



TIB
DEVELOPMENT
BANK
Your Partner for Growth



ANNUAL
REPORT 2018



Industrialization Hub

TIB DFI has been implementing ideas and actions that foster stability and progress. The challenges that all players in the banking sector are facing have not deterred it but rather made it adapt and strive. It is stronger, smarter, stable, more resilient and keeps pushing forward where others could easily fail...

Centers

CORPORATE INFORMATION	5
BOARD CHAIRPERSON	9
MANAGING DIRECTORS' STATEMENT	15
DIRECTORATES' REVIEWS	21 - 43
DIRECTORS' REPORT	46 - 61
STATEMENT OF DIRECTORS' RESPONSIBILITIES	64
DECLARATION OF THE DIRECTOR OF FINANCE	65
INDEPENDENT AUDITOR'S REPORT	66 - 70
CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	71
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION	72
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	74
CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS	76
NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS	78-160

To be the premier development financier in Tanzania..

Our Vision

Integrity, Innovation, Excellence and Customer Centricity

Our Values

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

Our Mission

Products & services

Mining, Energy,
Oil and Gas
Sector



Manufacturing
Sector



Agro-processing
Sector



Service Sector



Infrastructure
and Real Estate
Sector



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
Telefax: +255 22 22 241 1095
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.

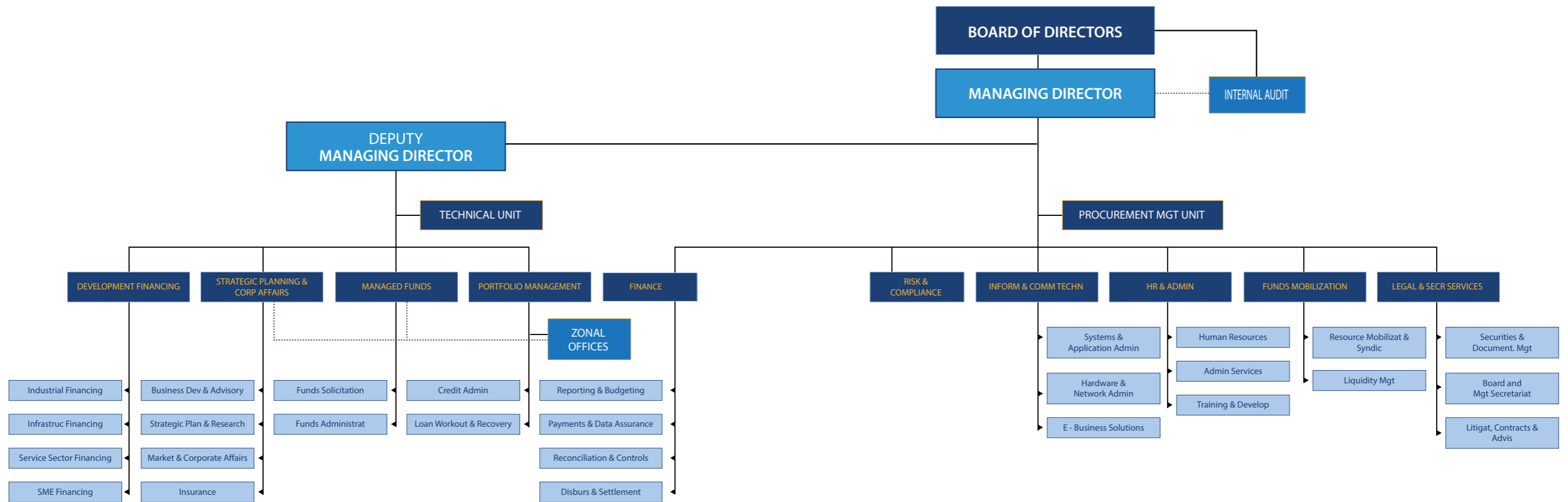
AUDITORS

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





“ The Board is confident in the company’s appealing opportunities and the various initiatives we have made will transpose the Company for the future. ”

Dr. Maria S. H. Mashingo
Board Chairperson

Chairperson’s Statement

On behalf of the Board of Directors of TIB Development Bank, I am pleased to present to you the Annual Report and Audited Financial Statements for the year ended 31st December, 2018.

Operating Context

Proceeding from success noted from 2015, when TIB Development Bank obtained the licence to operate as a Development Finance Institution (DFI), continued with its mission and vision of financing development in line with its 2016-2020 Corporate Strategic Plan (CPS). During the year 2018, the bank continued to perform innovatively in order to facilitate transformation of our national economy to a middle income one by 2025. The overall bank’s operating environment remained stable.

Tanzania continued to enjoy political stability during year 2018 which attracted local and foreign investors to set up and increase businesses in Tanzania.

The Tanzania National Bureau of Statistics (NBS), posted an economic growth rate of 7.0 % in 2018; a moderate growth from 6.8% in 2017.

The business environment maintained a subdued recovery in 2018, while the banking sector continued to strengthen the macro-economic changes and regulatory measures instituted by the Bank of Tanzania (BOT) in the second half of 2017. It aimed at activating banks needs for lending to support private sector. Unquestionably the 2018 achievements in banking was attributed to strict measures undertaken by the 5th Phase Government Administration on improving Good Governance and efficiency on economic endeavours such as inflation control which closed at 3.5% in 2018 as compared to 5.32% recorded at the end of 2017. On-going major Government strategic infrastructure projects investment when completed will enhance economic growth activities and catalyse diverse business undertakings.

Bank performance

I am delighted to report positive performance amidst challenges faced in various business environments. The bank’s assets at the close of the year decreased to TZS 670,490 million from 760,741 million reported in 2017. The bank continues to align its operations with DFI regulations through decreasing the levels of short-term financing and slow pace of assets creation while seeking long-term financing to its development projects.

In addition the declined level of total assets is due to increased credit cost from implementation of IFRS 9 which call for realization of expected credit loss compared to the loss incurred that was applied before 2018.

At the end of year 2018, TIB was working on re-capitalization programme and enhancing elongation of tenure of its liabilities by targeting TZS 300 billion through issuing of corporate bonds. The bank, meanwhile, took great effort to recover TZS 2,486 million, an increase of 106% compared to TZS 1,207 million recovered in year 2017.

“The bank did a great effort in year 2018 to recover TZS 2,486 million an increase of 106% compared to TZS 1,207 million recovered in year 2017”

The bank continued working with respective Municipalities and Local Authorities (LGAs) on project identification and revenue generating project preparation, to attain bank's financing approval.

During the year TIB DFI remained sound and efficient with four TIB DFI working zones around the Nation. There was a marked increase in funds management activities. Also the bank managed donor and specific government designed funds which included: Promotion of bioethanol as clean alternative cooking fuel in Tanzania (on behalf of UNIDO) and Revolving Fund Scheme to support expansion in distribution of Water Supply for MUWASA & BUWASA (on behalf of Ministry of Water). The increase recorded in this area was TZS. 733.89 billion or 1.04% in 2018 when compared to the previous year 2017; with TZS 726.3 billion.

Changes in the Board and Managements

In October 2018 the President of the United Republic of Tanzania, Dr. John Pombe Joseph Magufuli appointed Dr. Maria Salome Henry Mashingo, this was after the appointment of the previous Chairman, Professor Palamagamba John Mwaluko Aidan Kabudi as a Member of Parliament in January 2017 and thereafter became the Minister for Constitutional and Legal Affairs.

The Board would like to welcome on board 35 new employees employed in 2018 for we have confidence in their ability and experience to deliver and steer the Bank to greater heights.

Outlook and Appreciation

Going forward, the bank stand ready to collaborate and harness partnerships towards the provision and delivery of adequate, reliable, affordable and sustainable infrastructure and social services in support of economic growth.

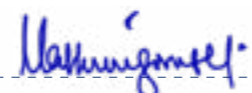
The bank will continue to initiate broad resource mobilization from regional, continental and international development financing institutions. Let me take this opportunity to extend my appreciation to the government through the Ministry of Finance and Bank of Tanzania on the initiatives taken

towards bank's recapitalization. This support will go a long way in the fulfilment of the bank's role and mandate as a policy bank in Tanzania.

Real, I applaud Board Members for their resolute support and dedication to all tasks. TIB Board will continue to strengthen its governance role to enhance shareholders' value. Among specific priority areas in 2019 include improvement of capital adequacy, cost management and to motivate staff productivity.

Management and staff real deserve special recognition for their continued hard work, innovation; commitment and team work that made the bank sail through successfully during the year. The Board appreciates to have such a dedicated team of staff in place.

Indeed, I wish our shareholders, customers, management and other stakeholders a very fruitful and blessed year, 2019.



Dr. Maria S.H. Mashingo
Chairperson of the Board of Directors

TIB Development Bank Limited



“Trust starts with truth and ends with truth..”

Board of Directors



Dr. Maria S. H. Mashingo
Board Chairperson



Dr. Arnold M. Kihale
Member



Dr. Said S. Mzee
Member



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



Ms. Rose J. Aiko
Member



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



Mr. Maduka P. Kessy
Member



Prof. Razack B. Lokina
Member



“
The performance of the bank shows that there was a profit of TZS 570 million before tax compared to a loss of TZS 20,921 million recorded in year 2017. The results have been largely driven by decrease in impairment provisions.
”

Mr. Charles G. Singili
Managing Director, TIB

Managing Director

Bank operations

The bank's focus and budget theme for 2018 was Industrialization and Human Development. In line with this thrust, I am happy to report that the bank has continued to actively prepare and develop projects put forward by private sector promoters and those put forward by public sector. During the period under review, the bank started working towards developing projects to bankability valued at more than TZS 1.3 trillion across its sector of focus.

In 2018, the bank continued to sort bankable projects that were in line with government's FYDP II objectives of industrialization and human development transformation. The bank approved for funding of projects worth TZS 22.4 billion during 2018 which is an improvement from TZS 1.5 billion approved in 2017.

The bank is working on a recapitalization programme in pursuit of its capitalization targets of TZS 300 billion.

There are some notable achievements in 2018: In strengthening of internal controls and manage market risks, the Bank has put in place the Treasury

Manual and developed the stress testing model; A combination of treasury measures towards settling expensive loans has resulted into significant reduction of interest expenses from 50 billion reported in 2017 to TZS 36.959 billion in 2018.

Apart from scaling up the bank's underwriting capacity, the recapitalization is intended to improve the capital position of the bank to be able to take on board investment in assets which are aligned to the bank development mandate. In addition to its bond issuance programme, the bank has developed serious collection program strategy from defaulters who have failed to honour their commitment with the bank as per terms and condition of credit facilities extended by the bank.

The bank is also putting together financing alternative approach which seeks to pool resources from pension funds and institutional investors for increased strategic investment in development projects with economic impact.

In order to broaden funding sources and build the required critical mass, the bank is

accelerating its engagement with regional continental and international development finance institutions (DFIs) and multilateral finance institutions (MFIs) to establish strategic partnerships which will facilitate collaboration in the preparation and financing of key strategic development projects.

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

Since 2018, an amount of TZS 45 million was disbursed from the project preparation and technical assistance fund towards funding of project development activities for a number of projects put forward by local authorities and other public institutions. The bank is on a drive to align its human development base with thrust on renewable and clean energy working closely with UNIDO and other development partners. For the period under review the bank continued on its transformational journey and retooling exercise and training aimed at deepening the bank's skills set.

Financial performance

The bank's total Assets decreased by 12% from TZS 760,741 million in 2017 to TZS 670,490 million in 2018.

This was driven by various factors. Specifically, the bank didn't receive additional capital from its shareholders in 2018, instead relied on its profit, which the performance of the bank shows that there was a profit of TZS 570 million before tax compared to a loss of TZS 20,921 million recorded in year 2017.

On improving the performance, the bank made efforts on recoveries of charged off and written off loans, whereby TZS 2,486 Million were recovered in year 2018 which is 106% increase compared to TZS 1,207 Million recovered in year 2017.

The loan portfolio continued to perform well. Resolution of NPLs and strict measures undertaken to collect from defaulters is expected to bring the NPL ratio within acceptable threshold. The bank continues to strengthen its credit appraisal, monitoring and recovery processes in order to maintain NPL ratio within the acceptable thresholds.

Appreciation

I would like to express my sincere gratitude to the government, the Ministry of Finance and Planning, the Bank of Tanzania and all other stakeholders for their unwavering support to the bank's efforts in accelerating projects with developmental impact in Tanzania. I am indebted to the guidance of the Board and contribution of Management and staff for their effort towards the delivery of Bank's mandate.



Mr. Charles G. Singili
Managing Director, TIB.

“ Investment in harnessing Tanzania's natural endowment is the driving force for sustainable transformation of our country.

”
*Dr. John Pombe Joseph Magufuli (2016).
National Five Year Development Plan
2016/17 – 2020/21, (p. ii).*



Management



Mr. Charles G. Singili
Managing Director



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



Ms. Lilian M. Mbassy
Director, Managed Funds



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



Ms. Christine V. Mbonya
Director, Internal Audit



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**



BIMA MSETO

BIMA HII INALINDA NINI?

Bima hii inalinda uharibifu wa mazao yaliyopo shambani kutokana na

1. Ukame
2. Magonjwa na wadudu wasiodhibitika
3. Mvua iliyozidi kiaasi (Mafuriko shambani)
4. Kimbunga
5. Mvua ya mawe

Mazao yanayolindwa ni kama yafuatayo;

Ngano, Mahindi, Mpunga, Alizeti, Korosho, Shahiri, Pamba, Chai na Kahawa

UMUHIMU WA BIMA YA MAZAO

1. Kupata mkopo kutoka taasisi za kifedha bila ya vikwazo vingi
2. Kuwekeza zaidi kwenye shughuli za kilimo
3. Kutokukopa ili kuweza kuwekeza kwenye killimo msimu unaofuata kutokana na kupatwa majanga msimu uliopitaa

THAMANI YA BIMA YA MAZAO

1. Thamani ya bima kwa zao lolote ni gharama za uzalishaji au thamani ya mazao baada ya mavuno

TAARIFA ZINAZOHITAJIKA KUTOKA KWA MKULIMA

1. Gharama za uzalishaji kwa hekari moja
2. Kiwango halisi cha uzalishaji kwa mwaka
3. Bei ya kuuzia kwa kilo moja
4. Fomu ya maombi iliyojazwa

ULIPAJI WA MADAI

1. Uzalishaji pungufu kutokana na moja ya sababu zilizokingwa
2. Malipo yanayofanyika mara moja tu mwisho wa msimu

“Bima Hii inatolewa kwa ushirikiano na Shirika la Bima la Taifa NIC”

Directorate of Strategic Planning and Corporate Affairs



Mr. Patrick M. Mongella
Director - Strategic Planning and Corporate Affairs

The responsibility of the Strategic Planning and Corporate Affairs directorate is to initiate the planned direction of the bank. During the year under assessment, this was accomplished through development of new strategic projects in strategic areas of the economy comprising of a participating role of guiding Government agencies and Ministries on various strategic project evaluation levels of their development and seeing to their financial closure which together added to growth of the bank's balance sheet. Throughout the year under review, the directorate played a spirited role in developing, harmonizing and communicating the bank's next five years corporate plan anchored around the county's FYDPII centering on promoting industrialisation. Directorate's responsibilities were discharged through its four departments namely; Business Development, Advisory Services, Research and Strategic Planning, and Marketing and Corporate Affairs.

Business Development Department

The main role 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 lean structure of two business development personnel, 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 meets 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.

technical assistance for preparation of these **LGA projects.**
TZS 1.0 billion approved

Business development endeavours during 2018 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 social-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 role of 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 project concept

review mechanism which saw project concepts being thoroughly screened to reduce lead time at further stages.

Year 2018 also found the bank strengthening relationships with regional and other multilateral development finance institutions such as World Bank, 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 development focused projects. In this particular area the bank worked with 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 Mbeya and it covered LGAs from Mbeya, Iringa, Njombe, Ruvuma, Rukwa and Katavi. The second workshop was held in Mwanza whereby LGA officials from Mwanza, Simiyu, Tabora, Mara,

Shinyanga, Geita, Kigoma, and Kagera were trained.

Business relations with central and local government authorities strengthened as the bank and public entities worked together to identify and develop economically viable projects. The bank worked with Lindi Municipal Council in the preparation of a modern bus terminal project and a modern market in the municipality. The bank further signed technical assistance agreements with two local government authorities; Kahama Town Council which involved cooperation in the preparation of a bankable bus terminal project, Mkuranga District Council for the purpose of preparing a bus terminal project in Kipala mpakani area. The bank approved more than TZS 1 billion as technical assistance for preparation of these LGA projects.

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 industrial and 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 medical manufacturing plants. The unit during the year further contributed towards credit analysis on projects submitted to the bank.

Strategic Planning and Research and Planning

During the period under review, the department supported that bank through profiling of strategic sectors of interest, in-house data creation and analysis and engaged expertise from institutions with authority in obtaining information on those sectors that information was not available within the bank. During 2018, the department carried out several in-house studies to enable an informed decision making on projects promoted by public and private sector.

TIB-DFI, like any other financial institution, accumulated information and statistics as part of its research and development, with the determination to evaluate whether or not to advance finance to projects put forward. In 2018, amongst the studies examined were in the hotel industries, civil explosives, agro-processing and industrial and technological minerals mining and quarrying and cement. The department also worked with SIDO to prepare SMEs Industrial park project concepts for Dodoma, Morogoro and Dar es Salaam. The projects are now at 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 encounter those criteria for financing.

Marketing and Corporate Affairs Department

The Marketing and Corporate Affairs unit is the communication hub of the organization that directly supports TIB with its strategic vision and ensures that it is communicated within the bank and externally to stakeholders. This also includes conducting several staff and stakeholder engagement activities and events during the course of the year. Main highlight in 2018 was the bank's development of the Customer Service Charter which was launched during Customer Service Week. This is a notable milestone in service provision as it stipulates our commitment to serving our customers. Furthermore, in show of excellence, the bank won the 3rd position in the Financial Institutions Category during 42nd Dar es Salaam International Trade fair held in Dar es Salaam, Tanzania.

Directorate of Portfolio Management



Ms. Nyanso B. Masambaji
Director - 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 48 staff members.

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

Portfolio under Loan work out and recovery category collected TZS 4.27 billion for the year 2018

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

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.

"As at December 31st, 2018 the bank had an on – balance sheet gross portfolio amounting to TZS 653,484 million.."

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 re-payments 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 210.76 Million from the insurance services.

Overall Review

As at December 31st, 2018 the bank had an on – balance sheet gross portfolio amounting to TZS 653,484 million. The on balance sheet portfolio is comprised of 118 projects (out of which Term

Loans are 88%, Overdraft 11% & 1% staff loans of the total loan portfolio.)

By ownership; the public projects account for 26% of the entire portfolio, whereas private projects contribute 74% of the same.

From sectorial perspective; TIB Loan portfolio comprised of the following sectors: Gas 14.7%; Agriculture and Agroprocessing 22.9%; Manufacturing 9.5%; Mining and Quarrying 17.5%; Tourism, Hotels & Restaurants 11.2%; Real Estate 8.4%; Electricity 6.2%; Trade 3.0%; Education 2.1%; Transportation and Communication 1.0%; Financial Intermediaries 1.3%; Personal 0.9%; Building and Construction 0.7%; Other Services 0.4%; Leasing 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 45.1%; Lake 38.2%; Arusha 12.8%; Zanzibar 1.9%; and Mbeya 2.0%.

By December 31st, 2018 the portfolio under Loan work out and recovery had a total exposure of TZS 218.95 billion

Directorate of Finance



Ms. Mwasam S. Suleiman
Director - Finance

The directorate's main objective continued to be provision of Financial Accounting services to the Bank with main focus of communicating the bank's financial information to various stakeholders which is in compliance with International Financial Reporting Standards and other Regulatory requirements.

The directorate comprises of three departments namely; Payment and Data Assurance, Reporting and Budgeting and Reconciliation and Controls so as to support segregation of duties in performing its roles and hence promoting good control environment.

2018 Operations

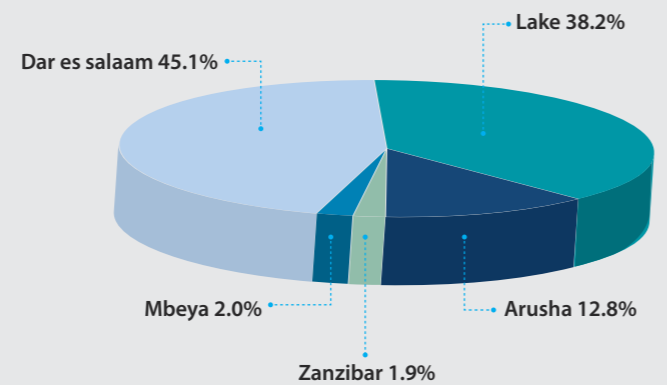
The bank continued with good relationship with stakeholders and recorded among recognized professional work with the National Board of Accountants and Auditors (NBAA) and Association of African Development Financial Institutions (AADFI).

During December 2018 the bank was announced winner of the 2017 NBAA Best Presented Financial Statements (first winner, small and medium bank category) and also accredited with "A" rating on compliance with the Prudential standards, Guidelines and Rating System set by the association of African Development Financial Institutions (AADFI). The association promotes good corporate governance and address aspects of DFI operations within the region.

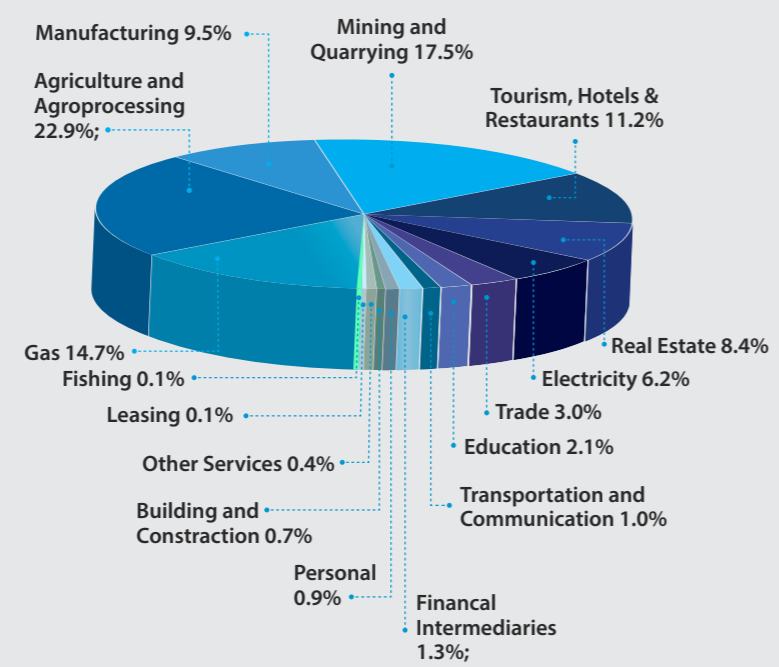
The way forward

The directorate will continue to provide financial accounting services to the bank with the emphasis of complying with the International Financial Reporting standards, the Banking and Financial Institutions (Development Finance) Regulations issued by the Bank of Tanzania, The Income Tax Act, 2004 and other Regulatory requirements.

The portfolio five zones



Loan portfolio comprised sectors



including charged off portfolio of TZS 132.42 billion. Total collection from Loan Workout and Recovery, was TZS 4.27 billion including the collection from charged off accounts for the year 2018 which was TZS 2.64 billion.

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 57.1 billion 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 Fund Mobilization



Mr. Oswald Leo
Director - Fund Mobilization

The funding structure of the bank largely reflects a staggered transition process towards a fully-fledged Development Finance Institutions. The long term assets, that were created prior to introduction of a two tier banking structure in 2015 dominated the asset side. The long term loans comprised of 80 percent of total assets and were primarily funded by short term liabilities mostly of less than one year tenure in form of money market instruments and fixed deposits. The funding is reminiscing of typical commercial banking funding structure.

During the year 2018 the thrust of fund mobilization directorate focused on devising a funding plan that would correct the maturity mismatch and strengthen internal processes for stronger liquidity management and effective resource

reported reduction of interest expenses by 35% in 2018 as compared to 2017

“ The bank has also engaged a number of external sources of funds to support the asset growth and Government strategies for industrialization..”

mobilization. In the same vein the Contingency Funding Plan was developed towards the fourth quarter of 2018. The hall mark of the plan is issuance of a medium term notes to convert some short term liabilities into long term instruments. The plan lays down the strategy to address liabilities that followed the creation of a subsidiary bank, TIB Corporate Bank Limited. Coupled with these measures the plan underscore the need to engaged with major borrowers from parastatals and the private sector to fast-track collections and recovery from charge-off accounts. Going forward, successful implementation of these measures will strengthen the liquidity position of the bank significantly.

There are some notable achievements in 2018: In strengthening of internal controls and manage market risks, the Bank has put in place the Treasury Manual and developed the stress testing model; A combination of treasury measures towards settling expensive loans has resulted into significant reduction of interest expenses from 50 billion reported in 2017 to TZS 37 billion. This signifies a reduction of 35% year on year.

Sourcing of low cost funding remains a critical challenge for the bank to execute its mandate as a policy bank. On domestic funding the cost of borrowing remains high while external funding are susceptible to high market risks. During the year 2018 the bank continued with negotiations with the Government for capital enhancement to contribute towards dampening of high costs of borrowing and provide funding for critical sectors of the economy. The bank has also engaged a number of external sources of funds to support the asset growth and Government strategies for industrialization.

With the above measures starting to take place in subsequent years, the bank will experience strengthening of the liquidity position, improved sources of affordable funding for greater asset growth and reposition itself as the primer development finance institution for execution of policy measures towards industrialization.



Directorate of Information and Communication Technology (ICT)



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

OVERVIEW

The Information and Communication Technology (ICT) Directorate is a shared service across 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 TIB Group to achieve its strategic business objectives. The Directorate is responsible for 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. Compliance 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 2018, 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 and business user trainings, the ICT Directorate accomplished the following ICT projects as per bank strategic plan:

The Directorate has implemented the insurance services management system which facilitates automation of insurance processes. Also, in collaboration with Directorate of Strategic Planning and Corporate Affairs, the Directorate has facilitated the automation of the performance management and planning system (Balance Score Card system) which enabled the bank to track the performance of its strategic plan online.

With the strategy of reducing the bank operating expenses and utilization of sustainable connectivity to zonal offices, the Directorate has centralized the voice communication for all zonal offices to HQ office. In addition, the Directorate continued to strengthen the information security of the bank by introducing layers of security for both primary and Disaster Recovery site. Further, the CCTV Cameras for surveillance systems were enhanced to the Head and all zonal offices.

Furthermore, being the shared service the Directorate has performed the integration of Core banking system (CBS) with the Government electronic payment gateway (GePG) for TIB corporate Bank Ltd to support Government agencies revenue collection automation initiatives.

Directorate of Human Resources and Administration



Mr. Daudi M. Masele
Director - Human Resources and Administration

The Directorate of Human Resources and Administration for the 2018 period was focused on provision of organization capacity by organizing bank wide required skills and knowledge as well as provision of Human Resource leadership to ensure a high-performing TIB Development Bank workforce. The directorate provided strategic direction and advice related to bank-wide human resource and Administration policies and initiatives such as Succession Planning and Talent Management, Human Capital Development, Recruitment; Leadership Development programmes, compensation and delivery of quality general administrative services.



The directorate's achievements for 2018 are:

1. Managing various recruitments and the onboarding process for new staff who were recruited to fill in various vacancies as per operational requirements
2. The Directorate of Human Resources and Administration continued to monitor and fine tune the revised the Organization structure which resulted by merging some departments and re-alignment of roles to improve efficiency and strengthen Zone operations.
3. Managed to implement the Succession planning and Talent Management programs, which is in place as per bank's requirement. The program is done hand in hand by organizing required training programmes with aim of imparting necessary knowledge and skills to align with new operational requirement. These training were in-house, short term and long term training locally/abroad as well as management/leadership development training
4. The Directorate coordinated the implementation of various professional certification programmes such as CPA related certifications and Moody's Certification training as part of requirement for all business related employees. In May 2018 a batch of 26 employees who started the course on July 2017 graduated.
5. The Directorate continued to coordinate and manage the newly adopted performance management system (Balanced Scorecard System). The system was used during Mid-Year and Year-End employees' performance evaluations.
6. In order to gain more development finance related skills and knowledge, 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.

Directorate of Internal Audit

Regardless of challenges faced during the period, the bank maintained the same level of its employees' engagement by retaining Ninety nine percent (99%) of its workforce

The continued focus by Directorate of Human Resources and Administration to drive employee engagement initiatives in 2019 remains paramount as this would in turn result to a culture of innovation and productivity. The Directorate is looking forward to coordinating and implementing the following projects;

1. Reviewing the Schemes of Services, workload analysis and salary benchmarking, the strategy which will help the bank manage the problem of staff turnover.
2. Redesign the current HR service delivery model and organizational structure to deliver strategic and consultative services to the bank.
3. Continue to review business operations and enhancement of Zonal Offices to improve various operations and monitoring of banks portfolio.
4. Continue managing the Succession planning and talent management as well as recruitment of a diverse workforce.
5. Continue to build the TIB training model framework/ plan, and align and integrate the TIB training model/ plan with performance management learning plans.
6. Continue partnering with regional DFI's such Southern Africa Development Cooperation – Development Finance Resource Centre (SADC-DFRC) and other Development partners such as Japan International Cooperation Agency (JICA) and Association of African Development Finance Institutions (AADFI) for subsidized training opportunities.
7. Administer the 2019 TIB Employee Engagement and Satisfaction Survey and disseminate results and action plan to bank management and staff.



Ms. Christine V. Mbonya
Director - Internal Audit

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 2018 the planned audit activities were aligned with the bank's strategic objectives and therefore mainly focused on implementation of the bank strategy of strengthening corporate governance and management aimed at improving accountability and transparency, as well as improving compliance with the corporate policies, regulations, legal and regulatory requirements and the acceptable accounting standards.

Specifically, the internal audit activities for year 2018 were mainly of five types namely, Operational audit assignments, governance activities, financial audit, special audits and other non-strategic activities. The focus of the audit work in all five activities was on the identification of the existing and emerging risks that may impede achievement of the strategic objectives of the bank and ensure they are properly mitigated. The results of the audit work on all activities were reported to the Board of Directors through Audit and Risk Committee of the Board for directives and guidance in line with good corporate governance principles and practices. Also follow ups were made for the audit findings from Internal, external and BOT examiners and reported every quarter the implementations and status. The audit reports were sent to BOT after every quarter.

Directorate of Legal and Secretarial Services



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

The Division's main objectives continue 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 is part of that respective matter (be contract/agreement or litigation) with the main objective of ensuring that the bank is legally protected and is 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 2018 the Department handled all the Court cases where the bank is a party thereto by either representing the bank or working closely with the retained external lawyers/law firms in prosecuting the cases. A 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.

b) Board and Management Secretarial Services

The Department is responsible for:

1. Provision of secretarial services to all Board, Management, and other Committee meetings
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 Corporate Bank Ltd and TIB Rasilimali Ltd
4. Provision of secretarial services to other affiliated institutions i.e TIB Rasilimali Ltd
5. The department coordinated all affairs on the new appointed Board members

During the year

During 2018 the Department (successfully) coordinated the Board and its Committees Meetings as well as Investment Committee Meetings. 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.

c) Credit Management

The Credit Management Department is 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 loan documentation including registration at the relevant registries
3. Ensuring safe custody of all loan documentation specifically the security documents of the mortgaged assets
4. Ensuring that annual fees for all the security documents (i.e. Certificate of titles, car registration cards, insurance policies, share certificates, etc.) are promptly paid by clients;
5. Perform all loan recovery processes – from issuing of demand letters, statutory notices, appointment of law firm for instituting civil cases
6. Provision of business advisory services and transactional structures – from negotiations stage, preparation of MOUs, due diligence and KYC,

During the year

During the year 2018, 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 Development Financing



Ms. Esther N. Epaphra
Director - 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. The directorate is divided into four departments namely; Infrastructure Financing; Industrial Financing; SME Financing and Service Sector Financing.

In 2018, 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 22.4 billion during 2018 which is an improvement from TZS 1.5 billion approved in 2017.



During 2016 and 2017 the Bank's strategy with focused on loan portfolio clean-up and increasing recovery efforts on non-performing loans (NPL).



In 2018, the Directorate appraised and obtained approval for funding of projects worth TZS 22.4 bn compared to TZS 1.5bn approved in 2017

approval for funding of
projects worth
TZS 22.4
billion

This improvement was brought about by the bank's strategy during 2018 to intensify new loans issuance compared to prior years (i.e. 2016 and 2017) bank's strategy of focusing on loan portfolio clean-up and increasing recovery efforts on non-performing loans. The 2018 approved projects cut across different industries including, mining, manufacturing, agro-farming, tourism and water utility.

In 2018, the directorate saw the establishment of the Small and medium enterprise (SME) framework guideline that will see the bank's closer participation with SME in the coming years. The bank realised that SME provide significant opportunities in the acceleration of industrialization and economic growth within the country. For this reason, the bank is working with other international agencies such as Japan International Cooperation Agency (JICA) in securing more funding to SME.

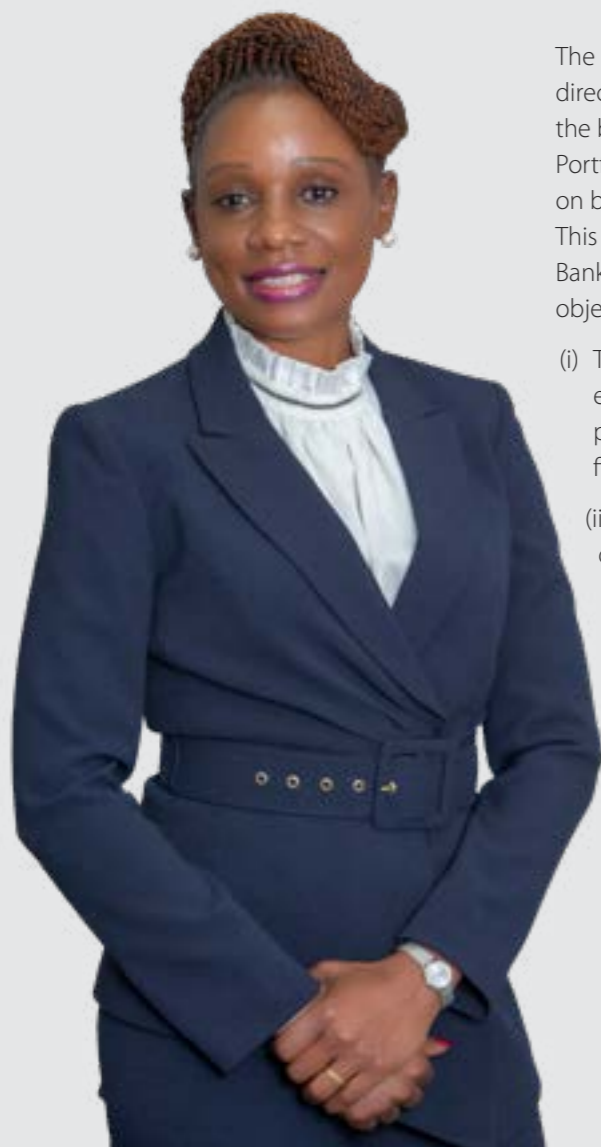
During the period under review, the Directorate oversaw the finalization of the upgrade and automation of the credit process within the bank using Credit Quest system. The system which was officially re-launched on 1st July 2018 aims at improving bank's service delivery to its customer by providing a complete solution for managing, reviewing and analyzing credit application.

Outlook for 2019

The Directorate will continue working with Local Government Authority (LGA)/Water utilities/ Government entities and the private sector in securing bankable projects for the bank to fund.

In 2019, the directorate will work with other directorates to oversee the re-engineering of the whole credit process of the bank with the aim of removing bottlenecks, duplications of procedures and improve overall customer service delivery.

Directorate of Managed Funds



Ms. Lilian M. Mbassy
Director - Managed Funds

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.

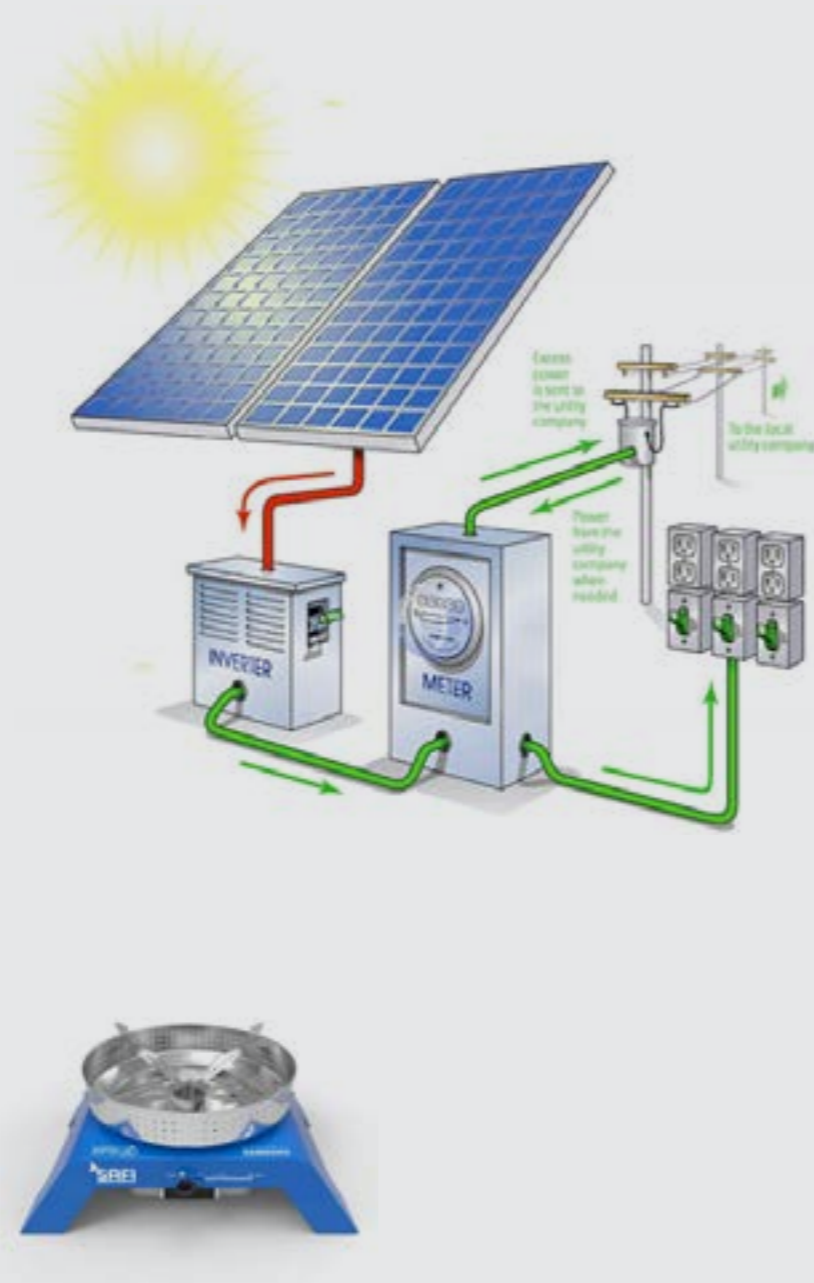
Administration of the
Rural Energy Funds
TZS 569.4
billion

ACHIEVEMENTS 2018		SN	PROJECT NAME	NAME OF FUND OWNER	SIZE OF FUND	BALANCE
(i)	The portfolio position stood at TZS 136.4 billion	1	Administration of the Rural Energy Funds	Rural Energy Agency (REA) in Tanzania	TZS 569.4 billion	NIL
(ii)	Stimulated new products within the bank such as:	2	Administration of Tanzania Energy Development Access Project (TEDAP) Credit Line	World Bank –IDA through Rural Energy Agency (REA).	USD 23.0 million	USD 1.93 million
	1. Expansion of water and sanitation services	3	Administration of Credit Line under Tanzania Rural Electrification Expansion Program (TREP)	World Bank – IDA through Rural Energy Agency (REA).	USD 42.0 million	USD 42 million
	2. Renewable Energy Financing.	4	Agriculture Financing Window Fund	Ministry of Finance and Planning	TZS 42 billion	TZS 47 billion
(iii)	TIB was awarded 3 new Funds to Manage on behalf of the fund owners.	5	Credit Facility and Grants to Small Scale Miners in Tanzania	Ministry of Minerals and Energy (MEM)	TZS 2.3 billion Credit Line and USD 3.50 million grant	TZS 1.79 billion
(iv)	A cumulative management fee 2009-2018 is TZS 6.4 billion.	6	Result Based Financing (RBF) Fund for Rural Solar Market Development	SNV Netherlands Development Organization.	EUR 2.2 million	EUR 310,597.41
(v)	The Directorate maintained good relationship with fund owners.	7	FLORICULTURE Financing	Bank of Tanzania (BOT)	TZS 48.8 billion	TZS 63.71 billion
(vi)	TIB participated in developmental projects which have direct impact to the Country. The bank has managed 10 Funds in different sectors as follows;	8	Sumbawanga Agricultural And Animal Food Industries Limited (SAAFI)	Bank of Tanzania (BOT)	TZS 14.0 billion	TZS 26 billion
		9	Revolving Fund Scheme for supporting water utilities to expand distribution networks (MUWASA/ BUWASA)	Ministry of Water supported by French Development Agency (AFD)	EUR 2.0 million	EUR 2 million
		10	Promotion of bioethanol as clean alternative cooking fuel in Tanzania	UNIDO	USD 1.1 million	USD 1.1 million

Directorate of Risk and Compliance

OUTLOOK FOR 2019

- (i) Participating in the acceleration in developing the market for Pico-Solar products and Home solar System in isolated rural areas as well as to support private sectors on the delivery of distributed renewable energy systems that provide modern energy services to the off grid areas.
- (ii) Participating in the renewable energy project focused on creating a market-enabling environment for the introduction of bioethanol fuelled 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 predominantly on environmentally damaging charcoal.
- (iii) To be awarded at least two new funds to manage on behalf of the fund owners. This will expand our participation in the developmental projects which have direct impact to the Country and also as additional income to the bank.



Mr. Kulwa S. Deteba
Director - Risk and Compliance

The operations of the bank in the country are regulated and supervised by Bank of Tanzania. Regulations focus on licensing, capital adequacy, liquidity, risk concentration, conduct of business as well as organizational and reporting requirements.

In year 2018, the bank went through a critical transition period prepared itself for delivering on both public and private projects focusing on industrialization, general manufacturing, infrastructure, mining, services, oil and gas, but still experienced challenges in its loan portfolio quality and liquidity.

The Directorate continued to advise and supporting the Senior Management and the Board concerning the adherence to regulations, policies and procedures as well as provide a strategic and forward-looking perspective on the key risk issues for informed decision at senior management and the Board. Training of staff on credit risk assessment, project financing, strengthening loan monitoring and loan recovery while fostering the implementation of consistent risk management standards.

The regulations and the diversity of our business model require us to identify, assess, measure, monitor and manage risks. Cross-risk analysis reviews are conducted across the bank to validate that sound risk management practices. All material risk types, including credit risk, market risk, operational risk, liquidity risk, compliance risk and reputational risk, are being managed via risk management processes.

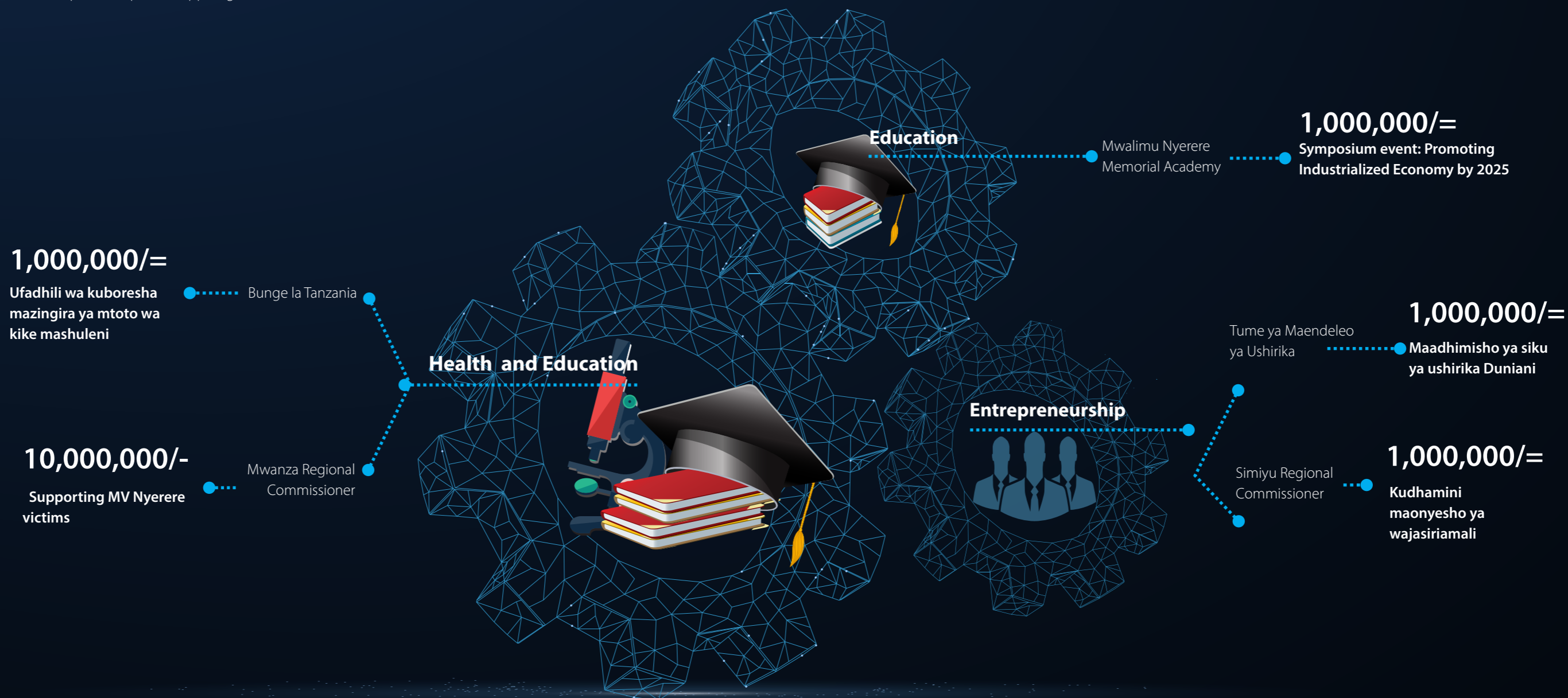
Senior Management and the Board are provided with detailed analysis of the bank's portfolio and comprehensive assessment of its overall risk profile to serve as guide in both operational and strategic decisions.

In year 2019 the Directorate mandates is to Identify risks proactively before they impact the business, create a more risk aware culture, establish cross-functional communication/visibility, systematically quantify risks providing an appreciation of potential impacts, take advantage of opportunities to increase value and manage exposure.

List Of Supported Corporate Social Responsibility Projects – 2018

In 2018 TIB spent a total of TZS 14,000,000/- for implementing Corporate Social Responsibility obligations to the community.

Below is the list of sponsorships and support given in 2018:



DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 2018

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 2018 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 Board of Directors 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 31st Dec 2018 were authorised for issue on 22nd May 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.

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 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 01st May 2016 while other Board members were appointed on 5th July 2016.

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 Oct 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, 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 fifteen (15) times during the year 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, 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		15	6	7	4
1	Dr. Maria S. H.Mashingo	2	-	-	-
2	Mr. Maduka P. Kessy	10	5	5	-
3	Dr. Said S. Mzee	12	-	7	3
4	Dr. Arnold M. Kihale	11	5	2	4
5	Ms. Rose J. Aiko	9	6	5	2
6	Brig. Gen (rtd) Mabula B. Mashauri	15	-	1	1
7	Prof. Razack B. Lokina	10	3	3	1
8	Mr. Charles G. Singili	14	6	6	2

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.

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. Kihale	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 5 times 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	Qualifications
Brig. Gen. (rtd) Mabula B. Mashauri	Chairman	Tanzanian	BSc Engineering; Registered Engineer
Dr. Arnold M. Kihale	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 8 times and deliberated on staff recruitments and placements as well as policy matters.

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	Qualifications
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 6 times during the year 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 216 million (2017: TZS 243 million). The Bank (DFI) paid TZS 106 million (2017: TZS 94 million).

Other Board expenses as well as compensation of management are shown on Note 37 of the financial statements.

10. CAPITAL STRUCTURE AND SHAREHOLDING

Capital structure

The Bank's capital structure for the year ended 31 December 2018 is shown below.

Table 6: Authorised, called up and fully paid

	2018 TZS 'Million	2017 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) – (2017: 202,137,661 shares @ TZS 1,000).	219,138	202,138

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	2018			2017		
	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	202,127,661	202,128	99.9951
National Insurance Corporation of Tanzania Limited	10,000	10	0.0046	10,000	10	0.0049
	219,137,661	219,138	100.0000	202,137,661	202,138	100.0000

None of the directors hold any share of the Bank.

As at the end of December 2018 the Bank's core capital stood at TZS 79,131 million which was above the regulatory minimum of TZS 50,000 million. However, the ratio of core capital to total risk weighted assets was 12% 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.

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. The bank received an additional capital of TZS 17,000 million during the year in line with the Government's plan to appropriately capitalise the bank.

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 2018, 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 departments 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. During the year the Board resolved to make changes in the Management team of the Bank by recruiting a new team. The recruitment process is now completed and some members have reported to work. The new team is expected to turn around the bank operations and improve profitability.

Internal Audit

The Bank has an independent internal audit department headed by the Chief Internal Auditor 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 loss of TZS 8,158 million before tax which is lower than a loss of TZS 29,602 million recorded in 2017. On the other hands the Group assets fell to TZS 955,772 million compared to TZS 958,675 million in 2017.

The performance of the Bank (DFI) shows that there was a profit of TZS 570 million before tax compared to a loss of TZS 20,921 million recorded in year 2017. The results have been largely driven by decrease in impairment provisions.

During the year, the Bank experienced balance sheet shrinkage whereby total assets decreased to TZS 670,490 million from TZS 760,741 million recorded in 2017.

Table 8: Summary of Performance (TZS Millions)

	GROUP			BANK		
	2018	2017	Change	2018	2017	Change
Net Interest income	65,913	59,754	10%	53,840	48,474	11%
Non-interest income	10,780	10,285	4%	4,444	4,700	-5%
Impairment provisions	(35,787)	(49,282)	-27%	(32,182)	(47,182)	-32%
Operating expenses	(48,985)	(50,359)	-3%	(25,532)	(26,913)	-17%
Profit(Loss) Before Tax	(8,158)	(29,602)	-72%	570	(20,921)	-97%
Cash, Bank, Money market investments	166,055	211,805	-22%	36,486	135,177	-73%
Loans	684,105	671,914	2%	501,409	537,819	-7%
Other Assets	105,612	74,956	42%	132,595	87,745	51%
Total Assets	955,772	958,675	0%	670,490	760,741	-12%
Deposits	648,803	639,209	2%	360,254	442,828	-19%
Long Term Borrowing	66,030	73,785	-11%	66,030	73,785	-11%
Other Liabilities	27,644	12,380	123%	23,115	13,301	74%
Shareholders' fund	213,295	233,301	-8%	221,091	230,827	-3%
Total Liabilities and Capital	955,772	958,675	0%	670,490	760,741	-12%

Detailed information on the financial performance is contained on pages 23 to 27 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 nonperforming 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.

The key performance ratios of the Bank are indicated hereunder:

Table 9: Key Performance Indicators

Indicator	GROUP			BANK		
	2018	2017	Change	2018	2017	Change
Return on Assets	-0.9%	-3.1%	-83.0%	0.1%	-2.7%	-119.4%
Return on Equity	-3.8%	-12.7%	-74.1%	0.3%	-2.8%	-120.2%
Non-interest income to Gross income	8.8%	8.0%	10.7%	4.7%	4.6%	2.5%
Interest Expense to Interest Income	40.7%	49.4%	-17.7%	40.7%	50.8%	-19.9%
Operating expenses to gross income	37.6%	39.2%	-3.9%	23.5%	26.1%	-9.8%
Non-interest expense to gross income	67.0%	77.6%	-13.6%	57.3%	71.8%	-20.2%
Non-performing loans to total advances	36.2%	31.6%	4.6%	40.6%	37.5%	3.1%
Loans to total assets	67.8%	70.1%	-2.3%	74.8%	70.7%	4.1%
Growth of Loans and Advances	1.8%	-10.0%	-8.2%	-6.8%	-16.2%	-9.4%
Growth of Assets	-0.3%	0.3%	-0.1%	-11.9%	-6.3%	-18.2%
Tier 1 Capital	7.2%	5.1%	2.3%	12.0%	11.7%	0.3%

14. THE FINANCIAL POSITION

The financial position of the Group shows that total assets declined slightly to TZS 957,069 million from TZS 958,675 million in 2017.

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. Mobilization of short term deposits by the subsidiary company (TIB CBL) will continue to fund the short term assets created by the subsidiary.

Liquidity Management

The Group places very high importance in liquidity management and details on liquidity risk management are covered under Note 41.

16. MARKET OVERVIEW

The operating environment remained challenging during the year but provided opportunities for growth to the Bank.

According to the Bank of Tanzania's Monetary Policy Statement issued in June 2019 the economy continued to perform strongly, with real gross domestic product (GDP) growing at 7.0 percent in 2018 compared with 6.8 percent and 6.9 percent in 2017 and 2016, respectively.

The strong growth was underpinned by continued public investment in social and physical infrastructure, combined with stability of power supply, good weather and accommodative monetary policy. Activities that mostly contributed to output growth were construction, transport and storage; crops and manufacturing. The economy is expected to remain strong in 2019, growing at 7.1 percent in the wake of ongoing public investment in social and physical infrastructure, improving power supply, expansion of credit to the private sector, and enhanced capacity utilization in manufacturing industry. The high growth will also be reinforced by private sector investment owing to ongoing rationalization of laws and regulations, policy reforms in creating enabling environment and transparency in doing business, as well as implementation of industrialization strategy.

Headline and core inflation remained low and stable, within country medium-term target of 5.0 percent and EAC and SADC benchmarks of not more than 8.0 percent and between 3.0 and 7.0 percent, respectively. This development was mostly contributed by low domestic food prices, coupled with prudent monetary and fiscal policies and stability of domestic power supply. In particular, annual headline inflation averaged 3.2 percent during the period from July 2018 to April 2019, lower than 4.5 percent recorded in the corresponding period of 2017/18. Core inflation—inflation that

excludes food and energy—averaged 2.7 percent compared with 1.6 percent. The headline inflation is projected to remain below the medium-term target of 5.0 percent in 2019/20, driven by expected adequate food supply, sustained stable power supply and prudence in monetary and fiscal policies.

The performance of the banking sector was satisfactory, with levels of capital and liquidity remaining above regulatory requirements. The ratio of core capital to total risk weighted assets and off-balance sheet exposures was 17.0 percent at the end of April 2019, compared with the minimum legal requirement of 10.0 percent, while that of liquid assets to demand liabilities was 33.6 percent, compared to the minimum regulatory requirement of 20.0 percent. Banks' asset quality improved with non-performing loans (NPLs) ratio declined slightly to 11.1 percent in April 2019 from 11.6 in April 2018. The ratio was above the desired level of not more than 5.0 percent. The Bank continues to take measures to ensure low NPLs. The measures include targeted supervision of banks, directives to banks and financial institutions to ensure usage of credit reference system and improve credit assessment of borrowers by considering changes in both micro and macroeconomic factors. In addition, sensitization of stakeholders about credit information sharing and its importance in lending and financial planning which was launched on 6th February 2019 would improve borrowing behaviour and subsequently increase credit to the private sector and reduce lending rates.

17. FUTURE DEVELOPMENT PLANS

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

DIRECTORS' REPORT

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.

18. RESULTS AND DIVIDEND

During the year 2018, the Group recorded a loss after tax of TZS 7,245 million (2017: loss of TZS 18,200 million). The Bank's operations recorded a profit after tax of TZS 544 million (2017: loss of TZS 12,010 million). The Board of Directors does not recommend payment of dividend for the year ended 31 December 2018 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.

19. 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 41 of the accounts.

20. 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. The Board assessed the internal control systems throughout the financial year ended 31 December 2018 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.

21. 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 412 million compared to TZS 762 million in 2017. These fees are part of the Fees and commissions income shown in Note 8.

Details on the managed funds are included in Note 43.

22. SERIOUS PREJUDICIAL MATTER

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

23. 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.

24. 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.

25. 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.

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 397 million (Group TZS 655 million) to train staff on various programs compared to TZS 369 million spent in 2017 (Group TZS 642 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 confirmed 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 38. The Group also pays contributions to publicly administered pension plans on a mandatory basis which qualifies as a defined contribution plan. The number of employees for the Group at the end of the year was 285 (2017: 257 employees) while that for the Bank was 153 (2017:137 employees).

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 2018.

26. 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 2018 the Bank had the following distribution of employees by gender.

Table 10: Gender Parity

Gender	GROUP		BANK (DFI)	
	2018	2017	2018	2017
Male	174	154	99	88
Female	111	103	54	49
Total	285	257	153	137

27. RELATED PARTY TRANSACTIONS

Transactions with related parties during the year as well as balances outstanding from those transactions as at 31 December 2018 are disclosed in Note 37 to the financial statements.

28. POLITICAL AND CHARITABLE DONATIONS

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

29. 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.

30. 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 41.

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.

31. 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, selfsufficiency 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 19 million (2017: TZS 6 million).

32. 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.

33. EVENTS AFTER REPORTING DATE

There are no events after the reporting period which warrant reporting.

34. 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 2018.

Signed by:

Mr. Doto James

Permanent Secretary - Treasury

22/05/2020

Mr. Charles G. Singili

Managing Director

22/05/2020

Here's to Powering a Brighter Future

*“the transaction with TIB
has been the stimulus that
will change the future of the
Power sector in Tanzania”*



STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, 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 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 as well as 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 a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

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 on 22/12/2018 and signed by:

Mr. Doto James

Permanent Secretary - Treasury

22/12/2018

Mr. Charles G. Singili

Managing Director

22/12/2018

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 **Mwasam 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 2018 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: **Mwasam S. Suleiman**
Position: Director of Finance

NBAA Membership No.: **ACPA 3654**

Date: 22/12/2018 2018

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 23 to 103 which comprise the consolidated and separate statement of financial position as at 31 December 2018, 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 statement of cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In my opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of TIB Development Bank Limited as at 31 December 2018, 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 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.

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.

The key audit matter	How the matter was addressed in our audit
Impairment loss on loans and advances to customers Refer to Note 5 (K) and Note 21.	
<p>Consolidated loans and advances to customers amounted to TZS 849,218 million as at 31 December 2018 (TZS 751,572 million at 31 December 2017), and the consolidated total impairment allowance amounted to TZS 163,877 million as at 31 December 2018 (TZS 78,315 million at 31 December 2017).</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.</p> <p>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. <p>Management has provided further information about the loans and advances impairment charges in note 5(K) and note 20 to the financial statements.</p>	<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 processes and whether these were effectively complied with during the period under audit. • Performing procedures to evidence existence of customers. Procedures included circularization of balances and / or review of customer correspondences and security files. Obtaining an understanding and reviewing the management methodology for identifying non-performing loans. • Reviewing the management model used to determine the impairment amount. This included challenging reasonability of management assumptions through among others performing retrospective review of prior year assumptions. • For specific allowances, independently assessing the appropriateness of provisioning methodologies and policies for a sample of loans across the portfolio selected on the basis of risk. An independent view was formed on the levels of provisions booked based on the detailed loan and counterparty information in the credit file. Calculations within a sample of discounted cash flow models were performed. • 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.

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. The other information 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 16, the directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

Auditors' 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

In addition, according to section 9 of the Public Audit Act, 2008, my specific responsibilities are to examine, enquire into, audit and report on the consolidated and separate financial statements of TIB Development Bank Limited for the year ended 31 December 2018. Section 10 (2) of the Public Audit Act, 2008 requires me to satisfy myself that the consolidated and separate financial statements have been kept in accordance with the generally accepted accounting principles; 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 law, directions

and instructions applicable thereto have been duly observed, expenditures of public monies have been properly authorised; and to satisfy myself whether the funds generated by the Group and Bank were used exclusively and judiciously to meet eligible expenditure with due regard to economy and efficiency.

Further, section 48 (3) of the Public Procurement Act, 2011 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.

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

- 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 true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the Group 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. I describe these matters in my auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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:

- Based on my audit, and as included in Note 36 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 (Development Finance Regulation, 2011). The Bank's ratios of Core and total capital to risk weighted assets amounted to 13% 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



CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	GROUP		BANK	
		2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Interest and similar income	6	111,082	118,115	90,799	98,520
Interest and similar expense	7	(45,169)	(58,361)	(36,959)	(50,046)
Net interest income		65,913	59,754	53,840	48,474
Impairment losses on loans and advances	21	(35,787)	(49,282)	(32,182)	(47,182)
Net operating income after loan impairment		30,126	10,472	21,658	1,292
Fees, commissions and other income	8	6,170	7,233	1,553	2,897
Net fees, commissions and other income		6,170	7,233	1,553	2,897
Foreign currency dealing and exchange income	9	2,124	1,726	405	596
Loss/Gains on value of shares and investments	10	(79)	119	-	-
Recoveries on charged off loans	11	2,486	1,207	2,486	1,207
Total operating income		40,827	20,757	26,102	5,992
Personnel expenses	12	(26,818)	(26,852)	(13,799)	(13,443)
Occupancy expenses	13	(5,110)	(6,081)	(1,955)	(2,403)
General and administration expenses	14	(14,711)	(14,983)	(9,131)	(10,263)
Depreciation of property and equipment	26	(1,523)	(1,576)	(568)	(648)
Amortization of leasehold improvements	27	(611)	(624)	(19)	(36)
Amortization of intangible assets	28	(212)	(243)	(60)	(120)
Total operating expenses		(48,985)	(50,359)	(25,532)	(26,913)
Profit(Loss) before tax		(8,158)	(29,602)	570	(20,921)
Income tax (expense)/credit	29	913	11,402	(1,114)	8,911
Profit(Loss) for the year		(7,245)	(18,200)	(544)	(12,010)
Other comprehensive income					
Re-measurement (losses) / gains on employment benefit obligations	38	1,332	(253)	1,413	(578)
Revaluation Surplus		77	-	-	-
Valuation of Investments	23	(77)	(6,148)	(23)	(6,158)
Income tax effect		(400)	1,920	(417)	2,021
Other comprehensive income, net of tax		932	(4,481)	973	(4,715)
Total comprehensive income for the year		(6,313)	(22,681)	429	(16,725)

The Notes on pages 78 to 160 form an integral part of these financial statements. Auditors' report is on pages 66 to 70

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Notes	GROUP		BANK	
		2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Assets					
Cash and balances with Bank of Tanzania	15	92,931	99,289	108	50,000
Balance with other banks	16	5,075	3,479	423	670
Placements with other banks	17	10,117	54,956	2,611	48,133
Financial investment held for trading	18	365	1,894	-	-
Investment securities measured at amortized cost	19	57,568	52,187	33,344	36,374
Loans and advances	21	684,105	671,914	501,409	537,819
Accounts receivable and Prepayments	22	11,956	5,008	10,478	3,616
Investment securities designated at FVOCI Equity investment	23	16,980	15,707	16,459	15,638
Investment in subsidiary	24	-	-	39,251	22,251
Investment property	25	22,160	22,160	22,160	22,160
Property and equipment	26	3,479	3,459	700	1,146
Leasehold improvements	27	1,341	2,036	68	87
Intangible assets	28	1,431	517	59	119
Tax recoverable	29	-	1,573	-	740
Deferred tax asset	29	48,264	24,496	43,421	21,988
Total assets		955,772	958,675	670,491	760,741
Liabilities and equity					
Deposits	30	648,803	639,209	360,254	442,828
Payables and Accruals	31	10,486	6,232	7,027	8,518
Deferred Income	32	1,475	1,457	912	1,044
Long-term Borrowing	33	66,030	73,785	66,031	73,785
Government Grants	34	487	467	219	418
Tax Payable	29	11,453	-	12,330	-
Employment benefit liabilities	38	3,743	4,224	2,627	3,321
Total liabilities		742,477	725,374	449,400	529,914

CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

(Continued)

	Notes	GROUP		BANK	
		2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Shareholders' equity					
Share capital	35	219,138	202,138	219,138	202,138
Advance towards share capital		5,281	5,281	5,281	5,281
Retained earnings		(108,895)	(100,769)	(95,319)	(99,512)
Non distributable reserve		87,166	116,468	82,611	113,524
General Reserve		1,213	791	-	-
Fair value and revaluation reserves		2,892	2,892	2,880	2,896
Technical assistance		6,500	6,500	6,500	6,500
Total equity		213,295	233,301	221,091	230,827
Total liabilities and equity		955,772	958,675	670,490	760,741

These financial statements were approved on 22/05/2020 2020 and were signed by:

Mr. Doto James
Permanent Secretary - Treasury

22/05/2020

Mr. Charles G. Singili
Managing Director

22/05/2020

The Notes on pages 78 to 160 form an integral part of these financial statements.
Auditors' report is on pages 66 to 70

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	GROUP							Total	
	Share capital	Retained earnings	Distributable reserve ²	General Reserve	Fair Value Reserve	Asset Revaluation reserve ³	Technical assistance		Advance towards share capital
	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million
2018									
At 01 January	202,138	(100,769)	116,468	791	2,892	-	6,500	5,281	233,301
Impact of initial application of IFRS 9, net of tax (Note 21)	-	(30,694)	-	-	-	-	-	-	(30,694)
Restated Balance at 1 January 2018	202,138	(131,463)	116,468	791	2,892	-	6,500	5,281	202,607
Profit for the year	-	(7,245)	-	-	-	-	-	-	(7,245)
Statutory Reserve Adjustment ¹	-	(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)	-	-	-	-	-	-
As at 31 December	219,138	(108,895)	87,166	1,213	2,838	54	6,500	5,281	213,295
2017									
At 01 January	152,138	(60,893)	94,774	986	7,196	-	6,500	5,281	205,982
Profit for the year	-	(18,200)	-	-	-	-	-	-	(18,200)
Other comprehensive income	50,000	-	-	-	-	-	-	-	50,000
Transfer to Technical Assistance Fund	-	(177)	-	-	(4,304)	-	-	-	(4,481)
Transfer to General reserve	-	195	-	(195)	-	-	-	-	-
Transfer to regulatory reserve	-	(21,694)	21,694	-	-	-	-	-	-
As at 31 December	202,138	(100,769)	116,468	791	2,892	-	6,500	5,281	233,301

¹ 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.

² 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 and is included in calculation of the bank's core capital.

³ Asset revaluation reserve relates to TIB Rasilmali, a subsidiary.

The Notes on pages 78 to 160 form an integral part of these financial statements. Auditors' report is on pages 66-70.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

	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
2018								
At 01 January	202,138	(99,512)	113,524	2,896	-	6,500	5,281	230,827
Impact of initial application of IFRS 9, net of tax (Note 21)	-	(30,371)	-	-	-	-	-	(30,371)
Restated Balance at 1 January 2018	202,138	(129,883)	113,524	2,896	-	6,500	5,281	200,455
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)	-	-	-	-	-
Reserve adjustment	-	-	3,206	-	-	-	-	3,206
At 31 December	219,138	(95,319)	82,611	2,880	2,880	6,500	5,281	221,091
2017								
At 01 January	152,138	(65,836)	92,263	7,207	-	6,500	5,281	197,553
Profit for the year	-	(1,2010)	-	-	-	-	-	(12,010)
Additional Capital	50,000	-	-	-	-	-	-	50,000
Other comprehensive income	-	(405)	-	(4,311)	-	-	-	(4,716)
Transfer to regulatory reserve	-	(21,261)	21,261	-	-	-	-	-
At 31 December	202,138	(99,512)	113,524	2,896	2,896	6,500	5,281	230,827

*During the year the Bank received additional capital from the Treasury Registrar and the same amount invested in TIB Corporate Bank Limited, a subsidiary

The Notes on pages 78 to 160 form an integral part of these financial statements. Auditors' report is on pages 66-70.

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	GROUP		BANK	
		2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Cash flow from operating activities					
Interest receipt	39	43,690	87,874	24,253	69,652
Interest payments	39	(33,861)	(66,048)	(24,345)	(59,490)
Proceeds from commissions and other income	39	1,323	9,784	(2,910)	3,441
Payments to employees and suppliers	39	(72,907)	(61,088)	(26,469)	(34,319)
Dividends received		297	202	218	86
Income tax paid	29	(43)	(22)	-	(2)
(Investments)/Repayments on longer placements		(4,757)	20,090	(61)	20
Net payments on statutory minimum reserve		(8,853)	1,446	-	-
(Investments)/Repayments on loans and advances	39	(20,696)	66,940	24,803	94,648
(Investments)/Repayments on debt securities		(4,154)	24,779	3,030	16,363
Proceeds (repayment) of deposits		21,016	(42,465)	(85,755)	(70,180)
Net cash flow generated from operations		(78,945)	41,492	(87,236)	20,219
Cash flow from investing activities					
Purchases of equipment	26	(1,476)	(640)	(122)	(21)
Additional leasehold improvements	27	(4)	(190)	-	-
Purchases of intangible assets	28	(921)	(314)	-	(16)
Increase in financial assets held for trading		1,446	810	-	-
Net cash flow used in investing activities		(955)	(334)	(122)	(37)
Cash flow from financing activities					
Proceeds from long term borrowing	33	-	5,593	-	5,593
Repayments of long term borrowing	33	(10,725)	(4,474)	(10,724)	(4,474)
(Additional)/disposal of available for sale investments		(500)	28	-	-
Capital Injection		17,000	50,000	-	50,000
Net cash flow from financing activities		5,775	51,147	(10,724)	51,119
Net Increase in cash and cash equivalents		(74,125)	92,305	(98,082)	71,301
Cash and cash equivalents					
At the beginning of the year		145,864	53,559	101,264	29,963
At the end of the year	20	71,739	145,864	3,182	101,264

The Notes on pages 78 to 160 form an integral part of these financial statements.
Auditors' report is on pages 66-70.



A Presence of Strength

And it is this strength that fuels our nation's drive to grow

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 6. This is the first set of the Group and Bank's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. 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 are 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.

(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:

- Note 42 – Leases: whether an arrangement contains a lease

(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 2018 is included in the following notes:

- Note 5(K) (viii) - impairment of financial assets
- Note 18, Note 23 and Note 40- determination of fair value of financial instruments
- Note 21 – impairment test: key assumptions underlying recoverable amounts;
- Note 29 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used;
- Note 38 – measurement of employment benefit obligation; key actuarial assumptions;
- Note 42 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Bank has initially applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

Due to the transition methods chosen by the Bank in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards. The effect of initially applying these standards is mainly attributed to an increase in impairment losses recognised on financial assets. There was no material impact on the Bank's financial statements following the application of IFRS 15.

i. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Bank has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information. There was no material impact on the Bank's statement of financial position as at 31 December 2018 and its statement of profit or loss and OCI and statement of cash flows for the year then ended for each of the revenue line items affected.

ii. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Bank has been presenting impairment of loans and advances (being the most significant financial asset) in a separate line item in the statement of profit or loss and OCI. Impairment losses on other financial assets such as trade receivables are presented under 'other operating expenses', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and OCI due to materiality considerations.

Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to 2018 disclosures but have not been generally applied to comparative information.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings (for a description of the transition method, see Note 21).

	Impact of adopting IFRS 9 on opening balance	
	Group	Bank
	TZS Million	TZS Million
Retained earnings	(107,598)	(99,319)
Recognition of expected credit losses under IFRS 9	(43,848)	(43,387)
Related tax	13,155	13,016
Impact at 1 January 2018	(138,291)	(129,690)

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Bank's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments, see). For an explanation of how the Bank classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 5(k).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Bank's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

	Original classification Under IAS 39	New classification Under IFRS 9	Original carrying amount under IAS 39 TZS Million	New carrying amount under IFRS 9 TZS Million
Group				
Financial assets				
Cash and balances with Bank of Tanzania	Amortised cost	Amortised cost	99,289	99,289
Balances with other banks	Amortised cost	Amortised cost	3,479	3,479
Placements with other banks	Amortised cost	Amortised cost	54,956	54,956
Financial investment held for trading	Fair value through profit or loss	Fair value through profit or loss	1,894	1,894
Investment securities	FVOCI	FVOCI	52,187	52,187
Loans and advances	Amortised cost	Amortised cost	671,914	715,762
Equity investment	FVOCI	FVOCI	15,707	15,707
Total financial assets			899,426	867,285

	Original classification Under IAS 39	New classification Under IFRS 9	Original carrying amount under IAS 39 TZS Million	New carrying amount under IFRS 9 TZS Million
Bank				
Financial assets				
Cash and balances with Bank of Tanzania	Amortised cost	Amortised cost	50,000	50,000
Balances with other banks	Amortised cost	Amortised cost	670	670
Placements with other banks	Amortised cost	Amortised cost	48,133	48,133
Investment securities	FVOCI	FVOCI	36,374	36,374
Loans and advances	Amortised cost	Amortised cost	537,819	581,206
Equity investment	FVOCI	FVOCI	15,638	15,638
Total financial assets			688,634	732,021

(a) The debt securities categorised as available-for-sale under IAS 39 are held by the Bank's to provide interest income, but may be sold to meet liquidity requirements arising in the normal course of business. The Bank considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities.

The corporate debt securities mature in one to two years and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI under IFRS 9. On transition to IFRS 9, assessment was made and the impact was noted be to insignificant for the purpose of the financial statements as of 31 Dec 2018 in the retained earning balances.

(b) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No increase in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

(c) Cash and cash equivalent that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No increase in the allowance for impairment over cash and cash equivalent was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

(d) Loans and advances to banks that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No increase in the allowance for impairment over cash and cash equivalent was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

(e) Loans and advances to customers that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of TZS 43,387 million in the allowance for impairment over loans and advances to customers was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

Group	IAS 39 carrying amount at 31 December 2017 TZS Millions	Remeasurement TZS Millions	IFRS 9 carrying amount at 1 January 2018 TZS Millions
Group			
Financial assets			
Amortised cost			
Loans and advances: (to banks and customers)			
Brought forward_ Held to maturity	716,914	-	-
Re-measurement	-	(43,848)	-
Carried forward: Amortised cost	-	-	673,066
Total amortised cost	716,914	(43,848)	673,066
Bank			
Financial assets			
Amortised cost			
Loans and advances: (to banks and customers)			
Brought forward_ Held to maturity	582,343	-	-
Re-measurement	-	(43,387)	-
Carried forward: Amortised cost	-	-	538,956
Total amortised cost	582,343	(43,387)	538,956

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39, see Note 5(k). For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

	TZS Millions
Group	
Loss allowance at 31 December 2017 under IAS 39	85,058
Additional impairment recognised at 1 January 2018 on: Loans and advances to customers	43,848
Loss allowance at 1 January 2018 under IFRS9	128,906
Bank	
Loss allowance at 31 December 2017 under IAS	39 75,937
Additional impairment recognised at 1 January 2018 on: Loans and advances to customers	43,387
Loss allowance at 1 January 2018 under IFRS9	119,324

iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Bank has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Bank's financial statements in the period of initial application should the leases be renewed.

A. IFRS 16 Leases

The Bank is required to adopt IFRS 16 Leases from 1 January 2019. The Bank has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of lowvalue items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

i. Leases in which the Bank is a lessee

The Bank will need to recognise new assets and liabilities for its operating leases of office space. The nature of expenses related to those leases will now change because the Bank will be required to recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between

actual lease payments and the expense recognised. In addition, any the payments due under an operating lease will be included in lease liability. No significant impact is expected for the Bank's finance leases.

The bank is currently performing an assessment on the impact that IFRS 16 will have on its financial statements as the time of its initial application, this also includes assessing whether the lease arrangements will be renewed.

ii. Transition

The Bank plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Bank plans to apply IFRS 16 to all long term contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

B. Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

- IFRIC 23 Uncertainty over Tax Treatments, effective from 1 January 2019
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28), effective from 1 January 2019
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19), effective from 1 January 2019
- Amendments to References to Conceptual Framework in IFRS Standards, effective from 1 January 2020
- IFRS 17 Insurance Contracts, effective from 1 January 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Net interest income

Policy applicable from 1 January 2018

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 (or impairment allowance before 1 January 2018).

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).

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.

Policy applicable before 1 January 2018

Net interest income

The Group recognizes interest income and expenses for financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

In 2018, the Group and Bank adopted IFRS 15 Revenue from contracts with Customers. 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.

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

Policy applicable from 1 January 2018

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

Policy applicable before 1 January 2018

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

Policy applicable from 1 January 2018

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.

From 1 January 2018, 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 Parastatal Pensions Fund (PPF), Public Service Pensions Fund (PSPF), the National Social Security Fund (NSSF) and Local Authority Pensions Fund (LAPF). The Bank contributes 15% of basic salary for each employee who is a member of PPF, PSPF, LAPF and 10% of gross salary for each employee who is a member of NSSF, while the employees contribute 5% and 10% respectively.

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.

• **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. Remeasurements 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.

(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.

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.

(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 determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Payments made under operating leases are recognised in profit or loss on straight line basis over the term of the lease.

(i) 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.

(ii) 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.

(iii) 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

(I) 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.

• 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.

(J) 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.

(K) Financial instruments

Policy applicable from 1 January 2018

IFRS 9 Financial Instruments (IFRS 9) has been adopted by the Group and Bank on 1 January 2018, and replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). As permitted under IFRS 9, the Group and Bank has elected not to restate comparative periods on the basis that it is not possible to do so without the application of hindsight. The comparative financial information for the 2017 reporting period has therefore been prepared under the framework for financial instrument accounting within IAS 39. The following section sets out the accounting policies that were applied in the 2017 reporting period (2017), together with those that are applied under IFRS 9 (2018). Significant changes have been made to certain accounting policies, owing to the revised classification and measurement framework for financial instruments, as well as changes in the impairment scope and methodology. Where there have been changes in accounting policies, those applied in 2017 have been clearly distinguished from the current reporting period.

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;
- 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.

(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.

Financial assets – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
 - held-for-trading; or
 - designated as at FVTPL.

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 amount 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.

From 1 January 2018 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

Policy applicable from 1 January 2018

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.

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.

Policy applicable from 1 January 2018

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 nonperformance risk.

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.

(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.

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 a 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.

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 'impairment losses on financial instruments' 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.

(ix) Loans and advances

Policy applicable from 1 January 2018

'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.

Policy applicable before 1 January 2018

'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.

Loans and advances to banks were classified as loans and receivables. Loans and advances to customers included:

- those classified as loans and receivables;
- those designated as at FVTPL; and

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Group chose to designate the loans and advances as measured at FVTPL, they were measured at fair value with face value changes recognised immediately in profit or loss.

Loans and advances also included finance lease receivables in which the Group was the lessor.

(x) Investment securities

Policy applicable from 1 January 2018

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.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

i. Held-to-maturity

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent

and ability to hold to maturity, and which are not designated as at FVTPL or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- Sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

i. Fair value through profit or loss

The Group designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

ii. Available-for-sale

'Available-for-sale investments' are non-derivative investments that are designated as available for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend.

Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(L) 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.

(M) 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.

(N) 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.

(O) 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.
- 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.

(P) 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 reserves when they are declared. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(Q) 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.

(R) 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.

(S) Available for sale reserve

This reserve comprises the cumulative net change in the fair value of available for sale financial assets till the assets are derecognised or impaired.

(T) 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.

Progress

The only time you should ever look back is to see how far you've come.

IAN KNABEL



	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
6. INTEREST AND SIMILAR INCOME				
Loans and advances	103,167	107,296	85,406	90,287
Government/Corporate securities - held to maturity	6,550	8,417	5,093	6,191
Placements	1,365	2,402	300	2,042
	111,082	118,115	90,799	98,520
7. INTEREST AND SIMILAR EXPENSE				
Fixed deposits	27,134	37,237	19,890	31,506
Savings deposits	1,828	590	-	-
Notice accounts and borrowing	16,207	20,534	17,069	18,540
	45,169	58,361	36,959	50,046
8. FEES, COMMISSIONS AND OTHER INCOME				
Loans appraisal fee	2,013	1,649	372	856
SAAFI Administration fee	111	243	111	243
Income from Insurance brokerage	158	131	158	131
Commission on TEDAP	51	53	51	53
Fees from Flower Projects	92	166	92	166
Fees income from Commodity Import Support	42	85	42	85
Agency fees from Agricultural Window	16	4	16	4
Results Based Management fee	100	142	100	142
Fees income from THB liquidation	-	69	-	69
Rental income	27	30	27	30
Write back over-accrued expenses	92	607	-	491
Restructuring fees on loans	4	45	4	45
Income From Grants	411	368	199	199
Dividend Income	297	202	218	86
TISS charges	93	82	-	-
Teller charges and commissions	608	707	-	-
Cash withdrawal charges	323	336	-	-
LC Commissions and collections	1,143	960	-	-
Guarantees commissions	133	207	133	207
ATM commission	38	32	-	-
Recovery from bad debtors	-	11	-	11
Dealing and Agency Commissions	373	898	-	-
Professional Fees	4	-	-	-

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
8. FEES, COMMISSIONS AND OTHER INCOME (Continued)				
	6,222	7,261	1,553	2,897
Collection Commissions and charges	(52)	(28)	-	-
Net Fees, Commissions and Other income	6,170	7,233	1,553	2,897
9. FOREIGN CURRENCY DEALING AND EXCHANGE INCOME				
Foreign currency dealing (buying and selling of forex)	2,124	1,726	405	596
	2,124	1,726	405	596
10. GAINS ON VALUE OF SHARES AND INVESTMENTS				
(Loss) Gain on Fair value of shares	(79)	119	-	-
	(79)	119	-	-
11. RECOVERIES FROM CHARGED OFF LOANS				
Recoveries from charged off loans	2,486	1,207	2,486	1,207
	2,486	1,207	2,486	1,207
12. PERSONNEL EXPENSES				
Wages and salaries	18,392	17,837	9,091	8,859
Social security costs	2,463	2,422	1,286	1,293
Skills and Development levy	913	944	463	488
Sub-total	21,768	21,203	10,840	10,640
Training cost	655	642	397	369
Staff passage and leave allowances	1,494	1,498	769	439
Staff medical insurance	979	908	520	481
Staff terminal benefit	33	125	-	108
Staff transfer/1st appointments	252	281	217	147
Office sundries	193	196	129	111
Employment benefits	1,183	1,690	848	1,006
Staff loan fair valuation expenses	128	232	26	141
Other employment costs	133	77	53	1
Sub-total	5,050	5,649	2,959	2,803
Total	26,818	26,852	13,799	13,443

The number of employees at the end of the year for the Group was 285 (2017:257) while that for the bank was 153 (2017:137)

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
13. OCCUPANCY EXPENSES				
Rent for Office premises	3,763	4,815	1,400	1,816
Repairs and maintenance bank premises and residential	580	595	307	324
Repairs and maintenance office Machine and automations	38	38	4	5
Repairs and maintenance office furniture & Equipment	346	210	34	25
Water and light	382	400	209	212
Insurance premium on furniture and equipment	1	10	1	8
Other occupancy cost (land rent)	-	13	-	13
	5,110	6,081	1,955	2,403
14. GENERAL AND ADMINISTRATION EXPENSES				
Auditors' remuneration	369	372	233	240
Directors' emoluments	216	243	106	94
Board of Directors expenses	306	371	160	169
Correspondent Bank and SWIFT Charges	129	117	7	9
Communication costs	739	725	306	335
Travelling and accommodation	969	458	784	310
Local authority service charges	123	84	85	57
Insurance cost	1,084	1,348	533	799
Marketing and advertising cost	1,033	654	264	180
Grant expenses	-	-	-	671
Printing, consumables and stationeries	329	367	173	176
Repairs and fuel motor vehicles	1,207	1,113	329	297
Security cost	655	649	176	161
Umoja switch expenses	129	196	-	-
System management fees and license	1,006	829	386	301
Consultancy expenses	431	829	321	650
Regional integration costs	-	52	-	52
Subscription and contribution	130	148	85	98
Provisions on sundry receivables	134	4,387	134	4,407
TUICO and Workers council expenses	15	19	5	3
Borrowing costs	735	721	712	595
Excise duty	374	44	370	44
VAT expenses	762	308	762	308

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
14. GENERAL AND ADMINISTRATION EXPENSES (CONTINUED)				
Expenses on loan recovery	1	11	1	11
Loss on disposal of fixed assets	7	18	7	18
Interest and penalty on late filling	3,122	331	3,122	264
Other operating expenses	706	589	70	14
	14,711	14,983	9,131	10,263

15. CASH AND BALANCES WITH BANK OF TANZANIA 2018 2017 2018 2017

	2018	2017	2018	2017
Cash				
Cash in hand-Local currency	2,456	2,865	-	-
Cash in hand-Foreign currency	1,636	1,801	-	-
	4,092	4,666	-	-
Balance with Bank of Tanzania				
Balance in local currency	9,735	50,962	108	50,000
Balance in foreign currency	47,359	20,769	-	-
	57,094	71,731	108	50,000
Statutory Minimum Reserve	31,745	22,892	-	-
	92,931	99,289	108	50,000

16. BALANCE WITH OTHER BANKS

	2018	2017	2018	2017
Balance in local currency	1,120	1,801	282	396
Balance in foreign currency	3,955	1,678	141	274
	5,075	3,479	423	670

17. PLACEMENTS WITH OTHER BANKS

	2018	2017	2018	2017
Maturity period within three months	2,480	53,299	2,541	48,080
Interest receivable within 3 months	2,144	835	10	53
Maturity period of more than three months	5,493	822	61	-
	10,117	54,956	2,611	48,133

18. FINANCIAL INVESTMENT HELD - FOR TRADING

These are shares held by Rasilimali Limited (a subsidiary company) for trading purposes. The market values of respective shares as at 31 December 2018 and 2017 are as hereunder:

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Financial Sector	101	100	-	-
Manufacturing Sector	227	1,595	-	-
Other Sectors	37	199	-	-
	365	1,894	-	-

19. INVESTMENT SECURITIES MEASURED AT AMORTIZED

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
COST				
Treasury bills				
Maturity period within three months	-	11,207	-	2,339
Interest receivable within three months	755	647	-	122
Maturity of over three months	22,565	5,567	-	-
	23,320	17,421	-	2,461
Treasury bonds				
Maturity period within three months	100	-	100	-
Interest receivable over three months	(3)	958	-	961
Maturity period within two years	-	18,224	-	18,224
Maturity period above two years	34,151	15,584	33,244	14,728
	34,248	34,766	33,344	33,913
Total	57,568	52,187	33,344	36,374

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 36,100 billion were pledged as collateral, for short term inter-bank borrowing.

20. CASH AND CASH EQUIVALENTS

	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Cash	4,092	4,666	-	-
Balances with Bank of Tanzania	57,094	71,731	108	50,000
Balance with other banks	5,075	3,479	423	670
Placements with other banks	4,624	54,134	2,551	48,133
Investment securities measured at amortized cost within 3 months	854	11,854	100	2,461
	71,739	145,864	3,182	101,264

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	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions

21. LOANS AND ADVANCES

Advances to customers	743,768	669,081	558,606	540,666
Accrued interest receivable	93,160	71,192	89,678	69,481
	836,928	740,273	648,284	610,147
Less: Allowance for losses on loans and advances Stage 3*	(109,531)	-	(98,963)	-
Stage 2	(50,665)	-	(50,602)	-
Stage 1	(3,681)	-	(1,254)	-
Total allowance for losses on loans and advances	(163,877)	(78,315)	(150,819)	(75,937)
Advances to customers net	673,051	661,958	497,465	534,210
Loans and Advances to staff	12,278	11,287	5,175	4,880
Accrued interest on staff loans	11	12	4	5
Staff loans fair value provisions	(1,235)	(1,343)	(1,235)	(1,276)
Net loans and advances	684,105	671,914	501,409	537,819
Gross Loans				
Advances to Customers	743,768	669,081	558,606	540,666
Loans and Advances to Staff	12,278	11,287	5,175	4,880
Accrued interest receivable (customers)	93,160	71,192	89,678	69,481
Accrued interest on staff loans	12	12	4	5
Total Gross Loans	849,218	751,572	653,463	615,032

Out of the total loans and advances issued by the bank an amount equivalent to TZS 275,786 million is denominated in foreign currencies (2017: TZS 299,472 million)

Movement in allowance for impairment losses on loans and advances:				
At 01 January	85,001	61,398	75,937	61,103
Impact of initial application of IFRS 9	43,848	-	43,387	-
At 1 January - restated	128,849	61,398	119,324	61,103
Charge for the year	35,787	49,282	32,182	47,182
Charged off and written-off loans	(759)	(32,365)	(687)	(32,348)
At 31 December	163,877	78,315	150,819	75,937

Non - performing loans

Non-performing loans and advances for the Group amounted to TZS 306,984 million equivalents to 36.15% while for the Bank it amounted to TZS 265,425 million equivalents to 40.62%. The Group NPLs in previous year amounted to TZS 237,345 million equivalent to 31.6% while the Bank's NPLs amounted to TZS 230,670 million equivalents to 37.5%.

* Stage 3 allowance for losses on loans and advances has included suspended interest, for Group amounting TZS 52,826 million and for Bank TZS 6,967 million.

Economic sector risk concentrations within the customers loan and advances portfolio as at 31 December 2018 and 2017 were as follows:

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions

21. LOANS AND ADVANCES (Continued)

Agriculture and Agro processing	150,945	165,337	149,702	157,184
Oil Company and Gas	95,753	100,983	95,753	97,956
Electricity	40,519	34,157	40,519	34,157
Manufacturing	82,819	77,594	61,931	59,056
Real Estate	54,659	63,218	54,659	63,218
Building ,Construction	13,458	11,483	4,534	5,346
Transport and communication	12,634	12,132	6,826	6,592
Tourism and Forestry	21,521	19,937	21,521	19,937
Trade	137,569	95,674	19,696	21,275
Mining and Quarrying	114,626	75,056	114,626	74,703
Education and Health	14,789	14,894	14,789	13,615
Hotel & Restaurants	53,283	47,457	51,397	47,360
Financial Intermediaries	10,318	12,143	8,513	7,071
Leasing	564	607	564	607
Individuals and SMEs	21,911	15,445	5,461	4,934
Fishing	474	1,251	474	376
Other Services	23,376	4,204	2,498	1,645
	849,218	751,572	653,463	615,032

22. ACCOUNTS RECEIVABLE AND PREPAYMENTS

Accounts receivable	18,548	12,422	17,426	10,808
Intercompany Receivables	-	-	381	1,192
Prepaid expenses	2,218	2,519	1,427	1,520
	20,766	14,941	19,234	13,520
Less: Allowances for losses	(8,810)	(9,933)	(8,756)	(9,904)
	11,956	5,008	10,478	3,616

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

Movement in allowance for losses on accounts receivable

At 01 January	9,904	5,503	9,904	5,503
Expenses for the year	134	4,436	134	4,407
(Recoveries)/Charge offs	(1,228)	(6)	(1,282)	(6)
At 31 December	8,810	9,933	8,756	9,904

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions

22. ACCOUNTS RECEIVABLE AND PREPAYMENTS

As at 31 December, the ageing analysis of accounts receivable is as follows:

Neither past due nor impaired	-	328	-	-
Past due but not impaired	838	-	838	-
Less than 30 days	523	150	523	150
Within 30 - 60 days	10,096	234	8,057	234
Within 60 - 90 days	7	289	7	289
Over 90 days	7,084	11,421	8,382	11,327
	18,548	12,422	17,807	12,000

23. INVESTMENT SECURITIES DESIGNATED AT FVOCI/EQUITY INVESTMENTS

Unquoted shares of Tanzania Mortgage Refinance Company Limited(TMRC)	2,433	2,456	2,433	2,456
Unquoted shares of Tanzania Mercantile Exchange (TMX)	500	-	500	-
Unquoted shares of Umoja Switch Company Limited	20	20	20	20
Unquoted shares of NORSAD Finance Limited	10,977	10,670	10,976	10,670
Preference shares of NORSAD Finance Limited	2,530	2,492	2,530	2,492
Unquoted corporate bond	520	69	-	-
Total	16,980	15,707	16,459	15,638
Valuation of Norsad Finance Limited	523	150	523	150
Fair Value of TIB Investments	13,506	13,162	13,506	13,162
Historical Value	13,506	19,424	13,506	19,424
Loss	-	(6,262)	-	(6,262)
Valuation of TMRC Limited				
Fair Value of TIB Investments	2,433	2,456	2,433	2,456
Historical Value	2,456	2,352	2,456	2,352
(Loss)Gain	(23)	104	(23)	104
Bond Valuation				
Fair Value of Rasilimali Investments	520	69	-	-
Historical Value	574	59	-	-
(Loss)Gain	(54)	10	-	-

The Bank holds unquoted equity shares in the Companies listed above. The amounts of investments are recorded at market value following their valuation by professional valuers at the end of the 31 December 2018. In 2018 the Bank made additional investment available for sale of TZS 500 million to Tanzania Mercantile Exchange (TMX).

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions

24. INVESTMENT IN SUBSIDIARY

Investment in TIB-CBL	-	-	37,000	20,000
Investment in Rasilimali	-	-	2,251	2,251
	-	-	39,251	22,251

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. During the year the Bank made additional investment of TZS 17 billion in Tanzania Corporate Limited (2017: Nil).

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions

25. INVESTMENT PROPERTY

At 1 January	22,160	22,160	22,160	22,160
As at 31 December	22,160	22,160	22,160	22,160

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. An assessment made by internal professional valuer confirmed that the value obtained from revaluation of these properties by independent professional valuer namely Lloyd Jones at the end of 2016 is still valid and there has not been any changes warranting to report a different figure.

	GROUP						Total
	Buildings	Motor vehicles	Machinery and automation	IT Equipment	Furniture and equipment	Work in Progress ²	

26. PROPERTY AND EQUIPMENT

2018							
Cost							
At 01 January	252	3,245	992	3,671	2,283	-	10,443
Additions	-	-	9	110	22	1,335	1,476
Accumulated depreciation Reversal on revaluation ¹	-	-	-	2	(85)	-	(83)
Transfer	-	46	15	(61)	-	-	-
Disposal	-	-	-	-	-	-	-
At 31 December	252	3,245	1,001	3,829	2,235	1,274	11,836
Depreciation							
At 01 January	211	2,330	240	2,729	1,474	-	6,984
Accumulated depreciation Reversal on revaluation ¹	-	-	-	(32)	(118)	-	(150)
Disposal	-	-	-	-	-	-	-
Charge for the year	10	360	9	652	492	-	1,523
At 31 December	221	2,690	249	3,349	1,848	-	8,357
Net book value							
At 31 December	31	555	752	481	386	1,274	3,479
2017							
Cost							
At 01 January	252	2,965	1,093	3,553	2,270	-	10,133
Additions	-	280	-	243	117	-	640
Disposal	-	-	(101)	(125)	(104)	-	(330)
At 31 December	252	3,245	992	3,671	2,283	10,443	
Depreciation							
At 01 January	201	1,970	321	2,195	1,018	-	5,705
Transfer from CBL	-	-	-	-	26	-	26
Disposal	-	-	(101)	(122)	(100)	-	(323)
Charge for the year	10	360	20	656	530	-	1,576
At 31 December	211	2,330	240	2,729	1,474	-	6,984
Net book value							
At 31 December	41	915	752	942	809	-	3,459

No Property or Equipment was placed as security to raise liabilities (2017: NIL)

¹ During the year the subsidiary TIB RSL performed a valuation of property and equipment. The revaluation was performed by Trace Associates Limited using the replacement cost method.

² Work in Progress (WIP) consists of uncompleted projects and assets in TIB Corporate such as uncompleted software, which are not ready to be put into use. The assets under WIP are usually transferred to their specific categories when they are ready and have been put into use by the Bank. Assets under WIP are not depreciated; depreciation only begins when these assets are put into use.

	BANK					Total
	Buildings	Motor vehicles	Machinery and automation	IT Equipment	Furniture and equipment	
26. PROPERTY AND EQUIPMENT (Continued)						
2018						
Cost						
At 01 January	252	2,132	252	2,595	1,029	6,260
Additions	-	-	10	93	19	122
At 31 December	252	2,132	261	2,688	1,048	6,382
Depreciation						
At 01 January	211	1,937	239	2,043	684	5,114
Charge for the year	10	139	8	315	96	568
At 31 December	221	2,076	247	2,358	780	5,682
Net book value						
At 31 December	31	56	14	330	268	700
2017						
Cost						
At 01 January	252	2,132	353	2,720	1,050	6,507
Additions	-	-	-	-	21	21
Transfer from CBL	-	-	-	-	62	62
Disposal	-	-	(101)	(125)	(104)	(330)
At 31 December	252	2,132	252	2,595	1,029	6,260
Depreciation						
At 01 January	201	1,790	320	1,829	623	4,763
Transfer from CBL	-	-	-	-	26	26
Disposal	-	-	(101)	(122)	(100)	(323)
Charge for the year	10	147	20	336	135	648
At 31 December	211	1,937	239	2,043	684	5,114
Net book value						
At 31 December	41	195	13	552	345	1,146

No Property or Equipment was placed as security to raise liabilities (2017: NIL)

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
27. LEASEHOLD IMPROVEMENTS				
Cost				
At 1 January	5,110	5,008	2,153	2,153
Transfers	4	190	-	-
As at 31 December	5,114	5,198	2,153	2,153
Amortisations				
At 1 January	3,162	2,538	2,066	2,030
Amortisation during the year	611	624	19	36
As at 31 December	3,773	3,162	2,085	2,066
Net book value				
As at 31 December	1,341	2,036	68	87
28. INTANGIBLE ASSETS				
Cost				
At 1 January	3,745	3,323	2,989	2,973
Additions	921	314	-	16
Accumulated depreciation reversal on revaluation	(4)	-	-	-
As at 31 December	4,662	3,637	2,989	2,989
Amortisations				
At 1 January	3,030	2,877	2,870	2,750
Amortisation during the year	212	243	60	120
Accumulated depreciation reversal on revaluation	(11)	-	-	-
As at 31 December	3,231	3,120	2,930	2,870
Net book value				
As at 31 December	1,431	517	59	119
29. TAX				
a) Tax expense				
Current year income tax	10,096	-	9,948	-
Deferred tax – asset charged to profit or loss	(10,932)	(11,402)	(8,834)	(8,911)
Prior year deferred tax over/(under) provision	(77)	-	-	-
	(913)	(11,402)	1,114	(8,911)

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
29. TAX (Continued)				
b) Reconciliation of tax expense to tax based on accounting profit:				
Accounting profit before taxation	(8,158)	(29,602)	570	(20,921)
Tax applicable rate of 30%	(2,447)	(8,881)	171	(6,276)
Effects of non-qualifying capital allowances	-	289	-	289
Permanently disallowed expenditure and income	951	422	951	422
Non-taxable income (final payment)	-	-	(8)	-
(Under)/ over provision of Prior year taxes -Deferred	(9)	139	-	-
Tax on revenue (Alternative minimum tax)	148	-	-	-
Under provision of Prior year taxes -current	-	(3,546)	-	(3,346)
Permanent differences	444	175	-	-
Tax (income)/expense	(913)	(11,402)	1,114	(8,911)
c) Deferred tax				
Accelerated depreciation for tax purposes	(1,233)	(960)	(1,126)	(962)
Change in fair value of equity investment	(6,158)	(6,158)	(6,158)	(6,158)
Change in fair value of property investment	22,028	22,160	22,137	22,160
Re-measurement gains on employment benefits actuarial valuation	807	(251)	834	(578)
General provisions	(131,738)	(89,888)	(115,945)	(87,734)
Deferred tax assets as a result of tax losses	(1,080)	(6,894)	-	(357)
Gain on Foreign Exchange Revaluation	337	337	337	337
Prior Year Adjustment	(44,815)	-	(44,815)	-
	(160,880)	(81,654)	(144,736)	(73,292)
Deferred tax (assets)/ liability thereon	(48,264)	(24,496)	(43,421)	(21,988)
	(48,264)	(24,496)	(43,421)	(21,988)
Less: opening deferred tax	(21,988)	(11,174)	(21,988)	(11,056)
Less: Prior Year adjustment	(13,016)	-	(13,016)	-
Deferred tax (asset) / liability release	(13,260)	(13,322)	(8,417)	(10,932)
Statement of profit or loss and other comprehensive income break-down				
Charged to profit or loss	(913)	(11,402)	1,114	(8,911)
Charged to other comprehensive income	400	(1,920)	417	(2,021)
	(513)	(13,322)	1,531	(10,932)

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
29. TAX (Continued)				
d) Tax recoverable				
Tax payable brought forward	(1,573)	(1,551)	(740)	(738)
Tax charge for the year	13,070	-	13,070	-
Tax payments during the year	(43)	(22)	-	(2)
Tax (recoverable)/ Payable	11,453	(1,573)	12,330	(740)
30. DEPOSITS				
Interest bearing deposits				
Customer accounts	312,859	366,602	88,689	203,895
Interest payable	13,669	8,664	12,457	6,388
Banks and other financial institutions	96,827	119,678	146,828	143,052
Interest payable	705	4,649	1,188	4,075
	424,060	499,593	249,162	357,410
Non-interest bearing deposits				
Customer accounts	224,743	139,616	111,092	85,418
	648,803	639,209	360,254	442,828
Maturity Analysis				
Payable on demand	490,753	177,706	142,439	89,096
With Maturity of 3 months or less	83,039	249,721	67,737	224,617
With Maturity over 3 months	75,011	211,779	150,078	129,115
	648,803	639,206	360,254	442,828
31. PAYABLES AND ACCRUALS				
Accruals	5,526	758	1,330	758
Other liabilities	4,960	5,474	5,221	3,954
Intercompany Liability	-	-	476,380	-
	10,486	6,232	7,027	8,518
32. DEFERRED INCOME				
Deferred fees income on loans	1,475	1,446	912	1,044
Deferred income on guarantees fees	-	11	-	-
	1,475	1,457	912	1,044

Deferred Income on loans represents amount received as appraisal fee on long term loans, which is nonrefundable, while the deferred income on guarantee fee constitute the fee charged on issued letter of credit and guarantees all the amounts are amortised over the period of the facilities.

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
33. LONG TERM BORROWINGS				
Principal Amount	65,213	72,751	65,213	72,751
Interest payable	817	1,034	818	1,034
	66,030	73,785	66,031	73,785
Movement in Long Term Borrowing				
At the beginning of the period	73,785	70,712	73,785	70,712
New Loan facility	-	5,593	-	5,593
Interest accrued	5,529	5,178	5,529	5,178
Impact of exchange rate movement	1,577	2,286	1,577	2,286
Principal Repayments	(10,725)	(4,474)	(10,724)	(4,474)
Interest repayments	(4,136)	(5,510)	(4,136)	(5,510)
At the end of the period	66,030	73,785	66,031	73,785

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 2018 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	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
34. GOVERNMENT GRANTS				
Capital Grants				
At the beginning of the period	898	835	418	617
Released to the statement of profit or loss	(411)	(368)	(199)	(199)
As at 31 December	487	467	219	418

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

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
35. 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
Authorised, called up and fully paid				
219,137,661 ordinary shares of TZS 1,000 each (2017: 202,137,661 ordinary shares)	219,138	202,138	219,138	202,138
Advance towards share Capital	5,281	5,281	5,281	5,281

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

36. 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 79,131 million while the total capital amounted to TZS 79,131 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 12% compared to required minimum capital ratio of 13% and 15% respectively.

The Bank's core capital and total capital amounted to TZS 79,131 million and was above the required minimum of TZS 50,000. The actual capital translated to core capital and total capital ratio of 12% which is below the required minimum of 13% and below the required 15% on total capital.

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	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Share capital	219,138	202,138	219,138	202,138
Retained earning	(108,895)	(131,463)	(95,319)	(99,512)
	110,243	70,675	123,819	102,626
Add				
Capital Grant	487	467	219	418
Less:				
Prepaid expenses	2,218	2,519	1,427	1,520
Intangible assets	1,431	517	59	119
Deferred tax assets	48,264	24,496	43,421	21,988
Core capital (Tier 1)	58,816	43,610	79,131	79,417
Add: Supplementary capital (Tier 2)	1,213	791	-	-
Tier 1 Capital & Tier 2 Capital	60,029	44,401	79,131	79,417
Required capital	50,000	50,000	50,000	50,000
Risk - weighted assets				
On financial position	714,174	708,599	592,540	596,202
Off financial position	98,066	148,103	63,935	81,253
Total risk - weighted assets	813,537	856,702	656,475	677,455
Bank Ratios	Actual 2018	Actual 2017	Actual 2018	Actual 2017
Tier 1 (BoT Minimum 13%)	7.2%	5.1%	12%	12%
Tier 1 + Tier 2 (BoT Minimum 15%)	7.4%	5.2%	12%	12%

37. 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	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
a. Loans to Key management personnel				
At the beginning of the year	2,747	2,972	360	615
Loans issued during the year	1,320	679	234	120
Loan repayments during the year	(1,079)	(1,267)	(348)	(375)
As at the end of the year	2,988	2,384	246	360
b. Key management compensation				
Salaries and other short-term benefits	4,596	4,250	2,147	1,795
Contributions to Pension funds	619	478	275	228
Post-employment benefits	912	493	537	118
	6,127	5,221	2,959	2,141
Directors' remuneration				
Made up of:				
Directors' emoluments (Note 14)	216	243	106	94
	216	243	106	94
c. Cash and short term funds				
TIB Corporate Bank Limited	-	-	390	639
d. Accounts Receivables				
TIB Corporate Bank Limited	-	-	85	767
TIB Rasilimali Limited	-	-	296	425
As at the end of the year	-	-	381	1,192
e. Deposits:				
At the beginning of the year	-	-	-	-
Deposits received during the year	-	-	-	-
Deposits repaid during the year	-	-	-	-
As at the end of the year	-	-	-	-
f. Interbank borrowings and deposits				
TIB Corporate Bank Limited	-	-	75,206	75,757
As at the end of the year	-	-	75,206	75,757

37. RELATED PARTY DISCLOSURES (Continued)

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions

37. RELATED PARTY DISCLOSURES (Continued)

g. Accounts Payable				
TIB Corporate Bank Limited	-	-	476	3,781
TIB Rasilimali Limited	-	-	-	24
As at the end of the year	-	-	476	3,805
h. Fees received from the Government for managing projects				
Managed funds Note 43	201	377	201	377

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.

38. 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 reserves. 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.

Financial assumptions:

Discount rate of 14.94% per annum as at 31 December 2018 (2017: 14.315%)

Salary escalation rate of 10% per annum as at 31 December 2018 (2017:10%)

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions

The amount recognised in the statement of financial position is as follows:

Present value of unfunded obligation	3,743	4,224	2,627	3,321
Net underfunding in funded plan	3,743	4,224	2,627	3,321
Defined benefit obligation/(asset) recognised in the statement of financial position	3,743	4,224	2,627	3,321

Reconciliation of benefit obligation

Opening benefits Obligation	4,224	3,566	3,321	2,580
Current service cost (employer)	746	715	510	479
Interest cost	697	662	491	456
Actuarial (gain)/loss due to change in assumptions	(308)	4	(112)	200
Actuarial (gain) / loss due to Experience	(1,297)	157	(1,301)	449
Benefit paid	(319)	(880)	(282)	(843)
Closing Benefit obligation	3,743	4,224	2,627	3,321

Reconciliation of assets

Employer Contributions	(319)	(880)	(282)	(843)
Benefits paid	319	880	282	843
Closing market value of assets	-	-	-	-

The amount recognised in the statement of profit or loss are as follows:

Service costs				
Current service cost (employer)	746	715	510	479
Losses/(gains) on curtailments and settlements	-	71	-	71
Total service costs	746	786	510	550

Interest cost

Interest cost on defined benefit obligation	697	662	491	456
Net Interest cost on benefits sheet liability	697	662	491	456
Total included in profit and loss in respect of scheme	1,443	1,448	1,001	1,006

Re-measurement in the statement of other comprehensive income (OCI)

Actuarial (gain)loss-obligation	(1,332)	253	(1,413)	578
Amount recognised in OCI in the financial year	(1,332)	253	(1,413)	578

38. EMPLOYMENT BENEFIT OBLIGATION (Continued)

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Reconciliation				
Net liability at start of the period	4,224	3,566	3,321	2,580
Net expense recognised in the income statement	1,289	1,285	1,001	1,006
Employer contributions	(438)	(880)	(282)	(843)
Amount recognised in OCI	(1,332)	253	(1,413)	578
Net liability at end of period	3,743	4,224	2,627	3,321

Sensitivity analysis

The actuarial liability estimated at 31 December 2018 is mainly sensitive to the financial assumptions used. At 1% p.a reduction in the discount rate will increase the actuarial liability estimated at 31 December 2018 to around TZS 2,808 million (with all the assumptions remaining the same). If the discount rate is used by 1% p.a then the actuarial liability estimated would fall to around TZS 2,470 million.

Alternatively, a 1% p.a. Increase in the salary increase assumptions will increase the actuarial liability estimated at 31 December 2018 to around 2,814 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 2,462 million.

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions

39. CASH FLOW FROM OPERATING ACTIVITIES GROUP

Interest Receipt				
Opening Balance Interest Receivable	72,162	46,340	70,621	46,172
Interest Income	111,082	118,115	90,799	98,520
Closing Balance Interest receivable	(93,169)	(72,162)	(90,782)	(70,621)
Interest charged off and written off	-	(4,733)	-	(4,733)
Foreign exchange impact	1,070	314	1,070	314
Less: Capitalised Interest	(47,455)	-	(47,455)	-
(a) Interest Receipt	43,690	87,874	24,253	69,652

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions

39. CASH FLOW FROM OPERATING ACTIVITIES GROUP (Continued)

Interest Payments				
Opening balance interest payable	14,347	20,700	11,496	19,606
Interest expenses	45,169	58,361	36,958	50,046
Foreign exchange impact	3,454	1,334	3,454	1,334
Less: Capitalised Interest	(13,918)	-	(13,918)	-
Closing Balance interest payable	(15,191)	(14,347)	(13,645)	(11,496)
(b) Interest Payments	33,861	66,048	24,345	59,490
Net fee commission receipts				
Opening Balance of Receivables	12,422	15,210	10,808	11,475
Closing Balance of grants	487	467	219	418
Fee Income	8,708	8,363	4,039	4,104
Less: Opening Balance of grants	(467)	(835)	(418)	(617)
Less: Closing Balance of Receivables - Note 22	(19,845)	(12,422)	(17,426)	(10,808)
Add: Closing Balance of deferred income	1,475	1,457	912	1,044
Less: Opening Balance of deferred income	(1,457)	(2,456)	(1,044)	(2,175)
(c) Net fee commission receipts	1,323	9,784	(2,910)	3,441
Payments to employees and suppliers				
Opening balance Accounts Payable	6,232	15,953	8,518	16,951
Opening balance Prepayments	2,519	4,023	1,520	1,520
Cash Operating Expenses	76,861	49,636	24,885	26,109
Payments for services to charged off loans	-	227	-	227
Less:				
Closing balance accounts payable - Note 31	(10,486)	(6,232)	(7,027)	(8,518)
Closing balance prepayments - Note 22	(2,219)	(2,519)	(1,427)	(1,970)
(d) Payments to employees and suppliers	72,907	61,088	26,469	34,319
(e) Loans Principal Movement				
Closing Balance - Gross Loans	756,046	681,777	563,781	545,546
Add: Charged off loans	687	26,247	687	26,247
Less: Capitalised Interest	(61,112)	-	(50,577)	-
Less: Foreign Exchange Impact	6,852	(10,519)	6,852	(6,960)
Less: Opening Balance - Gross Loans	(681,777)	(764,445)	(545,546)	(659,481)
Disbursement (collection of principal loans)	20,696	(66,940)	(24,803)	(94,648)

40. 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).

Table 40.1: Fair Value Hierarchy

	GROUP			
	Level 1 TZS Millions	Level 2 TZS Millions	Level 3 TZS Millions	Total TZS Millions
31-December 2018				
Financial investment held for trading – note 18	365	-	-	365
Investment securities designated at FVOCI- equity investments – Note 23	-	16,980	-	16,980
	365	16,980	-	17,345
31-December 2017				
Financial investment held for trading – note 18	1,894	-	-	1,894
Investment securities designated at FVOCI- equity investments – Note 23	-	15,707	-	15,707
	1,894	15,707	-	17,601
	BANK			
	Level 1 TZS Millions	Level 2 TZS Millions	Level 3 TZS Millions	Total TZS Millions
31-December 2018				
Investment securities designated at FVOCI-equity investments – Note 23	-	16,460	-	16,459
	-	16,460	-	16,459
31-December 2017				
Investment securities designated at FVOCI-equity investments – Note 23	-	15,638	-	15,638
	-	15,638	-	15,638

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.

40. FAIR VALUE MEASUREMENT (Continued)

Table 40.2: Financial Instruments at amortized cost

	2018 Carrying Amount	2018 Fair Value	2017 Carrying amount	2017 Fair Value
Financial assets				
Cash and balances with Bank of Tanzania – Note	15 92,931	92,931	99,289	99,289
Balance with other banks – Note 16	5,075	5,075	3,479	3,479
Placements with other banks – Note 17	10,117	10,117	54,956	54,956
Loans and advances – Note 21	684,105	684,105	671,914	671,914
Investment securities measured at amortized cost – Note 19	57,568	57,568	52,187	52,187
	849,796	849,796	881,825	881,825
Financial liabilities				
Deposits – Note 30	648,803	648,803	639,209	639,209
Payables and Accruals – Note 31	10,486	10,486	6,232	6,232
Long Term Borrowing – Note 33	66,030	66,030	73,785	73,785
	725,319	725,319	719,226	719,226
Financial assets				
Cash and balances with Bank of Tanzania – Note 15	108	108	50000	50000
Balance with other banks – Note 16	423	423	670	670
Placements with other banks – Note 17	2,611	2,611	48,133	48,133
Loans and advances – Note 21	501,409	501,409	537,819	537,819
Investment securities measured at amortized cost – Note 19	33,344	33,344	36,374	36,374
	537,895	537,895	672,996	672,996
Financial liabilities				
Deposits – Note 30	360,254	360,254	442,828	442,828
Payables and Accruals – Note 31	7,027	7,027	8,518	8,518
Long Term Borrowing – Note 33	66,030	66,030	73,785	73,785
	433,311	433,311	525,131	525,131

41. 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 2018 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.

41. 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.

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 41.1: Maximum Credit Exposures

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Cash and balances with Bank of Tanzania	92,931	99,289	108	50,000
Balance with other banks	5,075	3,479	423	670
Placements with other banks	10,117	54,956	2,611	48,133
Government and Corporate securities held - to - maturity	57,568	52,187	33,344	36,374
Loans and advances	849,218	751,572	653,463	615,032
Accounts receivable	18,548	12,422	16,380	10,480
Total Credit Exposure	1,033,457	973,905	706,329	760,689

(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;

- 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.

41. RISK MANAGEMENT (Continued)

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.

Table 41.2 (a): Credit quality

	GROUP						
	Neither past due nor impaired						
	Current	Especially mentioned	Past due but not impaired	Past due and impaired	Total	Impairment	Carrying amount
	TZS Millions						
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
Financial investment held for trading	365	-	-	-	365	-	365
Investment securities measured at amortized cost	57,568	-	-	57,568	-	57,568	
Loans and advances	328,610	86,512	116,814	317,283	849,219	165,112	684,105
Investment securities designated at FVOCI-equity investments	16,980	-	-	-	16,980	16,980	
Total	511,646	86,512	116,814	317,283	1,032,255	165,112	867,141

Table 41.2 (a): Credit quality (Continued)

	GROUP						
	Neither past due nor impaired						
	Current	Especially mentioned	Past due but not impaired	Past due and impaired	Total	Impairment	Carrying amount
	TZS Millions						
2017							
Cash and balances with Bank of Tanzania	99,289	-	-	-	99,289	-	99,289
Balance with other banks	3,479	-	-	-	3,479	-	3,479
Placements with other banks	54,956	-	-	-	54,956	-	54,956
Financial investment held for trading	1,894	-	-	-	1,894	-	1,894
Investment securities measured at amortized cost	52,187	-	-	-	52,187	-	52,187
Loans and advances	356,816	148,307	50,403	196,046	751,572	79,658	671,914
Investment securities designated at FVOCI-equity investments	15,707	-	-	-	15,707	15,707	
Total	584,328	148,307	50,403	196,046	979,084	79,658	899,426

Table 41.2 (b): Credit quality

	BANK						
	Neither past due nor impaired						
	Current	Especially mentioned	Past due but not impaired	Past due and impaired	Total	Impairment	Carrying amount
	TZS Millions						
2018							
Cash and balances with Bank of Tanzania	108	-	-	-	108	-	108
Balance with other banks	423	-	-	-	423	-	423
Placements with other banks	2,611	-	-	-	2,611	-	2,611
Investment securities measured at amortized cost	33,344	-	-	-	33,344	-	33,344
Loans and advances	207,022	64,203	116,804	265,428	653,457	152,051	501,409
Investment securities designated at FVOCI-equity investments	16,459	-	-	-	16,459	-	16,459
Total	259,967	64,203	116,814	265,428	706,402	152,051	554,354

41. RISK MANAGEMENT (Continued)

Table 41.2 (b): Credit quality (Continued)

	BANK						
	Neither past due nor impaired				Total	Impairment	Carrying amount
	Current	Especially mentioned	Past due but not impaired	Past due and impaired			
	TZS Millions						
2017							
Cash and balances with Bank of Tanzania 50,000	-	-	-	50,000	-	50,000	
Balance with other banks	670	-	-	-	670	-	670
Placements with other banks	48,133	-	-	-	48,133	-	48,133
Investment securities measured at amortized cost	36,374	-	-	-	36,374	-	36,374
Loans and advances	356,507	69,151	-	189,374	615,032	77,213	537,819
Investment securities designated at FVOCI equity investments	15,638	-	-	-	15,638	-	15,638
Total	507,322	69,151	-	189,374	765,847	77,213	688,634

Impaired loans and advances

The Group regards a loan and advance as impaired when there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on the future estimated cash flow from the loan facility. Loans are graded as (1) Current, (2) Watch List (3) Substandard, (4) Doubtful, and (4) Loss. This policy will however, change with the adoption of IFRS 9 in 2018 and impairment will be based on expected loss rather than incurred loss.

Loans and advances graded as 3 to 5 (substandard to Loss) in the Group's internal credit risk grading system are classified as nonperforming and are impaired.

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

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 under IAS 39, 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 282 million were charged off (2017: TZS 28,657 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 2018 the cumulative balance of charged off accounts was TZS 132,495 million (2017: TZS 117,181 million) which exclude TZS 2,486 million recovered during the year (2017: TZS 1,207 million). Interest is usually calculated and added to the exposure unless there are legal provisions preventing the bank from doing so.

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.

During the year an amount of TZS 477 million was written off (2017: 3,691 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.

41. RISK MANAGEMENT (Continued)

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.

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.

Successful

Successful people do what unsuccessful people are not willing to do. Don't wish it were easier; wish you were better.

Jim Rohn



41. RISK MANAGEMENT (Continued)

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

Table 41.3 (a): Credit Concentration

Industry analysis	GROUP					Total TZS Millions			
	Financial Services	Agriculture & Fishing	Government	Energy & Mining	Manufacturing		Building & Construction	Transport & Communication	Services
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
Financial investment held for trading	(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
Investment securities designated at FVOCI-equity investments	16,980	-	-	-	-	-	-	-	16,980
	41,133	172,940	150,428	250,898	84,978	68,117	12,662	251,098	1,032,253
2017									
Financial assets									
Cash and balances with Bank of Tanzania	-	-	99,289	-	-	-	-	-	99,289
Balance with other banks	3,479	-	-	-	-	-	-	-	3,479
Placements with other banks	54,956	-	-	-	-	-	-	-	54,956
Deferred tax asset	101	1,595	28	170	1,894	-	-	-	-
Investment securities measured at amortized cost	71	-	52,116	-	-	-	-	-	52,187
Loans and advances	12,143	186,525	-	210,196	78,201	74,701	12,132	177,674	751,572
Investment securities designated at FVOCI-equity investments	86,457	186,525	151,405	210,196	-	-	-	-	15,707
	86,457	186,525	151,405	210,196	79,796	74,701	12,160	177,844	979,084

41. RISK MANAGEMENT (Continued)

Table 41.3 (b): Credit Concentration

Industry analysis	BANK					Total TZS Millions		
	Financial Services	Agriculture & Fishing	Government	Energy & Mining	Manufacturing		Building & Construction	Transport & Communication
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
Investment securities designated at FVOCI-equity investments	16,459							16,459
	28,006	171,697	33,452	250,898	62,495	59,193	6,826	93,841
2017								
Financial assets								
Cash and balances with Bank of Tanzania	-	-	50,000	-	-	-	-	50,000
Balance with other banks	670	-	-	-	-	-	-	670
Placements with other banks	48,133	-	-	-	-	-	-	48,133
Investment securities measured at amortized cost	-	-	36,374	-	-	-	-	36,374
Loans and advances	7,071	177,497	-	206,816	59,663	68,564	6,592	88,829
Investment securities designated at FVOCI-equity investments	15,638	-	-	-	-	-	-	15,638
	71,512	177,497	86,374	206,816	59,663	68,564	6,592	88,829

41. RISK MANAGEMENT (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 41.4: Geographic Concentration

	GROUP				
	Tanzania	Europe	America	Others	Total
	TZS Millions				
2018					
Financial assets					
Cash and balances with Bank of Tanzania	92,931	-	-	-	92,931
Balance with other banks	4,546	132	351	47	5,075
Placements with other banks	10,117	-	-	-	10,117
Financial investment held for trading	365	-	-	-	365
Investment securities measured at amortized cost	57,568	-	-	-	57,568
Loans and advances	684,106	-	-	-	684,249
Investment securities designated at FVOClequity investments	3,473	-	-	13,506	16,980
	853,106	132	351	13,553	867,142
2017					
Financial assets					
Cash and balances with Bank of Tanzania	99,289	-	-	-	99,289
Balance with other banks	3,135	262	55	27	3,479
Placements with other banks 54,956	-	-	-	54,956	
Total assets	1,894	-	-	-	1,894
Investment securities measured at amortized cost	52,187	-	-	-	52,187
Loans and advances	671,914	-	-	-	671,914
Investment securities designated at FVOClequity investments	2,545	-	-	13,162	15,707
	885,920	262	55	13,189	899,426

Table 41.4: Geographic Concentration (Continued)

	BANK				Total
	Tanzania	Europe	America	Others	
	TZS Millions				
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
Investment securities designated at FVOClequity investments	2,953	-	-	13,506	16,459
	540,848	-	-	13,506	554,354
2017					
Financial assets					
Cash and balances with Bank of Tanzania	50,000	-	-	-	50,000
Balance with other banks	670	-	-	-	670
Placements with other banks	48,133	-	-	-	48,133
Investment securities measured at amortized cost	36,374	-	-	-	36,374
Loans and advances	537,819	-	-	-	537,819
Investment securities designated at FVOClequity investments	2,476	-	-	13,162	15,638
	675,472	-	-	13,162	688,634

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.

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.

41 RISK MANAGEMENT (Continued)

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 2018.

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 Bank received an additional capital of TZS 17,000 million and the Government, as the main shareholder has made commitment to continue capitalizing the Bank.

(ii) Maturity analysis of financial assets and financial liabilities

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

Table 41.5 (a): Liquidity Gaps

	GROUP					Total
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 12 months	Above 1 year	
	TZS Millions					
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
Financial investment held for trading				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	645,245	849,218
Investment securities designated at FVOCI-equity investments	-	-	-	-	16,980	16,980
Total undiscounted financial assets	124,791	113,678	32,308	75,255	686,223	1,032,255
Financial liabilities						
Deposits	226,074	371,887	8,231	41,788	824	648,803
Borrowing	1,854	1,388	5,821	53,930	62,994	
	226,074	373,741	9,619	47,609	54,754	711,797
Net liquidity gap	(101,283)	(260,063)	22,689	27,646	631,469	320,458
Cumulative gap	(101,283)	(361,346)	(338,657)	(311,011)	320,458	-
2017						
Financial assets						
Cash and balances with Bank of Tanzania	99,289	-	-	-	-	99,289
Balance with other banks	3,479	-	-	-	-	3,479
Placements with other banks	54,956	-	-	-	-	54,956
Financial investment held for trading			1,894		1,894	
Investment securities measured at amortized cost	3,341	9,999	11,042	1,353	26,452	52,187
Loans and advances	77,649	73,694	21,795	78,451	499,981	751,570
Equity investment-Available for sale	-	-	-	-	15,707	15,707
Total undiscounted financial assets	238,714	83,693	32,837	81,698	542,140	979,082
Financial liabilities						
Deposits	220,021	149,813	117,399	86,260	65,716	639,209
Borrowings	2,072	1,551	6,505	59,492	69,620	
Total liabilities	220,021	151,885	118,950	92,765	125,208	708,829
Net liquidity gap	18,693	(68,192)	(86,113)	(11,067)	416,932	270,253
Cumulative gap	18,693	(49,499)	(135,612)	(146,679)	270,253	-

41 RISK MANAGEMENT (Continued)

Table 41.5 (b): Liquidity Gaps

	BANK					Total
	Up to 1 month	Up to 3 months	Up to 6 months	Up to 12 months	Above 1 year	
	TZS Millions					
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	565,181	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	604,731	706,408
Financial liabilities						
Deposits	299,549	25,165	8,231	26,485	824	360,254
Borrowing	3,727	1,854	1,388	5,821	53,239	66,029
	303,276	27,019	9,619	32,306	54,063	426,284
Net liquidity gap	(289,793)	7,954	10,516	778	550,668	280,123
Cumulative gap	(289,793)	(281,838)	(271,322)	(270,544)	280,124	-
2017						
Financial assets						
Cash and balances with Bank of Tanzania	50,000	-	-	-	-	50,000
Balance with other banks	670	-	-	-	-	670
Placements with other banks	48,133	-	-	-	-	48,133
Investment securities measured at amortized cost	1,083	2,339	6,000	500	26,452	36,374
Loans and advances	22,460	62,252	19,122	50,622	460,576	615,032
Equity investment-Available for sale	-	-	-	-	15,638	15,638
Total undiscounted financial assets	122,346	64,591	25,122	51,122	502,666	765,847
Financial liabilities						
Deposits	85,239	121,985	104,324	66,509	64,771	442,828
Borrowings	4,165	2,072	1,551	6,505	59,492	73,785
Total liabilities	89,404	124,057	105,875	73,014	124,263	516,613
Net liquidity gap	32,942	(59,466)	(80,753)	(21,892)	378,403	249,234
Cumulative gap	32,942	(26,524)	(107,277)	(129,169)	249,234	-

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.

41 RISK MANAGEMENT (Continued)

Table 41.6 (a): Interest rate Gaps

	GROUP						Total
	Up to 1 month	1 – 3 months	3 – 6 months	6 - 12 months	Over 1 year	Non interest Bearing	
	TZS Millions						
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
Financial investment held for trading					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	645,245	-	849,219
Investment securities designated at FVOCI-equity investments	-	-	-	-	-	16,980	16,980
Total assets	27,680	117,858	32,308	75,255	669,243	109,911	1,032,255
Liabilities							
Deposits	226,074	371,887	8,231	41,788	824	-	648,804
Borrowing	3,727	1,854	1,388	5,821	53,930	-	66,720
Other liabilities	-	-	-	-	-	10,486	10,486
Total liabilities and equity	229,801	373,741	9,619	47,609	54,754	10,486	726,010
Interest sensitivity Gap	(202,122)	(255,883)	22,689	27,646	614,489	99,425	306,245
Cumulative Gap	(202,122)	(458,004)	(435,315)	(407,669)	206,820	306,245	

Table 41.6 (a): Interest rate Gaps (Continued)

	GROUP						Total
	Up to 1 month	1 – 3 months	3 – 6 months	6 - 12 months	Over 1 year	Non interest Bearing	
	TZS Millions						
2017							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	99,289	99,289
Balance with other banks	3,479	-	-	-	-	-	3,479
Placements with other banks	54,956	-	-	-	-	-	54,956
Financial investment held for trading					1,894		1,894
Investment securities measured at amortized cost	3,341	9,999	11,042	1,353	26,452	-	52,187
Loans and advances	77,649	73,694	21,795	78,451	499,981	-	751,570
Investment securities designated at FVOCI-equity investments	-	-	-	-	-	15,707	15,707
Total assets	139,425	83,693	32,837	81,698	526,433	114,996	979,082
Liabilities							
Deposits	220,021	149,813	117,399	86,260	65,716	-	639,209
Borrowing	4,165	2,072	1,551	6,505	59,492	-	73,785
Other liabilities	-	-	-	-	-	6,232	6,232
Total liabilities and equity	224,186	151,885	118,950	92,765	125,208	6,232	719,226
Interest sensitivity Gap	(84,761)	(68,192)	(86,113)	(11,067)	401,225	108,764	259,856
Cumulative Gap	(84,761)	(152,953)	(239,066)	(250,133)	151,092	259,856	

41 RISK MANAGEMENT (Continued)

Table 41.6 (b): Interest rate Gaps

	BANK						Total
	Up to 1 month	1 – 3 months	3 – 6 months	6 - 12 months	Over 1 year	Non interest Bearing	
	TZS Millions						
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	-	33,343
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	588,272	16,567	706,407
Liabilities							
Deposits	299,549	25,165	8,231	26,485	824	-	360,254
Borrowing	3,727	1,854	1,388	5,821	53,239	-	66,029
Other liabilities	-	-	-	-	-	7,027	7,027
Total liabilities and equity	303,276	27,019	9,619	32,306	54,063	7,027	433,310
Interest sensitivity gap	(289,900)	7,954	10,516	778	534,209	9,540	273,097
Cumulative Gap	(289,900)	(281,946)	(271,430)	(270,652)	263,557	273,097	

Table 41.6 (b): Interest rate Gaps (Continued)

	BANK						Total
	Up to 1 month	1 – 3 months	3 – 6 months	6 - 12 months	Over 1 year	Non interest Bearing	
	TZS Millions						
2017							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	50,000	50,000
Balance with other banks	670	-	-	-	-	-	670
Placements with other banks	48,133	-	-	-	-	-	48,133
Investment securities measured at amortized cost	1,083	2,339	6,000	500	26,452	-	36,374
Loans and advances	22,460	62,252	19,122	50,622	460,576	-	615,032
Investment securities designated at FVOCI-equity investments	-	-	-	-	-	15,638	15,638
Total assets	72,346	64,591	25,122	51,122	487,028	65,638	765,847
Liabilities							
Deposits	85,239	121,985	104,324	66,509	64,771	-	442,828
Borrowings	4,165	2,072	1,551	6,505	59,492	-	73,785
Other liabilities	-	-	-	-	8,518	8,518	7,027
Total liabilities	89,404	124,057	105,875	73,014	124,263	8,518	525,131
Interest sensitivity gap	(17,058)	(59,466)	(80,753)	(21,892)	362,765	57,120	240,716
Cumulative Gap	(17,058)	(76,524)	(157,277)	(179,169)	183,596	240,716	

• 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 8,706 million (2017: TZS 4,781 million) due to increase in annual interest expense. The impact of this increase on capital of the Group is reduction by TZS 6,094 million (2017: TZS 3,347 million). However, with the core capital of TZS 62,715 million (see note 36) the amounts are not expected to significantly impair the ability of the Group to operate profitably.

41 RISK MANAGEMENT (Continued)

Table 41.7: Impact of Interest rate movement

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Assets re-pricing after 6 months	178,457	255,955	68,484	162,059
Liabilities re-pricing after 6 months	613,774	495,021	339,914	319,336
Interest rate Gap	(435,317)	(239,066)	(271,430)	(157,277)
Impact of interest rate rise by additional 200 bps	(8,706)	(4,781)	(5,429)	(3,146)
Impact in Capital	(6,094)	(3,347)	(3,800)	(2,202)

(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.

The actual exposure for the group at the end of the year was 63,794 million equivalent to 102% 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).

(iii) Foreign currency risk (Continued)

The table below demonstrate the sensitivity to a reasonably possible change in USD and GBP 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 loss of TZS 32,257 million (2017: foreign exchange gain/profit of TZS 5,056 million). A similar movement (20%) to the bank position would have resulted to a foreign exchange loss of TZS 19,272 million (2017: foreign exchange gain/profit of TZS 4,732 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 62,715 million and TZS 82,247 million respectively (see note 36) at the end of the year.

The table below shows the impact of foreign exchange movement.

Table 41.8: Impact of exchange rate movement

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Foreign Currency Denominated Assets	329,081	425,431	223,104	303,556
Foreign Currency Denominated Liabilities	490,368	450,710	319,463	327,218
Net open Position	(161,287)	(25,279)	(96,359)	(23,662)
USD/TZS Exchange rate	2,297.3	2,238.5	2,297.3	2,238.5
Impact of 20% Depreciation of the TZS against the USD	(32,257)	(5,056)	(19,272)	(4,732)

- **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 2018 was a short position of TZS 161,287 million compared to long position of TZS 25,279 million in 2017. The bank's position was short position of TZS 96,359 million in 2018 and short position of TZS 23,662 million in 2017. The various currencies to which the Group is exposed at 31 December 2018 are summarised in the table below (All amounts are expressed in millions of Tanzania Shillings).

41 RISK MANAGEMENT (Continued)

Table 41.9 (a): Foreign exchange Exposure

	GROUP					Total
	TZS	USD	GBP	Euro	Others	
TZS Millions						
2018						
Assets						
Cash and balances due from banks	38,452	56,576	102	2,820	55	98,005
Placements with other banks	10,117	-	-	-	-	10,117
Financial investment held for trading	365	-	-	-	-	365
Investment securities measured at amortized cost	57,568	-	-	-	-	57,105
Loans and advances	428,292	253,042	2	2,769	-	684,249
Investment securities designated at FVOClequity investments	2,953	13,506	-	-	-	16,459
Other Assets	116,078	208	-	-	-	116,286
	653,825	323,333	104	5,589	55	982,586
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	483,024	157	7,187	-	725,319
Net financial position	418,874	(159,691)	(53)	(1,598)	55	257,670
2017						
Assets						
Cash and balances due from banks	79,925	22,482	129	227	5	102,768
Placements with other banks	54,956	-	-	-	-	54,956
Financial investment held for trading	1,894	-	-	-	-	1,894
Investment securities measured at amortized cost	52,187	-	-	-	-	52,187
Loans and advances	282,687	385,378	279	3,570	27	671,941
Investment securities designated at FVOClequity investments	2,476	13,162	-	-	-	15,638
Other Assets	71,935	172	-	-	-	72,107
	546,060	421,194	408	3,797	32	971,491
Liabilities						
Deposits	264,638	370,569	430	3,572	-	639,209
Borrowing	-	73,785	-	-	-	73,785
Payables and Accruals	3,900	2,330.2	-	-	6,232	
Total liabilities	268,538	446,684	432	3,572	-	719,226
Net financial position	277,522	(25,490)	(24)	225	32	252,265

Exchange rate during the year were as follows:

	USD	GBP	Euro
On 01 January 2018	2,238.5	3,024.2	2,683.3
On 31 December 2018	2,297.3	2,940.8	2,630.7

Table 41.9 (b): Foreign exchange Exposure

	BANK					Total
	TZS	USD	GBP	Euro	Others	
TZS Millions						
2018						
Assets						
Cash and balances due from banks	390	141	-	-	-	531
Placements with other banks	2,611	-	-	-	-	2,611
Financial investment held for trading	-	-	-	-	-	-
Investment securities measured at amortized cost	33,344	-	-	-	-	33,344
Loans and advances	292,160	209,249	-	-	-	501,409
Investment securities designated at FVOClequity investments	2,953	13,506	-	-	-	16,459
Other Assets	116,078	208	-	-	-	116,142
	447,536	223,104	-	-	-	670,496
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	244,840	(96,359)	-	-	-	148,481

41 RISK MANAGEMENT (Continued)

Table 41.9 (b): Foreign exchange Exposure

	BANK					Total TZS Millions
	TZS	USD	GBP	Euro	Others	
2017						
Assets						
Cash and balances due from banks	50,396	274	-	-	-	50,670
Placements with other banks	48,133	-	-	-	-	48,133
Financial investment held for trading	-	-	-	-	-	-
Investment securities measured at amortized cost	36,374	-	-	-	-	36,374
Loans and advances	247,871	289,948	-	-	-	537,819
Investment securities designated at FVOCI equity investments	2,476	13,162	-	-	-	15,638
Other Assets	71,935	172	-	-	-	72,107
	457,185	303,556	-	-	-	760,741
Liabilities						
Deposits	191,725	251,103	-	-	-	442,828
Borrowing	-	73,785	-	-	-	73,785
Other Liabilities	10,971	2,330	-	-	-	13,301
Total liabilities	202,696	327,218	-	-	-	529,914
Net financial position	254,489	(23,662)	-	-	-	230,827

Exchange rate during the year were as follows:

	USD	GBP	Euro
On 01 January 2018	2,238.5	3,024.2	2,683.3
On 31 December 2018	2,297.3	2,940.8	2,630.7

42. 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.

At year end, the Bank had claims from various parties with estimated exposure of TZS 786 million (2017: 913 million) most of which relate to staff employment related cases. In the estimation of the bank and based on the progress of the cases the bank expect to win all these cases and has therefore not made any provision in the financial statements.

In addition, the Bank had no claims in 2018 (2017: TZS 63,155 million) 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 42.1: Off Balance sheet Exposure

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Outstanding letters of credit (foreign currency)	89,458	20,092	-	-
Outstanding guarantees and indemnities (Foreign currency)	68,039	72,941	39,192	37,634
	157,497	93,033	39,192	37,634

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.

42. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Table 42.2: Commitments

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Commitments to extend credit – undrawn balance	35,231	55,739	24,743	47,414
Capital commitments				
Capital expenditure that has been approved by the Board but not contracted for	5,950	854	3,105	854

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.

Lease commitments

The Group and Bank has entered in commercial leases on premises for its head office and branches. These leases have an average life of between three to five years with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

Table 42.3: Lease commitments

	GROUP		BANK	
	2018 TZS Millions	2017 TZS Millions	2018 TZS Millions	2017 TZS Millions
Within one year	3,764	4,746	1,400	1,816
After one year but not more than five years	1,817	2,473	1,293	1,949
Total	5,581	7,219	2,693	3,765

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 2018.

	AFW	FF	RBF	CIS	TEDAP	SMDG	SAAFI	NEEC	THB
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)	0	-	(14)
Interest earned and exchange gain									
Fund transferred during the year	-	(1,297)	(1,700)						
Balance at 31 December 2018	14,03	1	26	2,750	435	1,694	9	-	31
Balance at 1 January 2017	7,936	10	174	321	868	130	-	-	-
Adjustment*	-	44	-	(30)	-	1,357	9	-	1
Adjusted opening Balance	7,936	54	174	291	868	1,487	9	-	1
Funds received during the year	-	-	2,147	-	90	-	-	-	-
Funds disbursed during the year	(234)	-	(1,624)	-	-	-	-	-	-
Funds collected from the customers	4,080	1,026	-	8	1,871	49	-	-	27
Management fees and other expenses	(380)	-	-	-	(91)	(1)	-	-	-
Interest earned and exchange gain	3	-	70	-	-	36	-	-	-
Fund transferred during the year	-	-	-	-	(2,175)	-	-	-	-
Balance at 31 December 2017	11,405	1,080	767	299	563	1,571	9	-	28

*The variations of opening balances were noted after reconciliation made by the bank on transactions performed to the funds in previous years. As such, the Bank has to effect restatement of opening balance for management funds accounts as at 01st January 2017.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

KEY:

FF	Floriculture Funds Access	TEDAP	Tanzania Energy Development and Expansion Programme
AFW	Agricultural Financing Window	REA	Rural Energy Agency
NEEC	National Economic Empowerment Council	CIS	Commodity Import Support
RBF	Results Based Fund	SMDG	Miners Development Grant
SAAFI	Sumbawanga Agricultural and Animal Food Industries Limited	THB	Tanzania Housing Bank

44. SUBSEQUENT EVENTS

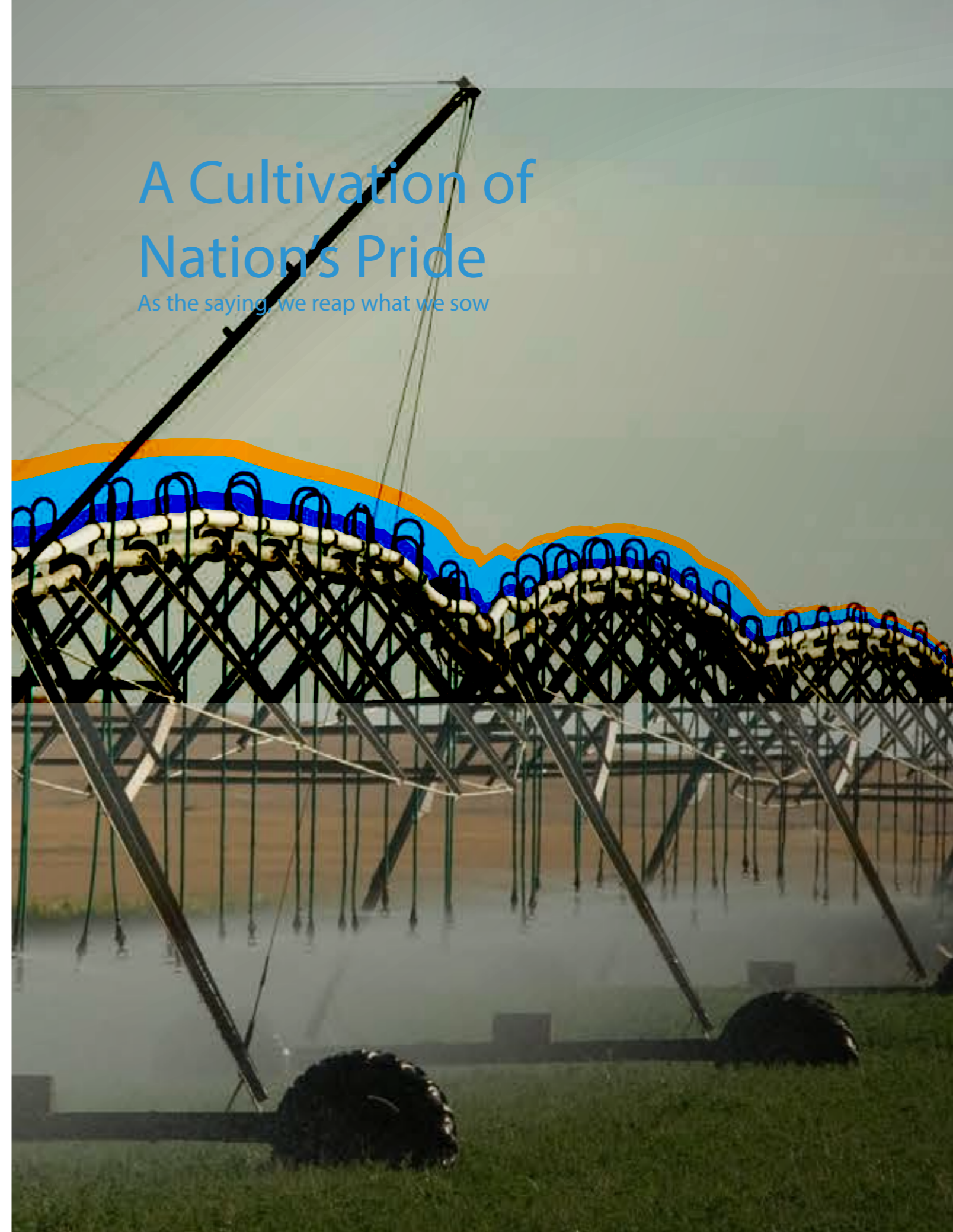
Subsequent to the reporting date the Government of Tanzania on 11th December 2019 notified the bank its intention to merge the two Development banks, TIB Development bank and Tanzania Agricultural Development bank to form one strong National Development Bank.

As at the date of signing this report, management of TIB Development bank together with Tanzania Agricultural Development bank are conducting an evaluation to determine how effectively and efficiently the merging exercise can be carried out for post-merger success and long-term sustainability of the new National Development Bank.

The Merging exercise is expected to be completed by 31st March 2020.

45. COMPARATIVES

Comparatives are consistent with the previous year; and where need be a restatement has been made.





TIB
DEVELOPMENT
BANK

Your Partner for Growth

www.tib.co.tz