrument available on Dar es Salaam Stock Exchange website at the reporting date.

Fair value hierarchy

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. This level includes listed equity securities and debt instruments on exchanges;

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices, interest and yield curves) or indirectly (that is, derived from prices Central Bank Auction prices for Government securities); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs to valuation techniques).

39. FAIR VALUE MEASUREMENT (Continued)**Table 39.1: Fair value hierarchy (Continued)**

	GROUP			
	Level 1	Level 2	Level 3	Total
31-Dec-19				
Trading assets – Note 18	353	-	-	353
Investment securities designated at FVOCI- equity investments – Note 23	-	15,621	-	15,621
	353	15,621	-	15,974
31-Dec-18				
Trading assets – Note 18	365	-	-	365
Investment securities designated at FVOCI- equity investments – Note 23	-	16,980	-	16,980
	365	16,980	-	17,345
	BANK			
	Level 2	Level 2	Level 2	Level 2
31-Dec-19				
Investment securities designated at FVOCI- equity investments – Note 23	-	15,106	-	15,106
	-	15,106	-	15,106
31-Dec-18				
Investment securities designated at FVOCI- equity investments – Note 23	-	16,459	-	16,459
	-	16,459	-	16,459

Financial instruments at amortized costs

The Group does not have a perfect basis for calculating the fair value of the other financial instruments at amortized cost. However, its overall assessment is that their fair values would not be significantly different from the amortized cost at which they are stated because the majority are short term or reprice in the short term.

The table below sets out the fair values of financial instructions not measured at fair value which all analysed as fair value level 2.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

39. FAIR VALUE MEASUREMENT (Continued)

Table 39.2: Financial Instruments at amortized cost

	GROUP			
	2019	2019	2018	2018
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Cash and balances with Bank of Tanzania – Note 15	7,878	7,878	92,931	92,931
Balance with other banks – Note 16	29,780	29,780	5,075	5,075
Placements with other banks – Note 17	6,629	6,629	10,117	10,117
Loans and advances – Note 21	630,943	630,943	684,105	684,105
Investment securities measured at amortized cost – Note 19	63,093	63,093	57,568	57,568
	738,323	738,323	849,796	849,796
Financial liabilities				
Deposits – Note 29	557,200	557,200	648,803	648,803
Payables and Accruals – Note 30	7,689	7,689	10,486	10,486
Lease liability	1,965	1,965	-	-
Long Term Borrowing – Note 32	49,040	49,040	66,030	66,030
	615,894	615,894	725,319	725,319

	BANK			
	2019	2019	2018	2018
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Cash and balances with Bank of Tanzania – Note 15	29	29	108	108
Balance with other banks – Note 16	2162	2,162	423	423
Placements with other banks – Note 17	-	-	2,611	2,611
Loans and advances – Note 21	466,281	466,281	501,409	501,409
Investment securities measured at amortized cost – Note 19	23,043	23,043	33,344	33,344
	491,515	491,515	537,895	537,895
Financial liabilities				
Deposits – Note 29	326,229	326,229	360,254	360,254
Payables and Accruals – Note 30	3,847	3,847	7,027	7,027
Long Term Borrowing – Note 32	49,040	49,040	66,030	66,030
	379,116	379,116	433,311	433,311

40. RISK MANAGEMENT

In the course of conducting its business, the Group is exposed to the following risks arising from financial instruments:

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risk.

The significance of risk is assessed within the context of the Group. The Group's risk management approach is that:

- All risks must be identified and managed, and that the returns must be commensurate with the risks taken, relative to the risk appetite;
- The effectiveness of risk management processes is ensured through formal governance and comprehensive regular reporting processes in a well-defined control environment; and
- It is the responsibility of each staff, relative to their position, to identify themselves with the declared priority of risk management, to recognize real or anticipated risk and to take appropriate action.

Risk management is guided by several principles, the most important being:

- The assignment of appropriate responsibility and accountability for all risks and resulting returns;
- The adoption of a Risk Management Framework for integrated risk management which applies across all business units and all risk types for the protection of the Group and Bank's reputation;
- Comprehensive risk assessment, measurement, monitoring and reporting;
- Independent review; and
- Formal risk governance processes.

The Group has been constantly evaluating its internal capacities to ensure a good balance between its corporate results and its mandate. In 2019 the Bank continued with program to implement team oriented approach in the credit process. More efforts were directed towards monitoring the already disbursed loans and as such no new approvals were made.

This note presents information about the Group's objectives, policies and processes for measuring and managing risk.

Risk Management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is ultimately responsible for all risks taken by the Group. The Board of Directors has established Risk and Compliance department, Fund Mobilization Division for the Bank and Asset and Liability Management Committee (ALCO) which are responsible for developing and monitoring risk management policies. The Group risks management policies are established to identify and analyse the risk faced by the Group.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The following paragraph provides more information related to risk management.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

Board Audit and Risk Committee

The Board's Audit and Risk committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Board's Audit and Risk committee is assisted in its oversight role by Internal Audit and Head of Risk and Compliance.

The Group's policy is that risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit and Risk Committee. The committee provides guidance to the management as well as advising the Board of Directors on risk management and related issues.

Risk and Compliance Department

The Risk & Compliance department is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Risk Management Framework prescribes the periodic reports to be submitted to both the Management and the Board to ensure that these two organs execute their oversight responsibilities related to the risk management function in the Bank.

Fund Mobilization Directorate

The Development Bank within the Group is a long term loans provider and mobilizing adequate funding resources is a key ingredient for success. The Bank has therefore formed an independent division (whose head reports to the Managing Director) responsible for formulation of strategies on fund mobilization and monitoring their implementation. The division is charged with responsibility to manage the Bank's liquidity risk and ensuring that the Bank meets all its maturing obligations while at the same time providing resources for expansion of the Bank's lending activities.

Internal Audit

The Group's policy is that risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit and Risk Committee.

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

40. RISK MANAGEMENT (Continued)

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances to customers and other Banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

The table below show the amounts of maximum credit exposures in the bank held products as at the end of the year.

Table 40.1: Maximum Credit Exposures

	GROUP		BANK	
	2019	2018	2019	2018
Cash and balances with Bank of Tanzania – Note 15	7,878	92,931	29	108
Balance with other banks – Note 16	29,780	5,075	2,162	423
Placements with other banks – Note 17	6,629	10,117	-	2,611
Government and Corporate securities held - to - maturity – Note 19	63,093	57,568	23,043	33,344
Loans and advances – Note 21	810,732	849,218	628,804	653,463
Accounts receivable – Note 22	20,635	20,766	20,128	19,234
Total Credit Exposure	938,747	1,035,675	674,166	709,183

(i) Management of Credit Risk

The Board of Directors has delegated responsibility for the management of credit risk to the Management which in turn has assigned the role to the Development Finance Directorate which is responsible for appraisal function and Portfolio Management Directorate responsible for follow up of credit. These are two key directorates in the Investment and Portfolio Review Committees. The Risk and Compliance department, through its credit risk unit make an independent review of the credit risk taking transactions in the bank. These directorates are, among other things, responsible for:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Ensure that the appraisal process is effective and informed;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to various officers at different levels with higher facilities requiring Board approval. Directorate of Development Financing assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process;

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

- Limiting concentrations of exposure. The delegated authority approved by the Board of Directors sets exposure limits to any group/sector;
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to the Portfolio Review Committee, Board Investment Committee and the Board in respect of the quality of loan portfolio;
- Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

The Group has a Technical Services Department which provides professional inputs in on specific areas especially engineering and related fields for effective appraisal and monitoring processes.

In order to ensure effective credit monitoring, Zonal offices have been assigned the task to monitor completed projects under their zones. The projects still under implementation continue to be jointly monitored by the zonal offices and the head office especially the Technical Services Department.

Regular audits of both Development Finance and Portfolio Management divisions as well as Zonal Offices are undertaken by the Internal Audit Department.

(ii) Credit quality analysis

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below set out information about the credit quality of the financial assets and allowances for impairment/loss held by the Group against those assets.

40. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Table 40.2 (a): Credit quality

2019	GROUP							Carrying amount TZS Millions
	Neither past due nor impaired		Past due but not impaired	Past due and impaired	Total	Impairment		
	Current	Especially mentioned						
Cash and balances with Bank of Tanzania	7,878	-	-	-	7,878	-	7,878	
Balance with other banks	29,780	-	-	-	29,780	-	29,780	
Placements with other banks	6,629	-	-	-	6,629	-	6,629	
Trading assets	353	-	-	-	353	-	353	
Investment securities measured at amortized cost	63,093	-	-	-	63,093	-	63,093	
Loans and advances	250,185	92,931	124,069	343,547	810,732	178,023	632,709	
Total	357,918	92,931	124,069	343,547	925,645	178,023	740,442	
2018								
Cash and balances with Bank of Tanzania	92,931	-	-	-	92,931	-	92,931	
Balance with other banks	5,075	-	-	-	5,075	-	5,075	
Placements with other banks	10,117	-	-	-	10,117	-	10,117	
Trading assets	365	-	-	-	365	-	365	
Investment securities measured at amortized cost	57,568	-	-	-	57,568	-	57,568	
Loans and advances	328,610	86,512	116,813.62	317,283	849,218	163,877	685,341	
Total	494,666	86,512	116,814	317,283	1,015,273	163,877	851,397	

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40. RISK MANAGEMENT (Continued)

- a) Credit risk (Continued)
(ii) Credit quality analysis (Continued)

Table 40.2 (b): Credit quality

2019	BANK							Carrying amount
	Neither past due nor impaired		Past due but not impaired	Past due and impaired	Total	Impairment	Total	
	Current	Especially mentioned						
	TZS Millions							
Cash and balances with Bank of Tanzania	29	-	-	-	29	-	29	29
Balance with other banks	2,162	-	-	-	2,162	-	2,162	2,162
Placements with other banks	-	-	-	-	-	-	-	-
Investment securities measured at amortized cost	23,043	-	-	-	23,043	-	23,043	23,043
Loans and advances	149,263	92,931	105,390	281,220	628,804	161,288	467,516	467,516
Total	174,497	92,931	105,390	281,220	654,038	161,288	492,750	492,750
2018								
Cash and balances with Bank of Tanzania	108	-	-	-	108	-	108	108
Balance with other banks	423	-	-	-	423	-	423	423
Placements with other banks	2,611	-	-	-	2,611	-	2,611	2,611
Investment securities measured at amortized cost	33,344	-	-	-	33,344	-	33,344	33,344
Loans and advances	207,022	64,203	116,814	365,424	653,463	150,819	502,644	502,644
Total	243,508	64,203	116,814	365,424	689,949	150,819	539,130	539,130

40. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Impaired loans and advances

The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected losses if the credit risk on that financial instrument has increased significantly since initial recognition, if the credit risk has not increased significantly the entity shall measure the loss allowance at an amount equal to the 12 month expected losses.

The level of provision held for any facility will mostly rely on the facility's credit quality.

Loan and advances that are past due but not impaired

Loans and advances that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

Loans and advances renegotiated

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular project finance loans. Except where project is still under implementation, all rescheduled loans have been assigned a classification of substandard or worse as per Bank of Tanzania directive hence they form part of non-performing loans unless prior approval is given

by the Bank of Tanzania. The internal rating scale assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- 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 Group's policy requires the review of individual financial assets regularly and grading of accounts is done every month where provision on non-performing loans is raised based on the guidelines of the Bank of Tanzania.

Charged off loans

During the year non-performing loans and advances amounting to TZS 126 million were charged off (2018: TZS 282 million) and thus they do not form part of loan portfolio reported in the statement of financial position. For follow up purposes, charged off loans are maintained in a separate memorandum records. As at 31 December 2019 the cumulative balance of charged off accounts was TZS 145,236 million (2018: TZS 132,495 million) which exclude TZS 1,330 million recovered during the year (2018: TZS 2,486 million). Interest is usually calculated and added to the exposure unless there are legal provisions preventing the bank from doing so.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Write-off policy

The Group writes off loans as and when the Board reviews and accepts the recommendations by the management that the loans are irrecoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Recoveries of amounts previously written off are included in 'other income' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

During the year an amount of TZS 10,387 million was written off (2018: 759 million) after it was established that the amount was uncollectable.

(iii) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties

The Group also obtains guarantees from Bank of Tanzania for loan issued to projects qualifying under the export or SME guarantee schemes. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the policy of the Group to require a security cover of not less than 1.25 times.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

During the year there were no pledged securities repossessed by the Group and bank.

The Group can make use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master netting arrangements do not normally result in an offset of financial position assets and liabilities unless certain conditions for offsetting apply.

40. RISK MANAGEMENT (Continued)**a) Credit risk (Continued)****(iii) Collateral and other credit enhancements (Continued)**

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realized;
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.

(iv) Concentration of credit risk

Credit concentration risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

- Concentration risk by sector

In order to avoid excessive concentrations of risk, the Group's credit policy and accompanying manuals include specific guidelines to focus on maintaining a diversified portfolio with limits set for each sector. Identified concentrations of credit risks are controlled and managed accordingly.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(iv) Concentration of credit risk (Continued)

An analysis of concentration of credit risk by sector from loans and advances is shown below:

Table 40.3 (a): Credit Concentration

Industry analysis	GROUP TZS Millions							Total	
	Financial Services	Agriculture & Fishing	Government	Energy & Mining	Manufacturing	Building & Construction	Transport & Communication		Services
2019									
Financial assets									
Cash and balances with Bank of Tanzania	-	-	7,878	-	-	-	-	-	7,878
Balance with other banks	29,780	-	-	-	-	-	-	-	29,780
Placements with other banks	6,629	-	-	-	-	-	-	-	6,629
Trading assets	100	-	-	-	225	-	28	-	353
Investment securities measured at amortized cost	71	-	63,022	-	-	-	-	-	63,093
Loans and advances	13,864	192,988	-	208,434	114,185	61,391	18,667	201,203	810,732
	50,444	192,988	70,900	208,434	114,185	61,391	18,695	201,203	918,465
2018									
Financial assets									
Cash and balances with Bank of Tanzania	-	-	92,931	-	-	-	-	-	92,931
Balance with other banks	5,075	-	-	-	-	-	-	-	5,075
Placements with other banks	10,117	-	-	-	-	-	-	-	10,117
Deferred tax asset	(1,428)	-	-	-	1,595	-	28	170	365
Investment securities measured at amortized cost	71	-	57,497	-	-	-	-	-	57,568
Loans and advances	10,318	172,940	-	250,898	83,383	68,117	12,634	250,928	849,218
	24,153	172,940	150,428	250,898	84,978	68,117	12,662	251,098	1,015,274

40. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(iv) Concentration of credit risk (Continued)

Table 40.3 (b): Credit Concentration

Industry analysis	BANK							Total TZS Millions
	Financial Services	Agriculture and Fishing	Government	Energy and Mining	Manufacturing	Building and Construction	Transport and Communication	
2019								
Financial assets								
Cash and balances with Bank of Tanzania	-	-	29	-	-	-	-	29
Balance with other banks	2,162	-	-	-	-	-	-	2,162
Placements with other banks	-	-	-	-	-	-	-	-
Investment securities measured at amortized cost	-	-	23,043	-	-	-	-	23,043
Loans and advances	9,318	185,218	-	208,336	66,794	54,165	6,621	98,352
	11,480	185,218	23,072	208,336	66,794	54,165	6,621	98,352
2018								
Financial assets								
Cash and balances with Bank of Tanzania	-	-	108	-	-	-	-	108
Balance with other banks	423	-	-	-	-	-	-	423
Placements with other banks	2,611	-	-	-	-	-	-	2,611
Investment securities measured at amortized cost	-	-	33,344	-	-	-	-	33,344
Loans and advances	8,513	171,697	-	250,898	62,495	59,193	6,826	93,841
	11,547	171,697	33,452	250,898	62,495	59,193	6,826	93,841
								653,463
								689,949

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(iv) Concentration of credit risk (Continued)

· Concentration of credit risk by Geographical location

Concentration of credit risk by geographical location is based on customer's country of domicile. The Group's exposure by geographical location is analysed below:

Table 40.4: Geographic Concentration

	GROUP				Total
	Tanzania	Europe	America	Others	
	TZS Millions				
2019					
Financial assets					
Cash and balances with Bank of Tanzania	7,878	-	-	-	7,878
Balance with other banks	29,746	11	12	11	29,780
Placements with other banks	6,629	-	-	-	6,629
Trading assets	353	-	-	-	353
Investment securities measured at amortized cost	63,093	-	-	-	63,093
Loans and advances	630,943	-	-	-	630,943
	738,642	11	12	11	738,676
2018					
Financial assets					
Cash and balances with Bank of Tanzania	92,931	-	-	-	92,931
Balance with other banks	4,546	132	351	47	5,076
Placements with other banks	10,117	-	-	-	10,117
Total assets	365	-	-	-	365
Investment securities measured at amortized cost	57,568	-	-	-	57,568
Loans and advances	684,105	-	-	-	684,105
	849,632	132	351	47	850,161

40. RISK MANAGEMENT (Continued)**a) Credit risk (Continued)****(iv) Concentration of credit risk (Continued)**

	BANK				Total
	Tanzania	Europe	America	Others	
	TZS Millions				
2019					
Financial assets					
Cash and balances with Bank of Tanzania	29	-	-	-	29
Balance with other banks	2,162	-	-	-	2,162
Placements with other banks	-	-	-	-	-
Investment securities measured at amortized cost	23,043	-	-	-	23,043
Loans and advances	466,281	-	-	-	466,281
	491,515	-	-	-	491,515
2018					
Financial assets					
Cash and balances with Bank of Tanzania	108	-	-	-	108
Balance with other banks	423	-	-	-	423
Placements with other banks	2,611	-	-	-	2,611
Investment securities measured at amortized cost	33,344	-	-	-	33,344
Loans and advances	501,409	-	-	-	501,409
	537,895	-	-	-	537,895

b) Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

(i) Management of liquidity risk

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

(i) Management of liquidity risk (Continued)

The Directorate of Funds Mobilization maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. All liquidity policies and procedures are subject to review and approval by the Board of Directors after recommendation of the Board Audit and Risk Committee. The key elements of the Group's liquidity strategy are as follows;

- Maintaining a diversified funding sources in addition to the Group's core deposit base;
- Developing internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required;
- Maintaining a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow;
- In accordance with the Group's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The Group manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels.

The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

As a lender of long term loans, the Bank depends on long term sources of funds. However, during the year the Bank continued to access short term deposits something that led to extended periods of liquidity pressure. The bank is now finalising its Corporate Bond issuance preparations and the Bond is expected to be issued by the third quarter 2020 to ease liquidity pressure.

In addition, as all other development banks do, the Bank depends on high capital from the shareholder to both provide liquidity as well as cushion for the higher credit risks underwritten. During the year the no additional capital was injected by the Government (2018: additional capital of TZS 17,000 million). The Government, as the main shareholder has made commitment to continue capitalizing the Bank.

40. RISK MANAGEMENT (Continued)

- b) Liquidity risk (Continued)
(ii) Maturity analysis for financial assets and financial liabilities

The table below summarizes the remaining contractual maturities of the Group's and the Banks financial assets and financial liabilities at the reporting date.

Table 40.5 (a): Liquidity Gaps

	GROUP						Total TZS Millions
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 12 months	Above 1 year		
2019							
Financial assets							
Cash and balances with Bank of Tanzania	7,878	-	-	-	-	-	7,878
Balance with other banks	29,780	-	-	-	-	-	29,780
Placements with other banks	6,629	-	-	-	-	-	6,629
Trading assets	-	-	-	353	-	-	353
Investment securities measured at amortized cost	2,279	10,996	-	28,069	21,749	-	63,093
Loans and advances	205,422	136,008	103,056	37,181	149,276	-	630,943
Investment securities designated at FVOCI-equity investments	-	-	-	-	15,621	-	15,621
Total undiscounted financial assets	251,986	147,004	103,056	65,603	186,646		727,495
Financial liabilities							
Deposits	117,245	397,169	7,166	31,931	3,689	-	557,200
Borrowing	-	4,719	1,959	6,678	35,142	-	48,497
Lease Liabilities	-	-	-	6,387	1,958,526	-	1,964,913
Net liquidity gap	117,245	401,888	9,125	44,996	1,997,357		2,570,610
	134,741	(254,884)	93,932	20,607	(1,810,711)		(1,843,115)
2018							
Financial assets							
Cash and balances with Bank of Tanzania	92,931	-	-	-	-	-	92,931
Balance with other banks	5,075	-	-	-	-	-	5,075
Placements with other banks	2,550	7,567	-	-	-	-	10,117
Trading assets	-	-	-	365	-	-	365
Investment securities measured at amortized cost	752	10,485	12,173	10,160	23,998	-	57,568
Loans and advances	23,483	95,626	20,135	64,730	480,131	-	684,105
Investment securities designated at FVOCI-equity investments	-	-	-	-	16,980	-	16,980
Total undiscounted financial assets	124,791	113,678	32,308	75,255	521,109		867,141
Financial liabilities							
Deposits	226,074	371,887	8,231	41,788	824	-	648,803
Borrowings	-	1,854	1,388	5,821	53,930	-	62,994
Total liabilities	226,074	373,741	9,619	47,609	54,754		711,797
Net liquidity gap	(101,284)	(260,063)	22,689	27,646	466,355		155,344

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

(ii) Maturity analysis of financial assets and financial liabilities (Continued)

Table 40.5 (b): Liquidity Gaps

	BANK					Total
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 12 months	Above year	
	TZS Millions					
2019						
Financial assets						
Cash and balances with Bank of Tanzania	29	-	-	-	-	29
Balance with other banks	2,162	-	-	-	-	2,162
Placements with other banks	-	-	-	-	-	-
Investment securities measured at amortized cost	802	-	-	492	21,749	23,043
Loans and advances	181,271	39,633	92,438	37,181	115,758	466,281
Investment securities designated at FVOCI-equity investments	-	-	-	-	15,106	15,106
Total undiscounted financial assets	184,264	39,633	92,438	37,673	152,613	506,621
Financial liabilities						
Deposits	191,714	114,401	7,165	12,260	689	326,229
Borrowing	543	4,719	1,959	6,678	35,142	49,040
	192,257	119,120	9,124	18,938	35,831	375,269
Net liquidity gap	(7,993)	(79,487)	83,314	18,735	116,782	131,352
2018						
Financial assets						
Cash and balances with Bank of Tanzania	108	-	-	-	-	108
Balance with other banks	423	-	-	-	-	423
Placements with other banks	2,611	-	-	-	-	2,611
Investment securities measured at amortized cost	-	92	-	10,160	23,091	33,344
Loans and advances	10,342	34,881	20,135	22,924	413,127	653,463
Investment securities designated at FVOCI-equity investments	-	-	-	-	16,459	16,459
Total undiscounted financial assets	13,484	34,973	20,135	33,084	452,677	706,408
Financial liabilities						
Deposits	299,549	25,165	8,231	26,485	824	360,254
Borrowings	3,727	1,854	1,388	5,821	53,239	66,030
Total liabilities	303,276	27,019	9,619	32,306	54,063	426,284
Net liquidity gap	(289,793)	7,954	10,516	778	398,614	280,124

40. RISK MANAGEMENT (Continued)

c) Market risk

Market risk is the risk that changes in market prices such as interest rates, equity prices, and foreign exchange rates will affect the Group's income or value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimizing the return on risk.

The Group 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 rates and foreign currencies, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates.

(i) Management of market risks

The Group separates its exposure to market risks between trading and non-trading portfolios.

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

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

(ii) Interest rate risk

Interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily and reports to Board Audit and Risk Committee on quarterly basis.

• Interest risk exposure

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest re-pricing that may be undertaken. Consequently, the interest sensitivity effect on profit or loss would not be significant given the re-pricing frequency.

The exposure to interest rates fluctuations on assets and liabilities denominated in currencies other than US dollar is minimal.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Group does not bear any interest rate risk on off financial position item.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Table 40.6 (a): Interest rate Gaps

	GROUP					Non-interest Bearing	Total
	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year		
TZS Millions							
2019							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	7,878	7,878
Balance with other banks	27,380	2,400	-	-	-	-	29,780
Placements with other banks	6,629	-	-	-	-	-	6,629
Trading assets	-	-	-	353	-	-	353
Investment securities measured at amortized cost	2,279	10,997	-	28,069	21,748	-	63,093
Loans and advances	205,422	136,008	103,056	37,181	336,249	-	817,915
Investment securities designated at FVOCI-equity investments	-	-	-	-	-	15,621	15,621
Total assets	241,710	149,404	103,056	65,603	171,024	23,499	754,297
Liabilities							
Deposits	117,245	397,169	7,166	31,930	3,689	-	557,200
Borrowing	543	4,719	1,959	6,678	35,142	-	49,040
Other liabilities	-	-	-	-	-	11,422	11,422
Total liabilities and equity	117,788	401,888	9,124	38,608	38,831	11,422	617,662
Interest sensitivity Gap	123,922	(252,483)	93,931	26,995	132,193	12,077	136,635
2018							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	92,931	92,931
Balance with other banks	895	4,180	-	-	-	-	5,075
Placements with other banks	2,550	7,567	-	-	-	-	10,117
Trading assets	-	-	-	365	-	-	365
Investment securities measured at amortized cost	752	10,485	12,173	10,160	23,998	-	57,568
Loans and advances	23,483	95,626	20,135	64,730	480,131	-	849,218
Investment securities designated at FVOCI-equity investments	-	-	-	-	-	16,980	16,980
Total assets	27,680	117,858	32,307	75,255	504,129	109,911	867,141
Liabilities							
Deposits	226,074	371,887	8,231	41,788	824	-	648,803
Borrowing	3,727	1,854	1,388	5,821	53,930	-	66,721
Other liabilities	-	-	-	-	-	10,486	10,486
Total liabilities and equity	229,801	373,741	9,619	47,609	54,755	10,486	726,010
Interest sensitivity Gap	(202,122)	(255,883)	22,689	27,646	449,375	99,425	141,131

40. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Table 40.6 (b): Interest rate Gaps

	BANK					Non-interest Bearing	Total
	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year		
TZS Millions							
2019							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	29	29
Balance with other banks	2,162	-	-	-	-	-	2,162
Placements with other banks	-	-	-	-	-	-	-
Investment securities measured at amortized cost	802	-	-	492	21,749	-	23,043
Loans and advances	181,271	39,633	92,438	37,181	115,758	-	466,281
Investment securities designated at FVOCI-equity investments	-	-	-	-	-	15,106	15,106
Total assets	184,235	39,633	92,438	37,672	137,507	15,135	506,621
Liabilities							
Deposits	191,714	114,401	7,165	12,260	689	-	326,229
Borrowing	543	4,719	1,959	6,678	35,142	-	49,040
Other liabilities	-	-	-	-	-	5,615	5,615
Total liabilities and equity	192,257	119,120	9,124	18,938	35,831	5,615	380,884
Interest sensitivity gap	(8,022)	(79,487)	83,314	18,735	101,676	9,520	125,737
2018							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	108	108
Balance with other banks	423	-	-	-	-	-	423
Placements with other banks	2,611	-	-	-	-	-	2,611
Investment securities measured at amortized cost	-	92	-	10,160	23,091	-	33,344
Loans and advances	10,342	34,881	20,135	22,924	565,181	-	653,463
Investment securities designated at FVOCI-equity investments	-	-	-	-	-	16,459	16,459
Total assets	13,376	34,973	20,135	33,084	436,218	16,459	554,354
Liabilities							
Deposits	299,549	25,165	8,231	26,485	824	-	360,254
Borrowings	3,727	1,854	1,388	5,821	53,239	-	66,030
Other liabilities	-	-	-	-	-	7,027	7,027
Total liabilities	303,276	27,019	9,619	32,307	54,064	7,027	433,311
Interest sensitivity gap	(289,900)	7,954	10,516	778	382,155	9,540	121,043

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(ii) Interest rate risk (Continued)

• Interest rate sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, if there was an increase of interest rates by 200 basis points (bps) the Group's profitability would be reduced by TZS 693 million (2018: TZS 8,706 million) due to increase in annual interest expense. The impact of this increase on capital of the Group is reduction by TZS 485 million (2018: TZS 6,094 million). However, with the core capital of TZS 56,933 million (see note 36) the amounts are not expected to significantly impair the ability of the Group to operate profitably.

Table 40.7: Impact of Interest rate movement

	GROUP		BANK	
	2019	2018	2019	2018
	TZS millions	TZS millions	TZS millions	TZS millions
Assets re-pricing after 6 months	494,170	178,457	316,306	68,484
Liabilities re-pricing after 6 months	528,801	613,774	320,500	339,914
Interest rate Gap	(34,631)	(435,317)	(4,194)	(271,430)
Impact of interest rate rise by additional 200 bps	(693)	(8,706)	(84)	(5,429)
Impact in Capital	(485)	(6,094)	(59)	(3,800)

(iii) Foreign currency risk

The Bank and its subsidiaries operate within Tanzania and own investments in foreign currencies which are reported in the financial statements in local currency. As at the reporting date the Bank was not exposed to significant foreign currency exposure, although there are certain deposits and placements/bank balances that are denominated in United States dollars and euros. Foreign currency risk is managed at an operational level and monitored by the Fund Mobilization Directorate (Treasury directorate in the subsidiary). Exposure to losses from foreign currency deposits is managed through prompt settlement of the foreign currency denominated obligations.

It is the policy of the Group to limit exposure to foreign exchange risk by ensuring that foreign currency denominated funding sources are used to create foreign currency denominated assets.

As such, the Group maintains minimal net open position in line with the Bank of Tanzania regulations. According to the regulation, the Bank is not allowed to hold more than +/-7.5% of its core capital as a net open position.

40. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

The actual exposure for the group at the end of the year was 24,407 million equivalents to 225% which is higher than the limit of +/-7.5%. The bank received temporary waiver for the excess which arose from a particular transaction.

• Foreign currency sensitivity analysis

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Bank's operating activities (when revenue or expense is denominated in a different currency from the Bank's presentation currency).

The table below demonstrate the sensitivity to a reasonably possible change in USD, GBP, EURO and other Foreign currencies exchange rates, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The impact on the Company's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges. The Company's exposure to foreign currency changes for all other currencies is not material.

Based on the exposure carried by the group at the end of the year a 20% depreciation of the shilling would have resulted to a foreign exchange profit of TZS 24,881 million (2018: foreign exchange loss of TZS 32,257 million). A similar movement (20%) to the bank position would have resulted to a foreign exchange gain/profit of TZS 14,384 million (2018: foreign exchange loss of TZS 19,272 million). An opposite movement would have caused a gain of the same magnitude.

It is the view of the Board that any such movement will not significantly impair the total capital of the Group or Bank which stood at TZS 10,416 million and TZS 61,326 million respectively (see note 35) at the end of the year.

The table below shows the impact of foreign exchange movement.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

Table 40.8: Impact of exchange rate movement

	GROUP		BANK	
	2019	2018	2019	2018
Foreign Currency Denominated Assets	394,290	329,081	270,897	223,104
Foreign Currency Denominated Liabilities	369,883	490,368	198,977	319,463
Net open Position	24,407	(161,287)	71,920	(96,359)
USD/TZS Exchange rate	2,298	2,297	2,298	2,297
Impact of 20% Depreciation of the TZS against the USD	4,881	(32,257)	14,384	(19,272)

• Foreign currency exchange risk exposure -

The Group maintains trade with the customers and other correspondent banks and its foreign currency exposure as at 31 December 2019 was a long position of TZS 24,407 million compared to short position of TZS 161,287 million in 2018. The bank's position was long position of TZS 71,920 million in 2019 and short position of TZS 96,359 million in 2018. The various currencies to which the Group is exposed at 31 December 2019 are summarised in the table below (All amounts are expressed in millions of Tanzania Shillings).

40. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

Table 40.9 (a): Foreign exchange Exposure

2019	GROUP					Total
	TZS	USD	GBP	Euro	Others	
	TZS Millions					
Assets						
Cash and balances due from banks	4,809	29,246	162	3,399	42	37,658
Placements with other banks	6,629	-	-	-	-	6,629
Trading assets	353	-	-	-	-	353
Investment securities measured at amortized cost	63,093	-	-	-	-	63,093
Loans and advances	338,891	288,415	-	3,637	-	630,943
Investment securities designated at FVOCI-equity investments	2,115	12,991	-	16	-	15,122
Other Assets	45,831	56,382	-	-	-	102,213
Total Asset	523,318	387,034	162	7,052	42	856,510
Liabilities						
Deposits	236,576	313,279	157	7,187	-	557,200
Borrowing	-	49,040	-	-	-	49,040
Payables and Accruals	11,204	218	-	-	-	11,423
Total liabilities	246,012	362,537	157	7,187	-	617,662
Net financial position	216,208	24,497	5	(135)	42	284,752
2018	TZS	USD	GBP	Euro	Others	Total
Assets						
Cash and balances due from banks	38,452	56,576	102	2,820	55	98,006
Placements with other banks	10,117	-	-	-	-	10,117
Trading assets	365	-	-	-	-	365
Investment securities measured at amortized cost	57,568	-	-	-	-	57,568
Loans and advances	428,292	253,042	2	2,769	-	684,105
Investment securities designated at FVOCI-equity investments	2,953	13,506	-	-	-	16,980
Other Assets	115,928	208	-	-	-	116,136
Total Assets	654,196	323,333	104	5,589	55	983,277
Liabilities						
Deposits	227,010	414,449	157	7,187	-	648,803
Borrowing	-	66,030	-	-	-	66,030
Payables and Accruals	7,941	2,545	-	-	-	10,486
Total liabilities	234,951	483,023	158	7,187	-	725,319
Net financial position	418,724	(159,691)	(53)	(1,598)	55	257,958
Exchange rate during the year were as follows:						
		USD	GBP	Euro		
On 01 January 2019		2,297.3	2,940.8	2,630.7		
On 31 December 2019		2,298.0	3,033.0	2,579.9		

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

40. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

Table 40.9 (b): Foreign exchange Exposure BANK

	BANK		
	TZS	USD	Total
2019	TZS Millions		
Assets			
Cash and balances due from banks	750	1,441	2,191
Investment securities measured at amortized cost	23,043	-	23,043
Loans and advances	210,056	256,225	466,281
Investment securities designated at FVOCI-equity investments	2,115	12,991	15,106
Other Assets	136,933	240	137,173
Total Assets	372,897	270,897	643,794
Liabilities			
Deposits	176,295	149,934	326,229
Borrowing	-	49,040	49,040
Other Liabilities	8,799	4	8,803
Total liabilities	185,094	198,978	384,072
Net financial position	187,803	71,919	259,722
2018			
Assets			
Cash and balances due from banks	390	141	531
Placements with other banks	2,611	-	2,611
Investment securities measured at amortized cost	33,344	-	33,344
Loans and advances	292,160	209,249	501,409
Investment securities designated at FVOCI-equity investments	2,953	13,506	16,459
Other Assets	115,928	208	116,136
Total Assets	447,386	223,104	670,490
Liabilities			
Deposits	191,725	251,103	442,828
Borrowing	-	66,030	66,030
Other Liabilities	10,971	2,330	13,301
Total liabilities	202,696	319,463	522,159
Net financial position	244,690	(96,359)	148,331
Exchange rate during the year were as follows:			
	USD	GBP	Euro
On 01 January 2019	2,297.3	2,940.8	2,630.7
On 31 December 2019	2,298.0	3,033.0	2,579.9

41. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments arise in the normal course of the Bank's business activities. To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other un-drawn commitments to lend.

Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

In addition, the Bank had no claims in 2019 (2018: no claims) in court cases related to defaulting customers whom the Bank is executing recovery measures. However the Bank does not expect the final outcome of any such case to have a material adverse effect on its financial position as the Bank has strong defence.

Off – balance sheet items

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

Table 41.1: Off Balance sheet Exposure

	GROUP		BANK	
	2019	2018	2019	2018
Outstanding letters of credit (foreign currency)	24,412	89,458	-	-
Outstanding guarantees and indemnities (Foreign currency)	82,107	68,039	32,462	39,192
	106,519	157,497	32,462	39,192

Letters of credit, guarantees (including standby letters of credit) commit the Group and Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same credit risk as loans.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

41. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Table 41.2: Commitments

	GROUP		BANK	
	2019	2018	2019	2018
Commitments to extend credit – undrawn balance	32,316	35,231	25,279	24,743
Capital commitments				
Capital expenditure that has been approved by the Board but not contracted for		5,950		3,105

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Group and 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. Capital commitments comprise capital expenditure for fixtures and equipment, computers and motor vehicles.

42. LEASES

A. Leases as lessee (IFRS 16)

See accounting policy in Note 3 (d).

The Group leases a number of branch and office premises. The leases typically run for a period of more than a year, with an option to renew the lease after that date. For some leases, payments are renegotiated every one year to reflect market rentals.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets (Group)

Right-of-use assets relate to leased branch and office premises that are presented under Note 26.

42. LEASES (Continued)

A. Leases as lessee (IFRS 16) (Continued)

ii. Lease liabilities (Group)

	2019	2018
	TZS'000	TZS'000
At 1 January	-	-
Impact on initial application of IFRS 16 as at 1 January 2019	3,396,888	-
Interest expense accruals	274,641	-
Lease liabilities debits (rent paid) during the year	(1,706,615)	-
31 December	1,964,914	-

iii. Maturity analysis (Group)

	2019	2018
	TZS million	TZS million
Non-cancellable operating lease commitments		
Less than one year	28,931	-
Between one and five years	2,666,793	4,215,667
Total undiscounted lease liabilities at 31 December	2,695,724	4,215,667

iv. Amounts recognised in profit or loss (Group)

	2019	2018
	TZS'000	TZS'000
Interest on lease liabilities	274,641	-
Expenses relating to short-term leases	624,433	-
Depreciation	1,311,377	-
	2,210,451	-

v. Amounts recognised in statement of cash flows (Group)

Total cash outflow for leases	(1,706,615)	-
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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

42. LEASES (Continued)

B. Leases as lessor

The bank leases out its investment property. The Group and bank has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Group and bank during the year ended 31 December 2019 was TZS 34 million and TZS 34 respectively.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

2019 – Operating leases under IAS 16

	Group TZS million	Bank TZS million
Between one and two years	70	70
Total	70	70
Unearned finance income		(15)
Net investment in finance leases		55

2018 – Operating leases under IAS 17

	Group TZS million	Bank TZS million
Between one and two years	70	70
Total	70	70
Unearned finance income		(20)
Net investment in finance leases		50

43. MANAGED GOVERNMENT AND OTHER STAKEHOLDERS' FUNDS

Among the principal activities of the Bank is to administer Government funds disbursed for special projects on behalf of the Government. Establishment, design and approval of special projects rests with the Government under the Ministry of Finance. All risks and rewards arising from special projects are directly channelled to the Ministry of Finance. The administrative activities in respect of those Funds among others include, vetting applications for advances received from eligible applicants, monitoring the performance of the advances provided as well as collection/and or recovery of the advances from the borrowers, except for grants.

Balances in these funds do not form part of the Bank financial statements but are maintained off balance sheet. The Bank receives management fees and agency fees from these projects at agreed rates. The table below summarises the Bank balance movement in the Funds /Grants accounts for the year ended 31 December 2019.

43. MANAGED GOVERNMENT AND OTHER STAKEHOLDERS' FUNDS (Continued)

	AFW	FF	RBF	CIS	TEDAP	SMDG	SAAFI	THB	UNIDO
Balance at 1 January 2019	14,036	1	11	2,750	464	1,694	9	31	-
Funds received during the year	-	-	367	-	17	-	-	-	243
Funds disbursed during the year	(2,076)	-	(360)	-	-	-	-	(43)	-
Funds collected from the customers	2,773	-	-	1,735	1,426	-	-	30	-
Management fees and other expenses	(42)	-	(0)	-	(17)	(0)	-	-	(14)
Interest earned and exchange gain	-	-	0	-	-	24	-	-	-
Fund transferred during the year	-	-	-	-	(1,890)	(186)	-	-	-
Balance at 31 December 2019	14,691	1	18	4,485	0	1,532	9	18	229
Balance at 1 January 2018	11,405	1,079	767	299	563	1,571	9	28	-
Funds received during the year	-	-	510	-	-	-	-	-	-
Funds disbursed during the year	(592)	-	(1,251)	-	-	-	-	-	-
Funds collected from the customers	3,325	479	-	2,601	1,615	131	-	17	-
Management fees and other expenses	(103)	(260)	-	(150)	(43)	(8)	-	(14)	-
Interest earned and exchange gain	-	-	-	-	-	-	-	-	-
Fund transferred during the year	-	(1,297)	-	-	(1,700)	-	-	-	-
Balance at 31 December 2019	14,035	1	25	2,750	435	1,694	9	31	-

KEY

FF	TEDAP	Tanzania Energy Development and Access Expansion Programme	AFW	Agricultural Financing Window
REA	NEEC	National Economic Empowerment Council	CIS	Commodity Import Support
RBF	SAAFI	Sumbawanga Agricultural and Animal Food Industries Limited	SMDG	Miners Development Grant
THB	UNIDO	Tanzania Housing Bank		

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

44. SUBSEQUENT EVENTS

Subsequent to the reporting date, the Government of the United Republic of Tanzania, being the ultimate shareholder of TIB Corporate Bank Limited (a subsidiary of TIB Development Bank Limited) and TPB Bank Plc decided to merge the two banks to form one commercial bank effective from 1 June 2020. Given that the Government of the URT is the ultimate owner of both TIB DFI and TIB CBL the separation of TIB CBL from TIB DFI is considered a reorganisation of the government entities and does not have an impact on the remaining TIB DFI Group or its going concern.

On 11 March 2020, the World Health Organisation declared the Coronavirus (COVID-19) outbreak to be a pandemic due to its rapid spread across the globe. Many governments including the Tanzanian government are taking stringent measures to help contain the virus, including: requiring self-isolation / quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders. This has led to a relatively weaker economic outlook and uncertainties across the globe.

At the date of this report, the Directors made qualitative assessment of the possible impact of the pandemic and made a conclusion that it is impracticable to establish and disclose the extent of financial impact to the bank caused by this pandemic. The Directors are aware that there is a possibility that there may be a change in assumptions and judgments in following financial year which may require material adjustments to the carrying amount of assets and liabilities reported in these financial statements.

45. CORRECTION OF ERRORS

During the valuation of investment property for the year ended 31 December 2019 it was noted that the previous valuation which was done in the year ended 31 December 2016 missed the correct plot size of the investment property. The valuation was based on 7033.00 m² instead of 8,866.98 m² a difference of 1833.98 m². At the date of previous valuation the applied land value rate was TZS 3,587,000 per SQM. The current year valuation applied land rate is TZS 3,500,000 per m². The following tables summarise the impacts on the Bank's financial statements.

	Impact of change in accounting policy		
	As previously reported	As previously reported	As restated
2018 TZS Millions			
Investment properties	22,160	11,640	33,800
Deferred tax asset	43,421	(3,492)	39,929
Others	604,910	-	604,910
Total Assets	670,491	8,148	678,639
Total Liabilities	(449,400)	-	(449,400)
Retained earnings	(95,319)	8,148	(87,171)
Others	(125,772)	-	(142,068)
Total Equity	(221,091)	8,148	(229,239)
2017 TZS Millions			
Investment properties	22,160	11,640	33,800
Deferred tax asset	21,988	(3,492)	18,496
Others	716,593	-	716,593
Total assets	760,741	8,148	768,889
Total Liabilities	(529,914)	-	(529,914)
Retained earnings	(99,512)	8,148	(91,364)
Others	(131,315)	-	(147,611)
Total Equity	(230,827)	8,148	(238,975)

There is no impact on the bank's statement of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017.

46. COMPARATIVES

Comparatives are consistent with the previous year; and where need be a restatement has been made.



SUCCESS IS NO ACCIDENT

It is hard work, perseverance, learning, studying, sacrifice and most of all, love of what you are doing.

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