CRDB BANK

The bank that listens

Annual Report 2018

CONTENTS

Acronyms

AC	Amortised cost
AFS	Available for sale
ALCO	Assets and Liabilities Committee
ATM	Automatic Teller Machine
BIF	Burundian Franc
CEO	Chief Executive Office
CET	Common Equity
CFP	Contingency Funding Plan
CSR	Corporate Social Responsibility
DANIDA	Danish International Development Agency
DKK	Danish Krona
DMD - OCS	Deputy Managing Director - Operations and Customer Services
DMD - SS	Deputy Managing Director - Shared Services
EAD	Exposure at Default
ECL	Expected Credit Loss
FAO	Fast Account Opening
FSDT	Financial Sector Deepening Trust
FVOCI	Fair Value through Other Comprehensive Income
FVPL	Fair Value through Profit or Loss
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
HTM	Held-to-Maturity
IAS	International Accounting Standards
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IMF	Internation Monetary Fund
INSEAD	Institut Européen d'Administration des Affaires
ISA	International Standards on Auditing
ISEB	Independent Schools Examinations Board
JKCI	Jakaya Kikwete Cardiac Institute
KYC	Know Your Customer
L&R	Loans and Receivables
LAPF	Local Authorities Pension Fund
LGD	Loss given default
LIBOR	London Inter-bank Offered Rate
MD	Managing Director
MFI	Microfinance Institution
MFSCL	Microfinance Services Company Limited
MIM	Mobile Information Management
MNO	Mobile Network Operators
MSc	Master of Science
N/A	Not applicable
NGO	Non-governmental Organisation
NPL	Non-performing Loans
OBS	Off-balance sheet
OCI	Other Comprehensive Income
PAR	Portfolio at Risk
PATH	Program for Appropriate Technology in Health
PD	Probability of Default
PSSSF	Public Services Social Security Fund
S&P	Standard and Poor's
SME	Small and Medium Entreprises
SMR	Statutory Minimum Reserves
SPPI	Solely Payment of Principal and Interest
TMRC	Tanzania Mortgage Refinance Company
TRA	Tanzania Revenue Authority
TZS	Tanzanian Shilling
USD	United States Dollar

CRDB Group at a glance

We are the largest

CRDB Bank Plc is an African bank and a leading Financial Services Provider in Tanzania with current presence in Tanzania and Burundi, East Africa. The Bank was established in 1996 and was listed on The Dar Es Salaam Stock Exchange (DSE) in June, 2009.

Over the years, CRDB Bank has grown to become the most innovative and preferred financial services partner in the region. Supported by a robust portfolio and uniquely tailored products, CRDB Bank remains the most responsive bank in the region.

Our shareholders

We have more than 28,000 shareholders. Below are shareholders holding more than 5% of the total paid up capital as at 31 December 2018.

- DANIDA Investment Fund
- PSSSF Pension Fund
- International Finance Corporation (IFC), CDC Group Limited and Africa Capitalization Fund (AfCap)

Products and Services

CRDB Bank Plc provides a wide range of products which suit the needs of different segments in the market, from the top to the bottom of the pyramid such as:-

1. Deposit products
2. Loan and Advances
3. Value Added Services

   Internet Banking;
   Simbanking;
   Bank cards (Debit and Credit cards);
   Premier Banking services; and
   Agency Banking Services.

3. Fund transfers
4. Treasury products (Money market and foreign exchange trading)
5. Insurance Services
6. Microfinance products
7. Trade Finance products

Financial strength

CRDB Bank Plc has maintained its position as the largest commercial bank in Tanzania, commanding 23% percent of total deposits and 20 percent of total assets in the market.

- Group’s total assets stood at TZS 6,035.4 billion (2017: TZS 5,901.6 billion).
- Group’s total deposits amounted to TZS 4,687.2 billion (2017: TZS 4,325.9 billion).
- First bank in Tanzania to receive a credit rating by the one of the world’s most respected rating agency, Moody`s Investors Services.
- Rated “B1 stable outlook” by Moody`s - which is the highest rating to have been acquired by banks or financial institutions in sub-Saharan Africa.
- Selected as a friendly partner by International financial institutions such as International Financial Corporation (IFC), KFW-DEG, Germany, CDC-UK and African Development Bank.

VISION

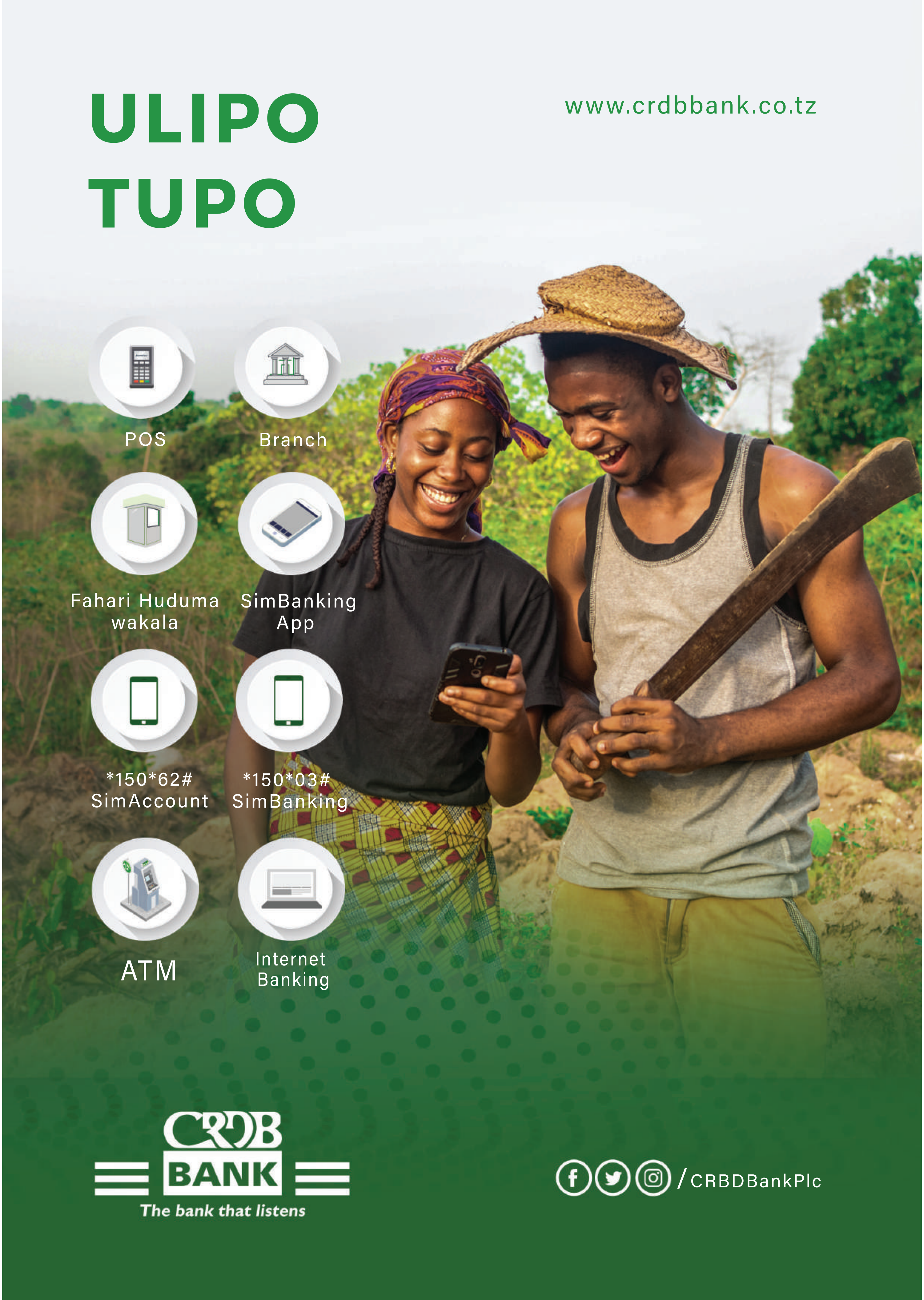
To be the leading bank which is customer need driven with competitive returns to shareholders

MISSION

Provide competitive and innovative financial solutions through digital transformation, to achieve distinctive customer experience, while caring for our people and delivering a sustainable contribution to the society

CORE VALUES

- **P**rofessional
- **R**esponsive
- **A**ccountability
- **C**ommitted
- **T**eam Player
- **I**nnovative
- **C**ourteous
- **E**fficient


ULIPO
TUPO
www.crdbbank.co.tz
POS
Branch
Fahari Huduma wakala
SimBanking App
*150*62# SimAccount
*150*03# SimBanking
ATM
Internet Banking
CRDB BANK
The bank that listens
/CRBDBankPlc

Our Coverage

Tanzania & Burundi

CRDB Bank Plc has three subsidiaries

1

CRDB Microfinance Services Company Ltd
that provides microfinance services.

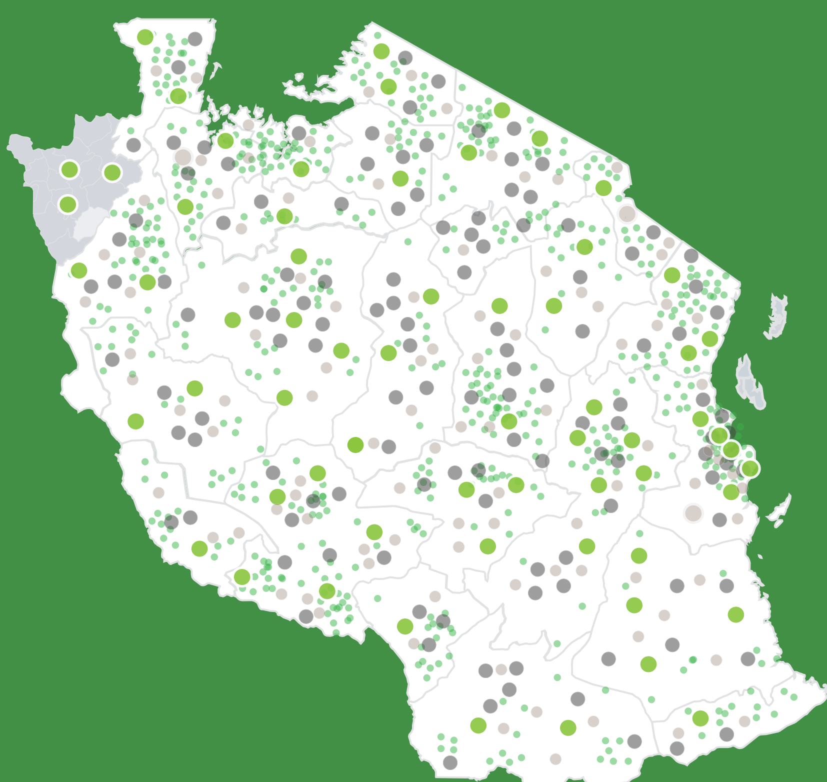
2

CRDB Bank Burundi S.A,
which is the first overseas subsidiary in Burundi.

3

CRDB Insurance Broker
that offers a range of insurance brokerage services and products.

ULIPO TUPO



552 ATMs

263 Branches (including Franchised Outlets)

5,457 Agency Banking

402 Microfinance Partners

Did you know?

CRDB Bank is the first and only Bank in East Africa to co-brand it's debit card known as **"TemboCard"** with major renowned international cards platforms VISA, MasterCard and Union Pay Interntional.

CORPORATE INFORMATION

INCORPORATION

CRDB Bank Plc (The 'Bank') is a Public Company limited by shares which was incorporated in the United Republic of Tanzania in 1996 under the Companies Act, CAP 212 Act No.12 and was listed on the Dar es Salaam Stock Exchange in June 2009.

It has established three wholly owned subsidiaries namely; CRDB Microfinance Services Company Limited incorporated in the United Republic of Tanzania in 2000, CRDB Bank Burundi S.A. incorporated in the Republic of Burundi in 2012 and CRDB Insurance Broker Ltd incorporated in the United Republic of Tanzania in 2016.

REGISTERED OFFICE

The Bank's Head Office is situated at Office Accommodation Building, located along Azikiwe Street, 4th floor, P.O Box 268, Dar es Salaam. Tanzania.

DIGITAL MEDIA PRESENCE

- CRDBBankPlc
- @crdbbankplc
- CRDBBankPlc
- CRDBBankPlc
- CRDBBankPlc
- crdbbank.co.tz

INVESTOR RELATIONS

Email: investorrelations@crdbbank.com

THE BOARD

The Bank adheres to corporate governance standards and its supreme governing body is the Board of Directors. The Board was composed of twelve non-executives and one Ex-officio. The names of the Board members as at the reporting date and their nationality have been shown below:

No.	DIRECTOR'S NAME	DESIGNATION	NATIONALITY
1	Mr. Ally H. Laay	Chairperson	Tanzanian
2	Mr. Charles E. Kichere	Member	Tanzanian
3	Mr. Boniface C. Muhegi	Member	Tanzanian
4	Mr. Jes Klausby	Member	Danish
5	Dr. Neema M. Mori	Member	Tanzanian
6	Ms. Rose F. Metta	Member	Tanzanian
7	Mrs. Madren N. Oluoch-Olunya	Member	Kenyan
8	Prof. Mohamed H. Warsame	Member	Tanzanian
9	Prof. Faustine K. Bee	Member	Tanzanian
10	Mr. Apollo B. Temu	Member	Tanzanian
11	Mr. Ebenezer N. Essoka	Member	Cameroonian
12	Mr. Hosea E. Kashimba	Member	Tanzanian
13	Mr. Abdulmajid M. Nsekela	Ex-officio	Tanzanian

COMPANY SECRETARY

The Company Secretary is Mr. John B. Rugambo who works from the registered Office.

EXECUTIVE MANAGEMENT

The Executive Management of the Bank is made up of the Managing Director and two Deputies whose names and nationalities are as shown below:

No.	DIRECTOR'S NAME	DESIGNATION	NATIONALITY
1.	Mr. Abdulmajid M. Nsekela	Managing Director	Tanzanian
2.	Mrs. Esther K. Kitoka	Deputy Managing Director Shared Services	Tanzanian
3.	Dr. Joseph O. Witts	Deputy Managing Director Operations and Customer Services	Tanzanian

AUDITORS

Ernst & Young
Tanhouse Tower 4th Floor
New Bagamoyo Road
P.O. Box 2475,
Dar es Salaam.
TANZANIA

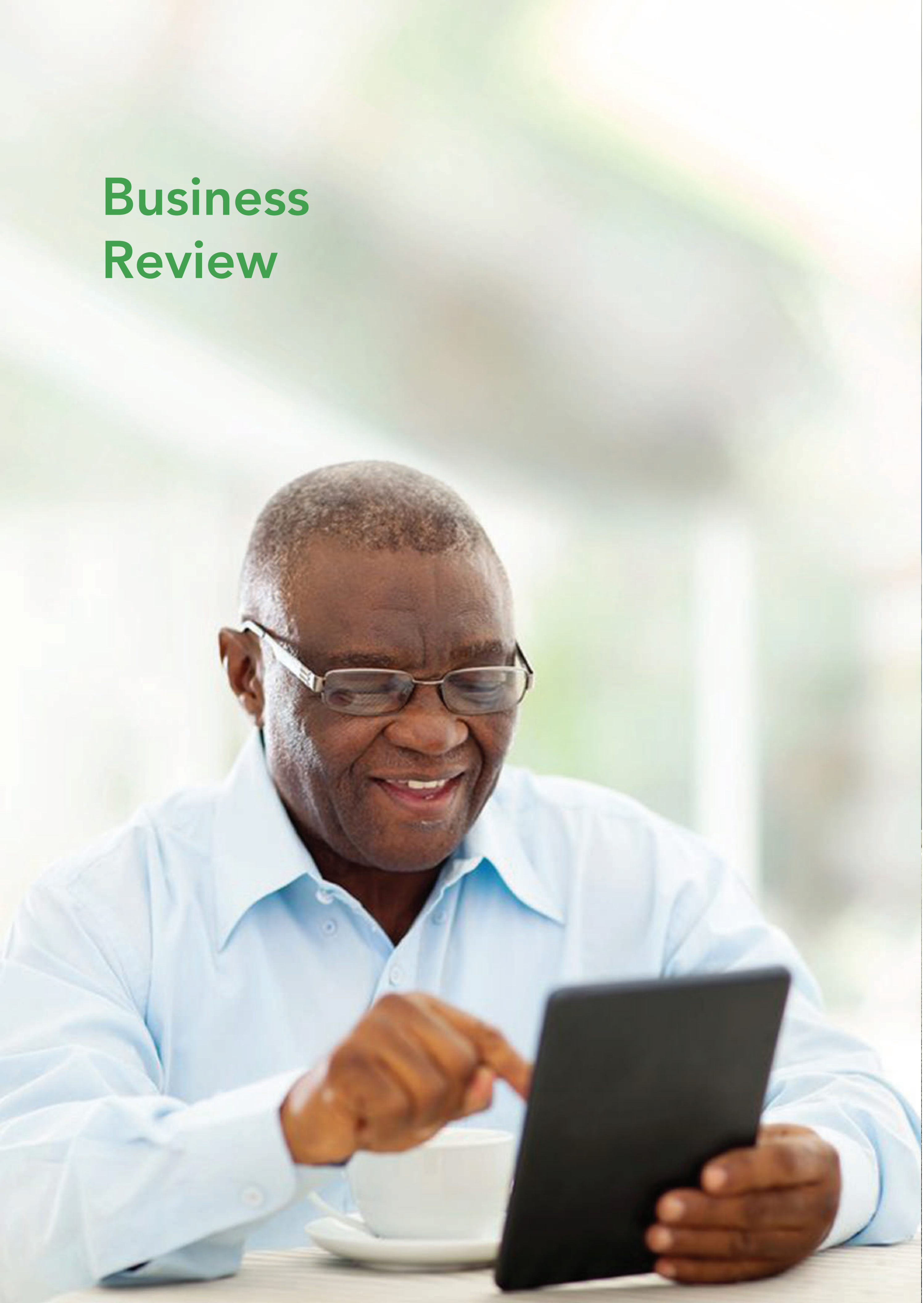
MAIN BANKER

Bank of Tanzania
10 Mirambo Street
P.O. Box 2939,
Dar es Salaam.
TANZANIA

MAIN LAWYER

Abeny & Company
NIC Life House, 2nd Floor
Ohio Street/Sokoine Drive
P.O. Box 3167,
Dar es Salaam,
TANZANIA

Business Review



Our Strategic Theme Continuity

2018 — Digital Transformation

Throughout the year, CRDB Group promoted digital transformation so as to create more awareness of digital banking in the efforts to enhance financial inclusion. The Group continued to adapt, embrace technological advances and capturing business opportunities while maintaining a prudent approach to business. With the loyal support of it's customers, the Group delivered a year of good financial performance.

2017 — Operational Excellence

The Group focused on value creation to customers through cross selling, optimization of technological and network potentials, cost containment and credit risk management. Key achievement included the integration with High Education School Loan Board (HESLB) for loan disbursement to students and introduction of new products including Salary advance, M-Wallet – SimAccount.

2016 — Network Expansion

The Group focused on optimization of alternative channels mainly card business, Simbanking and agent banking network. There was expansion of the network of branches, Government service centers, agents (FahariHuduma agents), mini service centers and alternative banking channels. A noteworthy achievement during this year was launching the Banks third subsidiary; CRDB Insurance Broker Ltd.

2015 — Year of Sales and Strategic Consolidation

The Group focused on achieving operational effectiveness to realize enhanced productivity of it's investments in new and existing outlets, and product lines. In line with the theme the Bank initiated an upgrade of it's core banking system largely to enhance its efficiency in the light of rapidly increasing transaction volumes.

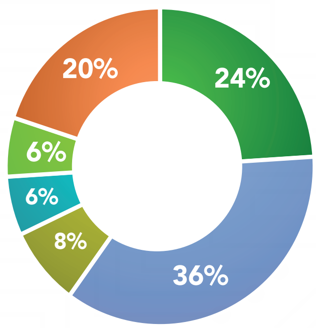
2014 — Expanding Capabilities and Capturing Opportunities

The Group continued to execute its strategic goals enlightened by the vision "to be the leading Group, customer need driven with competitive returns to shareholders". The Group continued with its market positioning strategy expanding its network both in Tanzania and Burundi in the retail banking space and was set to achieve a consolidation and deepening in the existing products and services by putting more efforts to explore, revamp, support, cross-sell and synergize between our extensive range of products and services.

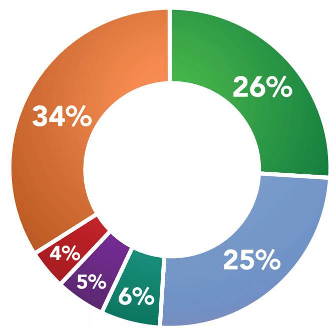
How we performed

In 2018, the Bank maintained its strong financial position. The banks performance in the industry is shown below

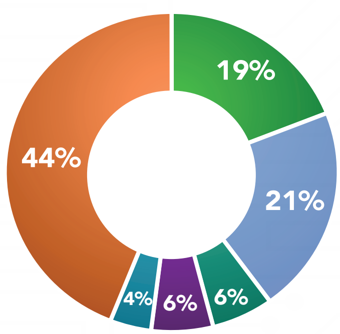
Profit before Tax



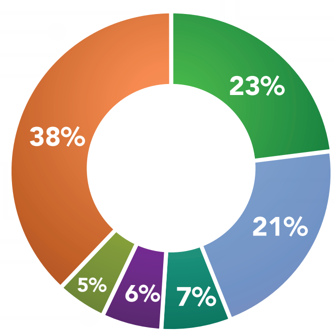
The largest Branch Network



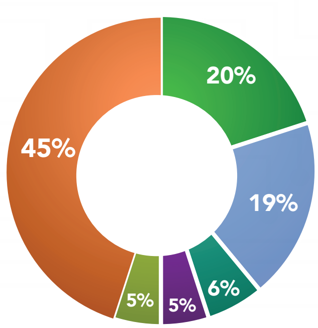
Net loans and advances to customers

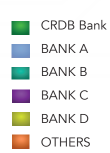


Deposits



Total Assets





Source: Analysis of published unaudited bank and financial institutions results as at 31 December 2018

Financial Highlights

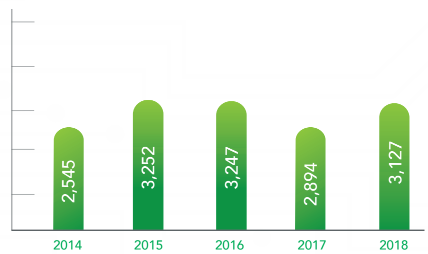
	Amount in TZS' Million				
	2014	2015	2016	2017	2018
Net interest income	276,187	390,649	433,145	409,716	442,844
Impairment losses on loans & advances	36,886	66,877	123,383	153,374	115,323
Net fees and Commissions	118,604	148,956	152,416	149,298	153,765
Foreign exchange income	29,334	34,860	34,842	37,351	31,326
Operating income	387,501	508,868	501,488	467,969	527,997
Operating expenses	255,257	321,178	389,690	399,464	428,880
Net income	95,645	128,978	69,577	36,212	64,132
Loans and Advances	2,545,296	3,251,953	3,247,257	2,893,838	3,126,733
Total assets	4,210,097	5,401,772	5,405,159	5,901,608	6,035,387
Total deposits	3,390,921	4,246,168	4,109,974	4,325,871	4,687,174
Shareholders' funds	441,151	681,353	707,626	733,460	773,620
Non-performing loans and advances	129,247	270,862	474,905	393,295	282,084

Key ratios					
Earnings per share	36.4	54.3	26.6	13.9	24.6
RoA	3.6%	4.2%	2.1%	0.9%	1.6%
RoE	25.2%	24.3%	9.8%	4.9%	8.3%
Cost to Income ratio	65.9%	55.8%	62.4%	66.7%	66.7%
Non-funded income/ Total income	34.9%	32.2%	30.7%	33.9%	31.1%
Net profit margin	22.5%	22.4%	11.0%	6.0%	10.0%
Capital/assets	10.5%	12.6%	13.1%	12.4%	12.8%
Capital/ Deposits	13.0%	16.0%	17.2%	17.0%	16.5%
Net Loans/ Total Deposits	76.0%	78.7%	79.0%	66.9%	66.7%
NPL/ Total Loans	5.0%	8.4%	13.9%	12.6%	8.5%

Financial Highlights (Continued)

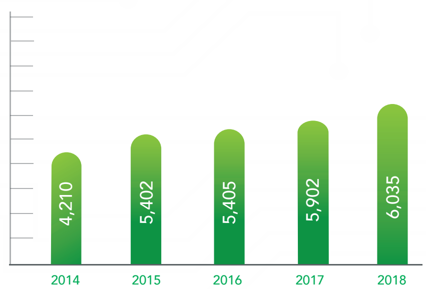
ANNUAL GROWTH

Loans, Advances and Overdrafts
(TZS Billions)



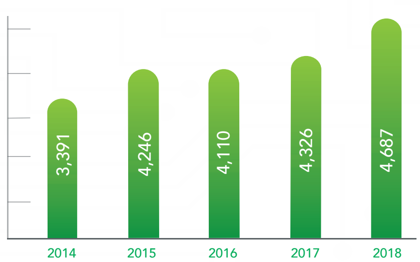
8.0%
TZS 3,127 billion
2017: TZS 2,894 billion

Total Assets
(TZS Billions)



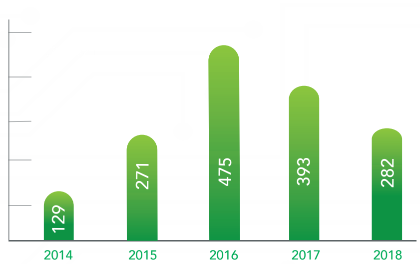
2.3%
TZS 6,035 billion
2017: TZS 5,902 billion

Deposits
(TZS Billions)



8.4%
TZS 4,687 billion
2017: TZS 4,326 billion

Non Performing Loans
(TZS Billions)

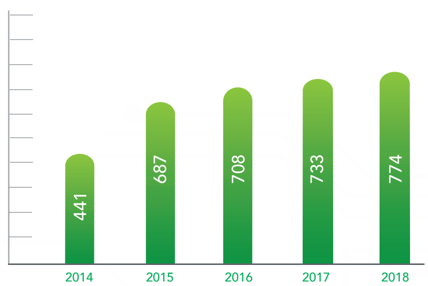


-28.3%
TZS 282 billion
2017: TZS 393 billion

Financial Highlights (Continued)

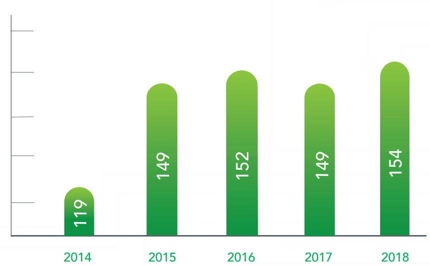
ANNUAL GROWTH

Capital
(TZS Billions)



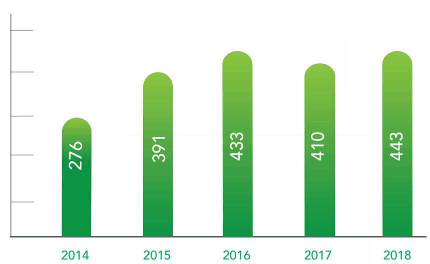
5.5%
TZS 774 billion
2017: TZS 733 billion

Net Fees & Commissions
(TZS Billions)



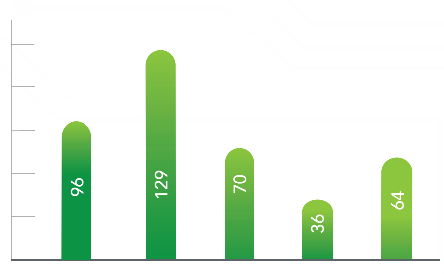
3.0%
TZS 154 billion
2017: TZS 149 billion

Net Interest Income
(TZS Billions)



8.1%
TZS 443 billion
2017: TZS 410 billion

Net Income
(TZS Billions)



77.1%
TZS 64 billion
2017: TZS 36 billion

CRDB Group 2018 Achievements & Accolades

Over the years, the Bank has consistently been a leader and innovator of value-adding customer centric products to cater the respective needs of the market.

Best Bank in Tanzania

Awarded by EMEA Finance at African Banking Awards

Corporate Social Responsibility Awards

Awarded by EMEA Finance at African Banking Awards

2nd Winner Best Presented Financial Statements

Large Bank Category

Awarded by NBAA

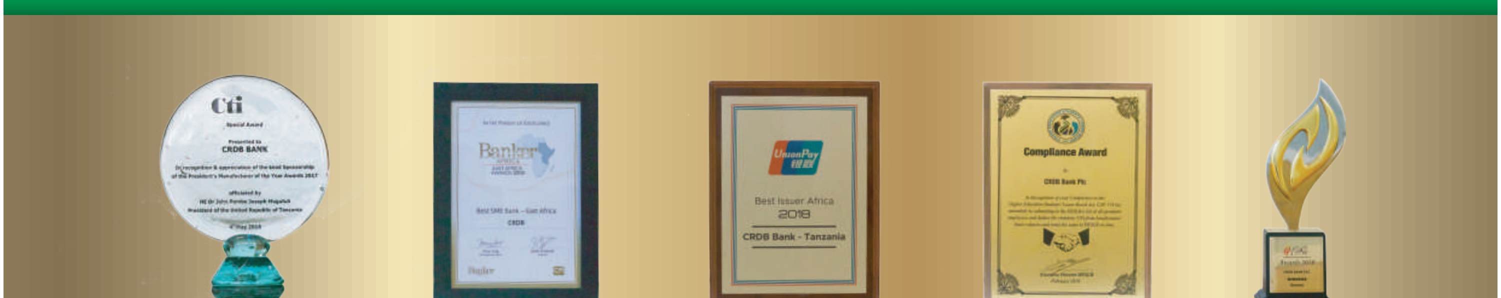
Best Custodian of the Year

Awarded by Dar es Salaam Stock Exchange Plc Member's Award 2018.

Best MIM Company of the Year

Awarded by Dar es Salaam Stock Exchange Plc Member's Award 2018.

Vice-President of the United Republic of Tanzania, Hon. Samia Suluhu Hassan presents a trophy to CRDB Bank Managing Director, Abdulmajid Mussa Nsekela during the Industrial Exhibition held in Coast Region in October, 2018.



CTI Special Award

Awarded by CTI as a lead sponsor of the President's Manufacturer of the Year

Best SME Bank in East Africa

Awarded by Banker Africa Awards

Best Issuer Africa

Awarded by UnionPay

Compliance Award

Awarded by Higher Education Students' Loans Board

Winner Best Financial Reporting Award Tanzania

Awarded by F.I.R.E

Our External Environment

CUSTOMER

Demographic keeps evolving and life patterns are changing the financial needs of our customers along with increased choices both in terms of provider and channel.

Impact

The increasing use of digital channels has to an extent reduced loyalty across a number of sectors. Clients are increasingly multi-banked with technologically sophisticated banking requirements as a result of an increased awareness of the various bank offerings, quality of service and pricing.

Response

The Group continues to keep pace with the advancement in technology so as to make it fast, convenient, and safer for customers to perform financial transactions. Our people are empowered so as to provide an excellent and consistent customer experience. Our customer data base provides us with relevant information that can be utilized to facilitate greater personalization while ensuring we meet all our customers' evolving banking and insurance needs.

COMPETITION

Mobile money is now a big business in Africa which has forced banks to re-evaluate their strategies on how to retain and increase their customer base through financial inclusion.

Impact

New digital technologies are reshaping the value proposition of existing financial products and services and how these are delivered to and consumed by clients.

Response

Building on our strong brand, we have a unique opportunity to further enhance customer experience. The Group continues to respond to innovation and meet the needs of diverse customer base whilst ensuring system resilience and security. During the year, the Group continued to strengthen its partnership with MNOs and expand its agent network. SIMAccount (M-wallet) was launched so as to offer financial services including payment solution to financial excluded customers. The Bank introduced personal loan application through Mob app and internally developed CreditPro solution to fast track Personal loan processing.

TECHNOLOGY

The industrial revolution is driving an exponential advancement of technology changing all aspects of financial institutions, from client expectations, new products and channels to organizational structure and processes.

Impact

New entrants in the financial service market are increasing competition through their innovative use of technology and data often specifically targeting small, profitable niches.

Response

We are not only competing in this space but also innovating new products that promise easier access to banking services to those who up until this point are excluded. Our SimBanking mobile service kicked off well and more products are being introduced in SimBanking such as salary advance, credit loans and cross border money transfers which can be accessed easily without having to visit the branch. During the year, CRDB Burundi successfully launched automated salary advance product, Fast Account Opening mobile application and Mobile top up products.

REGULATIONS

The banking industry sector in Tanzania is expected to remain highly regulated. Implementation of new regulations might be introduced in the future to ensure stability in this sector.

Impact

To increase credit and curb non-performing loans for banks, every bank was required to develop a NPL strategy, establish permanent recovery functions and segregate the duties of credit departments. The implementation of capital charge for operational risk resulted into increased risk-weighted assets and reduced capital adequacy ratios. BOT introduced a new regulation on loans write-off.

Response

The Group is well placed to comply with laws and regulations and meet requirements to embrace the positive effects they will have on the industry, its customers and other stakeholders. The automation of corporate rating, collection monitoring system (E-collect), implementation of EWS (Early Warning Signals) and restructuring of credit department will enhance credit risk management process across the Bank and reduce NPL. During the year, the Bank cleaned up its loan portfolio to ensure compliance with regulations.

ECONOMY

In 2018, Tanzania was among the fastest growing economies in Sub-Saharan Africa and is forecasted to further grow in 2019. Despite the political tension, Burundi economy is forecasted to improve in 2019.

Overview

As a large financial service provider, our performance is closely aligned with the economic outlook of the countries we operate in. With the ongoing infrastructure development in Tanzania we expect there to be increase in lending business. In 2018, Burundi's GDP improved due to resurgence in the services sector following the return of relative calm, and increased production of key export items such as coffee and tea.

Outlook

Looking ahead; impairments are expected to slow down against our lending balances contributed by lower interest rates. Also, as Burundi economy is forecasted to improve in 2019, we expect there to be more business and better financial performance.

INTERNATIONAL FINANCIAL REPORTING REGULATIONS

Tanzanian banks joined their global peers in adopting IFRS 9 which attributed to significant shift in accounting for financial instruments. In 2019, the new Standard on Leases, IFRS 16 is expected to be adopted.

Impact

The adoption of IFRS 9 resulted in reclassifications of financial instruments and the implementation of an Expected Credit Loss (ECL) model from the incurred credit loss model used in the previous accounting standard, IAS 39. The adoption of IFRS 16 will result in the introduction of lease liability and Right-of-Use assets in the balance sheet.

Response

The Group prepared itself adequately and applied IFRS 9 from 1 January 2018. The Group has reviewed its leases and assessed the impact of the adoption of IFRS 16 ready for implementation effectively from 1 January 2019.

> The Group continues to make progress by creating sustained value for it's customers, employees, shareholders and other stakeholders

Ally Hussein Laay
Board Chairman

Chairman's Statement

On behalf of the Board of Directors of CRDB Bank Plc Group, I am pleased to present the Director's report and audited financial statements for the year ended 31 December 2018.

Operating Context

Tanzania posted economic growth of 7.2 percent in 2018, a moderate growth from 7.0% in 2017 and inflation decreased from 4.0 percent in 2017 to 3.3 percent in 2018.

The business environment maintained a subdued recovery in 2018 and the banking industry continued to adjust to the macro-economic changes and regulatory measures instituted by the Bank of Tanzania (BOT) in the second half of 2017, which aimed at stimulating banks appetite for lending to the private sector. Measures included reduction of Statutory Minimum Reserve (SMR) requirement from 10 percent to 8 percent and the interest rate from 9 percent to 7 percent. The results of the measures were reflected by the growth of credit to the private sector at an average of 4.9 percent in 2018 compared to 1.7 percent in 2017 and Broad Money Supply (M3) by 4.6 percent

The banking sector registered a profit after tax of TZS 273.2 billion, which is above TZS 208.9 billion realized in the previous year. The decrease in profit was caused by among others, the increase in loan provisions following implementation of International Financial Reporting Standard (IFRS 9) starting January 2018.

The Non Performing Loans (NPLs) across the industry dropped to 10.4 percent from 11.9 percent in 2017. The decrease in NPL was attributed to various measures taken by commercial banks to implement credit containment strategies in line with BoT directives. In the year 2018, the Banking sector remained sound and stable with 61 registered financial institutions, out of which 52 were commercial banks comprising a network of 884 branches across the country.

Financial Performance

I am delighted to report a positive performance of the Group during the year under review amidst challenges we faced in the business environment. The Group made a profit after tax of TZS 64.1 billion, CRDB Bank Burundi subsidiary recorded a profit after tax of TZS 2.6 billion, CRDB Microfinance Services Company Limited made a loss of TZS 8.7 billion and CRDB Insurance Broker Limited recorded a net profit of TZS 1.3 billion.

During the year CRDB Bank Plc continued to be one of the most active and liquid stock at the Dar es Salaam Stock Exchange, accounting for 4.0% of total turnover. Nevertheless the Bank's share price went on a downward trend from TZS 160 in December, 2017 to TZS 145 as at 31 December, 2018, a decrease of 9 percent. Some of the reasons behind the decrease include the tough economic conditions that prevailed during the past year which prompted shareholders to sell their shares. The stock price is expected to improve owing to improved Bank's performance supported by strong economic growth.

Strategic focus

During the year 2018, the Bank started to implement a new 5-year business strategy themed 'The Digital Transformation Journey', which aims to transform branch operations to improve customer experience and overall efficiency. The strategy is built on three pillars namely; transforming the existing machinery, building the bank of the future and addressing the enablers.

Changes in the Board

Two Board Members representing shareholders owning less than 1 percent of the Bank shares, namely Mr. Juma Abdalah Abdulrahaman and Mrs. Devotha Ntuke Minzi retired. On behalf of the Board, I would like to express my gratitude for their excellent contributions to the Bank's impressive performance. I take this opportunity to wish them good health and prosperity in their future endeavors.

Prof. Faustine Karrani Bee and Mr. Apollo Boniface Temu were elected to replace the retired board members. The new board members bring with them a wealth of business knowledge and professional experience, which will go a long way to add value to the bank. Ms. Rose Felix Metta was re-elected to the Board to represent the group of shareholders owning between 1 and 10 percent of the Bank shares. The Bank of Tanzania has approved the new Board Members.

In February 2019, the Bank of Tanzania made changes of three (3) Board Members namely; Prof. Mohamed H. Warsame, Mrs. Madren N. Oluoch-Olunya and Mr. Apollo Boniface Temu.

Changes in Management

Dr. Charles S. Kimei retired in October 2018 after serving the Bank as Managing Director for more than twenty-two years. We shall forever be indebted to Dr. Kimei for his considerable contribution and distinguished service.

Indeed, it is impossible to talk about the Group's transformation from a humble beginning in the late 1990s without mentioning Dr. Kimei. It was indeed a privilege to have Dr. Kimei as Group's Managing Director for more than two decades. The Board appreciates maximum cooperation accorded by Dr. Kimei to ensure a smooth transition and handing over of leadership to his successor.

The Board would like to welcome onboard the new Managing Director of CRDB Bank Plc Mr. Abdulmajid Mussa Nsekela who was appointed to replace Dr. Kimei and will sit in the Board as an Ex-officio member.

The Board has confidence in the new Managing Director and trusts in his ability and vast experience to deliver and steer the Group to even greater heights. Mr. Nsekela who started his banking career at CRDB Bank Plc has rejoined the CRDB family from NMB Bank.

The Board also appointed Dr. Joseph Ochien'g Witts as the new Deputy Managing Director – Operations and Customer Service. Dr. Witts who before this appointment was the Director of Strategy and Innovation at CRDB Bank Plc takes over from Mr. Saugata Bandyopadhyay whose contract ended in February 2018, thanks to Saugata.

The Board would like to thank Mrs. Esther Kitoka, the Deputy Managing Director - Shared Services and Mrs. Dorah Ngaliga, the Director of Human Resources for having acted as Deputy Managing Director - OCS and Deputy Managing Director - SS respectively during the transition period.

Dividend Recommendation

I am pleased to present the recommended dividend of TZS 8 per share for the year ended 31 December 2018 payable to shareholders on the register as of 18 May 2019. A resolution to this effect will be presented to the 24th Annual General Meeting on 18 May 2019 for adoption by shareholders.

Future Prospects

The business environment is expected to maintain a recovery in 2019 onwards and allow the Bank to adjust to the macro-econonic changes and regulatory measures instituted by the Bank of Tanzania (BOT) aimed at stimulating banks' appetite for lending to the private sector.

The Bank will look to leverage on its broad branch network and digital channels to improve customer experience and increase value to shareholders.

To maintain positive growth and address the challenges ahead, the Group will be required to be more aggressive, innovative and agile to ensure the new five-year strategic plan produces the expected results. Indeed, improved results recorded by the Group during the year under review reflect a bright future and have attested to the Group's resilience and determination to overcome adverse conditions that had recently impacted negatively on profit and witnessed unprecedented high NPLs growth in the banking sector.

The Board will continue to strengthen its oversight and governance role within the Group to enhance shareholders' value. Among the priority areas in 2019 includes improvement of capital adequacy, cost management and staff productivity. The Group expects to record better results in 2019 that will enable it to improve its return to shareholders.

The Board welcomes interventions by the Bank of Tanzania and other authorities to maintain a conducive business environment that will help turn around the performance of the banking sector. More engagement will continue to be with the Bank of Tanzania and other authorities to facilitate the implementation of upcoming initiatives.

Appreciation

I applaud Board Members for their resolute support and dedication. I acknowledge with gratitude the strong backing provided to the Group by regulatory bodies, shareholders and customers throughout the year.

Management and staff deserve special recognition for their continued commitment, hard work; innovation and teamwork that have seen the Group sail successfully during the year. The Board is proud to have such a dedicated team of staff in place and look forward to a better performance in 2019.

The Board appreciates an enabling support and cooperation extended to the Group by the Governments of the United Republic of Tanzania and Republic of Burundi.

I wish our customers, shareholders, management, staff and other stakeholders a very fruitful and prosperous 2019.

Thank you very much!
God Bless you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Taarifa ya Mwenyekiti

Kwa niaba ya Bodi ya Wakurugenzi wa Benki ya CRDB ninayo furaha kuwasilisha Taarifa ya Wakurugenzi na Hesabu zilizokaguliwa za mwaka wa fedha ulioishia tarehe 31 Disemba 2018.

Mazingira ya biashara

Uchumi wa Tanzania ulikua kwa asilimia 7.2 mwaka 2018, ikilinganishwa na ukuaji wa asilimia 7.0 mwaka 2017. Mfumuko wa bei ulipungua kutoka asilimia 4.0 mwaka 2017 hadi asilimia 3.3 mwaka 2018.

Mazingira ya biashara yaliendelea kuimarika na tasnia ya benki iliendelea kubadilika ili kuendana na mabadiliko ya kiuchumi na hatua zilizochukuliwa na Benki Kuu nusu ya pili ya mwaka 2017 kwa lengo la kuongeza mikopo kwa sekta binafsi. Hatua hizo ni pamoja na punguzo la kiwango cha akiba kinachowekwa Benki Kuu (Statutory Minimum Reserve) kutoka asilimia 10 hadi asilimia 8 na kiwango cha riba ya mikopo kwa benki (discount rate) kutoka asilimia 9 hadi asilimia 7. Miongoni mwa mwatokeo ya hatua hizo ni ukuaji wa mikopo kwa sekta binafsi kwa kiwango cha asilimia 4.0 mwaka 2018 kulinganisha na ukuaji wa wastani wa asilimia 1.7 mwaka 2017 na kuongezeka kwa asilimia 4.6 kwa kiasi cha fedha katika uchumi (M3).

Sekta ya benki kwa ujumla ilipata faida ya shilingi bilioni 273.2, kiwango ambacho kiliongezeka kulinganisha na faida ya shilingi bilioni 208.9 iliyopatikana mwaka 2017. Kupungua kwa kiwango cha faida kulisababishwa na kuongezeka kwa tengo la hasara ya mikopo kutokana na utekelezaji wa taratibu mpya za kiuhasibu - International Financial Reporting Standard (IFRS) 9 kuanzia mwezi Januari mwaka 2018.

Kiwango cha mikopo chechefu kwenye sekta ya benki mwaka 2018 kilipungua kutoka asilimia 11.9 mwaka 2017 hadi asilimia 10.4. Kupungua kwa kiwango cha mikopo chechefu kulitokana na hatua mbalimbali zilizochukuliwa na Benki kutekeleza mikakati mbalimbali iliyoagizwa na Benki Kuu ya Tanzania.

Sekta ya benki iliendelea kuimarika mwaka 2018, ambapo kulikuwa na taasisi za kifedha 61 zilizosajiliwa na kati ya hizo benki zilikuwa 52 zenye jumla ya matawi 884 nchini.

Utendaji wa kifedha

Ninayo furaha kuwasilisha mafanikio ya Benki na kampuni zake tanzu, licha ya changamoto za kibiashara tulizokabiliana nazo mwaka husika. Benki na kampuni zake tanzu zilipata faida ya shilingi bilioni 64.1, Kampuni tanzu ya CRDB Bank Burundi ilipata faida ya shilingi bilioni 2.6, CRDB Microfinance Services Company Limited ilipata hasara ya shilingi bilioni 8.7 na CRDB Insurance Broker Limited ilipata faida ya shilingi bilioni 1.3.

Hisa za Benki ya CRDB ziliendelea kuchagiza biashara katika soko la Hisa la Dar es Salaam kwa kuchangia asilimia 4.0 ya jumla ya mauzo. Hata hivyo, bei ya hisa za Benki ilipungua kutoka shilingi 160 kwa hisa mwezi Desemba 2017 hadi shilingi 145 kwa hisa mwezi Desemba, 2018.

Kupungua kwa bei ya hisa za Benki kulisababishwa na changamoto za kiuchumi zilizojitokeza mwaka husika ambazo zilisababisha baadhi ya wanahisa kuuza hisa zao.

Bodi ya Wakurugenzi itaendelea kusimamia ufanisi wa Benki kuboresha utendaji kifedha na kuimarika kwa hali ya uchumi kutasaidia kuongeza bei ya hisa.

Mafanikio ya Kimkakati

Mwaka 2018 Benki ilianza utekelezaji wa mkakati mpya wa kibiashara ambao maudhui yake ni 'Safari ya Mageuzi ya Kidijitali', ambayo ina lengo la kuleta mageuzi katika utendaji wa matawi ya benki ili kuboresha huduma kwa wateja na kuongeza ufanisi kwa ujumla.

Mkakati huo umejengwa katika nguzo tatu ambazo ni; kufanya mageuzi nyenzo za biashara, kujenga benki ya wakati ujao na kuboresha vitendea kazi.

Mabadiliko ndani ya Bodi

Wajumbe wawili wa Bodi waliowakilisha kundi la wanahisa wenye hisa chini ya asilimia 1 ya hisa za Benki ambao ni Bw. Juma Abdalah Abdulrahaman na Bi. Devotha Ntuke Minzi walistaafu. Kwa niaba ya Bodi, napenda kuwashukuru wajumbe hawa kwa mchango wao katika utendaji wa Benki. Nawatakia afya njema na mafanikio katika maisha yao.

Profesa Faustine Karrani Bee na Bw. Apollo Boniface Temu walichaguliwa kuwa wajumbe wa Bodi kuwakilisha kundi la wanahisa wenye hisa chini ya asilimia moja (1). Wajumbe hawa wana ujuzi, uzoefu na weledi wa masuala ya biashara ambao utasaidia kuboresha utendaji wa Benki. Bi. Rose Felix Metta alichaguliwa kwa mara nyingine kuwa mjumbe wa Bodi kuwakilisha kundi la wanahisa wanaomiliki hisa kati ya asilimia 1 na asilimia 10. Benki Kuu iliwaidhinisha wajumbe hao wote watatu.

Februari mwaka 2019, Benki Kuu ilifanya mabadiliko ya wajumbe watatu (3) wa Bodi ambao ni Bi. Madren N. Oluoch-Olunya, Dkt. Mohamed H. Warsame na Bw. Apollo B. Temu.

Mabadiliko ya Menejimenti

Dkt. Charles S. Kimei alistaafu mwezi Oktoba mwaka 2018 baada ya kuhudumu katika nafasi ya Mkurugenzi Mtendaji wa Benki kwa muda wa miaka 22.

Ni vigumu sana kuzungumzia mafanikio ya Benki tangu ilipoanza miaka ya 90 bila kutaja jina la Dkt. Kimei kwasababu alikuwa kiongozi wa Benki yetu kwa kipindi cha zaidi ya miongo miwili. Bodi ya Wakurugenzi inamshukuru Dkt. Kimei kwa ushirikiano mzuri aliotoa katika kuhakikisha zoezi la kupatikana na kukabidhi madaraka kwa Mkurugenzi Mtendaji mpya linafanyika kwa ufanisi. Daima tutamuenzi Dkt. Kimei kwa mchango na utumishi wake.

Bodi inapenda kumkaribisha Mkurugenzi Mtendaji mpya wa Benki ya CRDB Bw. Abdulmajid Mussa Nsekela kwenye uongozi wa Benki na ujumbe wa Bodi kutokana na wadhifa wake. Bodi ina imani na Mkurugenzi Mtendaji mpya na inaamini anao uwezo na uzoefu kuleta mafanikio na kuiongoza Benki iweze kufikia malengo yake. Bw. Nsekela amejiunga tena na familia ya Benki ya CRDB kutoka Benki ya NMB.

Bodi ilimteua Dkt. Joseph Ochien'g Witts kuwa Naibu Mkurugenzi Mtendaji – endeshaji na Huduma kwa Wateja. Dkt. Witts ambaye kabla ya uteuzi wake alikuwa Mkurugenzi wa Mikakati na Ubunifu amechukua nafasi ya Bw. Saugata Bandyopadhyay ambaye mkataba wake uliisha Mwezi Februari 2018. Bodi inapenda kumshukuru Bi. Esther Kitoka, Naibu Mkurugenzi Mtendaji – Huduma Mtambuka na Bi. Dorah Ngaliga, Mkurugenzi wa Rasilimali Watu ambao walikaimu nafasi za Naibu Mkurugenzi Mtendaji, Uendeshaji na Huduma kwa Wateja na Naibu Mkurugenzi Mtendaji – Huduma Mtambuka.

Pendekezo la Gawio

Ninayo furaha kuwasilisha pendekezo la gawio la shilingi 8 kwa hisa kwa mwaka ulioishia tarehe 31 Desemba, 2018 litakalolipwa kwa wanahisa watakaokuwemo kwenye daftari hadi tarehe 18 Mei 2019. Azimio litawasilishwa kwenye Mkutano Mkuu wa 24 utakaofanyika tarehe 18 Mei, 2019 ili kuidhinishwa na wanahisa.

Matarajio ya baadaye

Tunatarajia mazingira ya biashara yataendelea kuimarika mwaka 2019 na kuiwezesha Benki kukabiliana na mabadiliko ya uchumi na hatua za usimamizi zinazochukuliwa na Benki Kuu kwa lengo la kuchochea mikopo kwa sekta binafsi. Benki itajielekeza katika kutumia kikamilifu mtandao wake mpana wa matawi na njia za kidijitali ili kuboresha huduma kwa wateja na kuongeza thamani kwa wanahisa.

Benki na kampuni zake tanzu zitaongeza jitihada na ubunifu kuhakikisha kuwa mpango mkakati mpya wa miaka mitano unaleta manufaa yaliyokusudiwa. Matokeo mazuri ambayo Benki imepata mwaka husika yanaashiria mafanikio zaidi siku zijazo na kuthibitisha uwezo wa Benki kukabiliana na changamoto ambazo miaka ya hivi karibuni ziliathiri faida kutokana na kiwango cha mikopo chechefu katika sekta ya benki kuongezeka kuliko miaka iliyopita.

Bodi iteandelea kuimarisha jukumu lake la kusimamia utawala bora ndani ya Benki ili kuboresha faida na hatimaye thamani wanayopata wanahisa. Miongoni mwa vipaumbele mwaka 2019 ni kuhakikisha uwepo wa mtaji wa kutosha na kudhibiti gharama. Benki na Kampuni zake tanzu zinategemea kupata mafanikio bora mwaka 2019 ambayo yatasaidia kuongeza pato kwa wanahisa.

Bodi itashirikiana na Benki Kuu na mamlaka nyingine kuendelea kuboresha mazingira ya biashara kusaidia ufanisi katika utendaji wa sekta ya benki.

Shukrani

Napenda kuwapongeza wajumbe wote wa Bodi kwa ushirikiano wao na kujituma katika kutekeleza majukumu yao. Natambua ushirikiano mzuri tuliopata kutoka mamlaka za usimamizi, wanahisa na wateja kwa kipindi chote cha mwaka 2018.

Nawapongeza Menejimenti na wafanyakazi kwa kujituma, kufanya kazi kwa bidii, ubunifu na ushirikiano ambavyo vimeiwezesha Benki na kampuni zake tanzu kupata mafanikio mazuri katika mwaka husika. Bodi inajivunia kuwa na wafanyakazi wanaojituma kwa kiwango kikubwa na inategemea kuona mafanikio zaidi mwaka 2019. Bodi inathamini na kutambua mchango na ushirikiano unaotolewa kwa Benki na serikali ya Jamhuri ya Muungano wa Tanzania na Serikali ya Jamhuri ya Burundi.

Nawatakia afya njema na mafanikio wanahisa, wateja, menejimenti, wafanyakazi na wadau wote wa Benki.

Asante sana na MUNGU awabariki!

> CRDB Group sees the opportunity to transform how we do business and build deeper and more personal relationships with those we serve

Abdulmajid Mussa Nsekela
CEO and Managing Director

Managing Director's Statement

I am pleased to present to you the Annual Report for the 2018 Financial Year (FY), which provides a comprehensive business review of the year ended December 31, 2018.

First of all, I wish to take this opportunity to thank our shareholders and the entire Board of Directors of CRDB Bank; under the able leadership of our Board Chairman, Mr. Ally Hussein Laay, for giving me an opportunity and entrusting me with this onerous role of steering CRDB Bank Plc to the next level. I am humbled by the patronage and strategic guidance that the entire team has provided to enable us make commendable strides.

In the same breadth, I wish to extend my sincere gratitude to my predecessor, Dr. Charles Kimei for his astute support during the transition period, and more so, for his steadfastness in building a solid foundation for the Bank.

I am glad to report that during the 2018 FY, CRDB Bank recorded an impressive performance, underlined by strong business fundamentals and a resilient balance sheet. The Bank made significant progress in solidifying it's market leadership position as the largest commercial bank in Tanzania, commanding market share of 23 percent of total deposits and 20 percent of total assets. The Bank also closed the year with a solid balance sheet and registered a notable 77.1 percent growth in net profit, compared to the previous year.

This Annual Report provides a contextual analysis and detailed review of the key achievements, actions and activities that shaped the Bank's operating environment during the 2018 financial year.

Operating Environment

The banking sector remained stable, with recovering profitability and healthy banking sector capital position as a result of continuous monitoring and support by the Bank of Tanzania (BOT). On the down side, the sector experienced challenges as a result of changes in both operating guidelines and regulations, which saw closure of five commercial banks and financial institutions due to undercapitalization.

The sector's Capital Adequacy ratio (CAR) was 16.3 percent and a loan-to-deposit ratio (LDR) of 84.2 percent at the end of 2018.

Banks improved their credit management practices to reduce non-performing loans (NPLs), which is reflected by the decline in the sector's NPL ratio of 10.4 percent in 2018 compared to 11.9 percent in 2017.

In addition, the introduction of International Financial Reporting Standards (IFRS) 9 Instruments brought about significant changes to the accounting of impairment and measurement of expected credit losses, which resulted in increased provisions and decline in bottom-line profit. Our operating environment was influenced by rapid technological changes and increased competition mainly from Mobile Network Operators (MNOs), Fintechs, Microfinance institutions and non-banks financial institutions. However, we continued to invest in building our partnerships and scouting networks across the globe to ensure we are at the cutting edge of technology. Given the increased competition, we have made necessary decisions around our banking operations to ensure that our customers undertake their banking through various alternative channels.

The financial year 2018 saw the Government and regulator step up efforts to stimulate economic growth and maintain macroeconomic and financial system stability in the country. The Government focused on development of infrastructure projects with a view to accelerate the economy upon completion.

BOT contained an accommodative monetary policy, including easing of lending rates to stimulate economic growth. In August 2018, Bank of Tanzania revised it's discount rate downwards to 7 percent from 9 percent as a means to boost credit growth to private sector. In efforts to enhance operational efficiency and block loopholes for illegal foreign currency trading and money laundering, BOT reviewed bureau de change regulations and required all forex shops to apply for re-licensing under the new regulations.

Financial Performance

CRDB Bank, together with its subsidiaries, maintained positive results in their consolidated financial performance with net profit of TZS 64.1 billion recorded in 2018. The Group's total operating income stood at TZS 642.7 billion, which represents a 6.0 percent growth from 2017.

The Bank deployed reliable technology to improve operational efficiency and deliver convenience and flexibility for customers in accessing banking services. During the year, operational expenses were recorded at TZS 428.9 billion, representing a 7.4 percent increase from 2017 FY. These expenses were significantly lower, compared to the 5 years average growth, as a result of the implementation of cost-management and digital transformation initiatives.

The Group's profitability was in line with Bank objectives, reflecting well-maintained loan quality and improved credit management practices,the loan provision decreased by 24.8 percent to TZS 115.3 billion.

Total Group assets grew by 2.3 percent to TZS 6,035.4 billion, while customer deposits registered a growth of 8.4 percent from TZS 4,325.9 billion in 2017 to TZS 4,687.2 billion at year end.

The Bank also witnessed an increase in demand for personal loans. Strategically, the Bank offered competitive lending rates to stimulate consumer loan growth, which is reflected in the balance sheet as net loans and advances to customers increased by 8.0 percent to TZS 3,126.7 billion as at the end of the year.

CRDB Bank subsidiaries continued to make positive contribution with the exception of CRDB Microfinance Services Company Limited, which suffered a loss of TZS 8.7 billion in 2018. The loss was attributed to the deterioration in wholesale lending to Microfinance Institutions, which is its core business. The Group consequently reviewed the microfinance business model and decided to reintegrate the subsidiary with parent company to improve efficiency.

CRDB Bank Burundi S.A. recorded a profit after tax of TZS 2.6 billion, compared to TZS 3.5 billion recorded in 2017. The decline in profitability was partly caused by the volatility in the Foreign Exchange market. During the year, the subsidiary maintained a healthy balance sheet with a growth in total assets from TZS 149 billion in 2017 to TZS 206.1 billion. Total customer deposits recorded significant growth of 17.5 percent to TZS 98.7 billion in 2018.

Despite the prevailing economic headwinds in Burundi, which is a challenge to most businesses in the country, CRDB Bank Burundi S.A. has tenaciously positioned itself in such a manner that it observes economic conditions to anticipate challenges and capture opportunities.

CRDB Insurance Broker Limited made a profit after tax of TZS 1.3 billion compared to TZS 1 billion recorded in 2017. The increase in the company's profit by 30 percent year-on-year is commendable in comparison to the industry's average growth of -3.5 percent in 2018.

Generally, the insurance sector experienced slow growth specifically in the last two quarters of 2018, owing to the impact on operationalization of the new regulation on minimum rates for insurance businesses. In the 2018 financial year, CRDB Insurance Broker Limited ensured client retention and recruited new clients, which is reflected in the increase in commission income by 22 percent from TZS 4.6 billion in 2017 to TZS 5.6 billion.

In its efforts to increase business operations and improve its strategic position in the market, the subsidiary's operating costs increased to TZS 4.4 billion in 2018, compared to TZS 3.1 billion recorded in 2017.

Strategic Outlook

The banking environment is fast-changing, often dictated by new digital technologies and a dynamic population. During the financial year 2018, digital technologies continued to influence the general business environment, necessitating development of new business models, reinvention of customer experience and largely a redefinition of relationships between financial institutions and their stakeholders.

CRDB Bank Group sees this as an opportunity to transform how we do business and build deeper and more personal relationships with those we serve.

Admittedly, 2018 remains an important year for CRDB Bank Group, because it marked the start of implementation of our five-year Business Strategy and Plan. The strategy firmly puts CRDB Bank on a journey of transformation, towards building the bank of the future. In this journey, we have trained our focus on improving customer service and deploying effective digital solutions that are designed to improve the cost-to-income ratio and position the Bank's brand as Africa's pioneer and leader in building a futuristic digital banking ecosystem.

Key Initiatives Implemented in 2018

The Group implemented most activities that were planned and the completion rate was above 95 percent. Some of the initiatives taken to improve the Bank's overall performance included branch transformtion, which targets to improve sales effectiveness and productivity.

The transformation entailed franchising 29 mini service centers to Fahari Huduma agents and migrating customers to digital channels such as ATMs, SimBanking, Internet banking, Point of Sale (POS) and CRDB Wakala; in order to free up bank staff to do sales or cross-sale activities.

Secondly, the Bank pursued several deposit mobilization initiatives through continuous engagement with top corporate and institutional customers for retention and ostensibly improve business relations. In addition, the Bank established nine zones for upcountry branches geared at enhancing business growth and expediting business operations. The Bank implemented customer migration campaign to entice customers to use digital platforms in 81 branches. The improvement made in the performance of FahariHuduma agents brought in positive results.

The number of agents during the year rose from 3,286 in 2017 to 5,457 at December 2018. We are aware of the challenges being faced by our agents such as high transaction costs, limited public trust, working tools and cash float limitations. The Bank reassures our agents of our commitment to continuously address these challenges and we are confident that FahariHuduma agents will have a better working environment.

We are delighted to report a drop in non-performing loans ratio from 12.6 percent in 2017 to 8.5 percent as a result of the steps we took to transform credit management practices. The actions include launching of systems to facilitate credit management such as Automated Credit Origination system for personal loans, collection monitoring system (E-collect), early warning system (EWS) and restructuring of the credit department to enhance credit risk management process across the Bank. The first squad for digital journey completed digitization of personal loan application. More concerted efforts are being made to continuously improve our lending processes and quality of our loan portfolio, in order to attain internal and regulatory targets for non-performing loans. The initiatives include a review of our internal processes, which will consequently enable us to improve service to our customers, including timely processing and approval of loan applications and ultimately lead to a drop in loan provision and enhanced profitability.

Furthermore, a roll-out of a new underwriting process has been completed and a new appraisal report and streamlined KYCs are currently in use. The Group continued to enhance it's working methods and building information technology capacity and capability, so as to become more agile and innovative to support the development of the latest digital products and services.

2018 proved to be an exciting year for us, as we created more awareness on digital banking and enhanced the features of our mobile banking platform "SimBanking app" to offer an easy, fast online banking experience and is optimized for mobile phones. In addition, we introduced QR code-based payments to promote cashless transactions and completed integration with Government Electronic Payment Gateway (GePG) to ensure our clients make government-related payments in a convenient and seamless manner.

Our Call Centre plays an important role in the education process and is always ready to assist customers in using electronic banking and to accept customer advice or complaints.

Towards the end of 2018, the Group Okayed integration of microfinance services with the parent company to align business focus on retail through the growth of its SME and MSME business segments.

During the FY, we strengthened the Risk and Compliance Unit's operating model so as to improve the overall Enterprise Risk Management and drive compliance. The process led to a significant improvement in the governance function and enhancement of existing roles.

Staff remain the most valuable asset to the Group and during the year, we continued to improve staff welfare, working conditions, training and career development and medical services. The Bank signed a Collective Bargaining Agreement (CBA) with the Trade Union-Tanzania Union of Industrial and Commercial Workers (TUICO). Generally, staff retention continues to improve and a majority of staff now feel proud to work for CRDB Bank. Elsewhere, the Group participated in numerous Corporate Social Responsibility (CSR) activities in the areas of education, health and environment. More details on such activities are provided in the CSR section of this Annual Report.

We are glad that our relationship with key stakeholders namely government, regulators, customers and investors continued to improve. I am particularly happy to report that during the year, I visited government officials, shareholders and customers for familiarization and to obtain feedback of services. I take this opportunity to thank our stakeholders for their comments, which will be implemented to improve our business operations.

Focus for 2019

Looking ahead, the financial service industry will be further shaped by rapid innovation and technological disruptions. At the same time, consumer expectations will continue to rise, just as competition intensifies. In 2019, the Group will continue to invest in its business, people and brand to deliver customer-centric experiences. We will leverage our size and scope to create even more value for our customers , while maintaining a strong risk culture, and focus on operational excellence.

We aim at transforming our business in order to be the best bank for the targeted retail and corporate clients, by building an organization with multi-channel distribution network, supported by digital innovations. We will expand services and reach all districts in the country by 2022 through recruitment of more CRDB Wakala in every corner of the country, in line with our business slogan – Ulipo Tupo, and ultimately migrate our customers to digital channels.

The Group expects to finalize construction of the new head office building, which will enhance the corporate brand. The Group foresees better results in 2019, supported by projected stable economic environment, positive interventions and support from the regulators.

Appreciation

I take this opportunity to once again acknowledge the Board of Directors of CRDB Bank Group, CRDB Microfinance Services Company Ltd, CRDB Bank Burundi S.A. and CRDB Insurance Broker Limited for their dedication and commitment to proving oversight to the Management. The Group continues to benefit from the extensive knowledge and insights of such highly steadfast and professional Board Members.

I appreciate the Management team, and all staff for their commitment, drive and zeal manifested throughout the year. I would like to thank our esteemed shareholders, customers, the Government, regulatory authorities and all other stakeholders for their unwavering support throughout 2018.

TUPO TAYARI

Taarifa ya Mkurugenzi Mtendaji

Ninayo furaha kuwasilisha kwenu Ripoti ya Mwaka wa Fedha 2018 ambayo inatoa tathmini ya biashara kwa mwaka ulioishia tarehe 31 Disemba 2018.

Awali ya yote naomba nichukue fursa hii kuwashukuru wanahisa wetu na Bodi ya wakurugenzi ya Benki ya CRDB chini ya uongozi wa Mwenyekiti wetu wa Bodi Bw. Ally Hussein Laay kwa kuniamini na kunipa jukumu la kuipeleka Benki kwenye hatua nyingine.

Nimeguswa mno kwa ushirikiano na miongozo ya kimkakati ninayopata kutoka kwa wajumbe wote wa bodi. Vile vile, napenda kutoa shukrani zangu za dhati kwa Mkurugenzi Mtendaji aliyestaafu Dkt. Charles S. Kimei kwa ushirikiano alionipatia wakati wa mabadiliko ya uongozi na zaidi sana kwa mchango wake katika kujenga msingi imara kwa maendeleo ya Benki.

Ninayo furaha kutoa taarifa ya utendaji mzuri wa Benki kwa mwaka wa fedha wa 2018 unaodhihirishwa na misingi imara ya kibiashara na mizania. Benki imepiga hatua kubwa katika kuimarisha nafasi yake katika soko kama benki kubwa ya biashara nchini Tanzania ikiwa na asilimia 23 ya jumla ya amana na asilimia 20 ya jumla ya rasilimali. Hadi mwisho wa mwaka, Benki ilikuwa na mizania imara na ilipata ukuaji mkubwa wa faida kwa asilimia 77.1 kulinganisha na mwaka uliopita.

Taarifa ya Mwaka hutoa uchambuzi wa ndani na tathmini ya mafanikio muhimu, hatua zilizochukuliwa kuboresha utendaji na shughuli zilizotawala mazingira ya biashara ya benki kwa mwaka wa fedha wa 2018.

Mazingira ya Utendaji

Mfumo wa benki ulikuwa imara, na faida na mtaji kwenye sekta ya benki vilianza kuongezeka kutokana na usimamizi wa Benki Kuu. Hata hivyo, sekta ya benki ilikabiliwa na changamoto kutokana na mabadiliko ya taratibu na miongozo ya uendeshaji ambayo ilisababisha Benki Kuu kuzifungia benki na taasisi tano za fedha kutokana na kutokuwa na mtaji wa kutosha. Kiwango cha mtaji katika sekta ya mabenki kilikuwa asilimia 16.3 na uwiano kati ya mikopo na amana ulikuwa asilimia 84.2 mwaka 2018.

Benki ziliboresha taratibu za usimamizi wa mikopo ili kupunguza mikopo chechefu, ambayo ilipungua kutoka asilimia 11.9 mwaka 2017 hadi asilimia10.4 mwaka 2018. Kuanza kutumika kwa taratibu mpya za kiuhasibu (IFRS 9) kulibadilisha ukadiriaji wa hasara ya mikopo na kuongeza kiasi kinachotengwa kwa ajili ya hasara ya mikopo na hatimaye kupunguza faida.

Mazingira ya uendeshaji yaliathiriwa na mabadiliko makubwa ya teknolojia na kuongezeka kwa ushindani kutoka kampuni za simu, Fintechs, taasisi ndogo za kifedha na taasisi za kifedha ambazo sio benki. Hata hivyo, Benki inaendelea kuwekeza katika kujenga ushirikiano na kutafiti mitandao mbalimbali duniani ili kupata teknolojia iliyo bora zaidi. Kuongezeka kwa ushindani kumeifanya Benki kupitia upya taratibu za uendeshaji na kuziboreaha na kuhakikisha wateja wetu wanapata huduma kupitia njia mbadala (za kidigitali).

Mwaka wa fedha wa 2018 Serikali na Benki Kuu ziliimarisha hatua za usimamizi wa sekta ya fedha ili kuchochea ukuaji wa uchumi na kuhakikisha uchumi kwa ujumla pamoja mfumo wa kifedha vinaendelela kuwa imara. Serikali ilijikita zaidi katika kuendeleza miradi ya miundo mbinu kwa lengo la kuharakisha ukuaji wa uchumi pale miradi hiyo itakapokamilika.

Benki kuu ilitekeleza sera wezeshi ya kifedha ikiwemo kupunguza riba kwenye mikopo inayotolewa na benki ili kuchochea ukuaji wa uchumi. Mwezi Agosti mwaka 2018 Benki Kuu ilipunguza kiwango cha riba kwa benki kutoka asilimia 9 hadi asilimia 7 ili kuongeza ukuaji wa mikopo kwa sekta binafsi. Benki Kuu ilipitia upya taratibu za uendeshaji maduka ya fedha za kigeni na kuyataka maduka hayo kuomba upya leseni kwa kufuata taratibu mpya kwa ajili ya kuongeza ufanisi na kuziba mianya ya biashara ya fedha haramu na utakatishaji fedha.

Matokeo ya Kifedha

Benki na kampuni zake tanzu zilipata matokeo mazuri katika taarifa zao za pamoja za kifedha zikiwa na faida baada ya kodi ya shilingi bilioni 64.1 iliyopatikana mwaka 2018. Faida kwa kampuni zote za CRDB ni shilingi bilioni 642.7 ikiwa ni ukuaji wa asilimia 6.0 ikilinganishwa na mwaka 2017.

Benki ilitumia teknolojia ya uhakika kuboresha utendaji na kuhakikisha wateja wanapata huduma kwa uhakika na kulingana na mahitaji yao. Ndani ya mwaka husika, gharama za uendeshaji zilikuwa shilingi bilioni 428.9 ikiwa ni ongezeko la asilimia 7.4 ikilinganishwa na mwaka 2017. Gharama hizi ni ndogo ikilinganishwa na ukuaji wa wastani wa miaka mitano hali ambayo imesababishwa na mikakati iliyotekelezwa ya kudhibiti gharama na mikakati ya mageuzi ya kidigitali.

Faida iliyopatikana kwa Benki na kampuni tanzu ilikuwa sawa na malengo yaliyowekwa, matokeo ambayo yanadhihirisha ubora wa mikopo, usimamizi na taratibu kwani tengo la hasara ya mikopo lilipungua kwa asilimia 24.8 hadi shilingi bilioni 115.3.

Jumla ya rasilimali ilikua kwa asilimia 2.3 na kufikia shilingi bilioni 6,035.4 na amana za wateja zilikua kwa asilimia 8.4 kutoka shilingi bilioni 4,325.9 mwaka 2017 hadi shilingi bilioni 4,687.2 hadi mwisho wa mwaka husika.

Benki pia ilikabiliwa na ongezeko la hitaji la mikopo binafsi. Benki ilitoa viwango vya riba vya kuvutia ili kuchochea ukuaji wa mikopo kwa wateja hali inayodhihirishwa na mizania imara kutokana na mikopo baada ya kodi kwa wateja kuongezeka kwa asilimia 8.0 hadi shilingi bilioni 3,126.7 mwisho wa mwaka 2018.

Kampuni tanzu za Benki ya CRDB ziliendelea kuwa na mchango chanya isipokuwa kampuni tanzu ya CRDB Microfinance Services Company Limited ambayo ilipata hasara ya shilingi bilioni 8.7 mwaka 2018. Hasara hiyo ilisababishwa na kupungua kwa mikopo iliyotolewa kwa vikundi na taasisi za kifedha ambazo ndio walikuwa wateja wake wakubwa. Benki ilipitia upya muundo wa biashara wa Kampuni tanzu ya Microfinance na kuamua kuunganisha shughuli zake kwa Kampuni mama ili kuboresha ufanisi.

CRDB Bank Burundi S.A. ilipata faida baada ya kodi ya shilingi bilioni 2.6, ikilinganishwa na shilingi bilioni 3.5 mwaka 2017. Kupungua kwa faida kulisababishwa kwa sehemu na changamoto kwenye soko la fedha za kigeni. Ndani ya mwaka husika Kampuni tanzu ilikuwa na mizania imara ambapo jumla ya rasilimali ilikua kutoka shilingi bilioni 149 mwaka 2017 hadi shilingi bilioni 206.1. Jumla ya amana za wateja ilikua kwa kiasi kikubwa cha asilimia 17.5 hadi shilingi bilioni 98.7.

Licha ya changamoto za kiuchumi nchini Burundi hali ambayo ni changamoto kwa biashara nchini humo, Benki ya CRDB Burundi inafuatitilia kwa makini hali ya uchumi ili kubaini changamoto na kuzitumia fursa zinazojitokeza.

CRDB Insurance Broker Limited ilipata faida baada ya kodi ya shilingi bilioni 1.3 kulinganisha na shilingi bilioni 1 iliyopatikana mwaka 2017. Kuongezeka kwa faida kwa asilimia 30 mwaka hadi mwaka kunastahili kupongezwa kwani ongezeko hilo ni kubwa kulinganisha na ukuaji wa wastani wa sekta wa asilimia -3.5 mwaka 2018. Kwa ujumla sekta ya bima ilikua kwa kiasi kidogo hasa robo mbili za mwisho wa mwaka 2018 kutokana na kutumika kwa taratibu mpya kuhusu kiwango cha chini kinachotakiwa kwa biashara ya bima.

Mwaka husika kampuni tanzu ya Bima ilihakikisha inabaki na wateja wake na kupata wateja wapya na hivyo kufanikiwa kuongeza mapato yanayotokana na kamisheni kwa asilimia 22 kutoka shilingi bilioni 4.6 mwaka 2017 hadi shilingi bilioni 5.6 . Gharama za uendeshaji zilikuwa shilingi bilioni 4.4 mwaka 2018 kulinganisha na shilingi bilioni 3.1 mwaka 2017.

Gharama za uendeshaji za Kampuni tanzu ya Bima ziliongezeka kutoka shilingi bilioni 3.1 mwaka 2017 hadi shilingi bilioni 4.4 mwaka 2018 kutokana na jitihada ilizochukua kuongeza biashara na kuboresha nafasi yake sokoni.

Mtazamo Kimkakati

Mazingira ya biashara ya benki yanabadilika kwa kasi yakichagizwa na teknolojia mpya na jamii inayobadilika. Mwaka 2018 teknolojia ya kidigitali iliendelea kubadili mazingira ya biashara na kulazimu kuunda upya mbinu za biashara, kubadili utoaji wa huduma kwa wateja na kwa kiwango kikubwa kubadilisha mahusiano kati ya taasisi za fedha na wadau wake.

Benki na kampuni tanzu zinaiona hali hii kuwa fursa ya kuziwezesha kufanya mageuzi ya namna zinavyofanya biashara na kujenga mahusiano ya kina na karibu kati yake na wale inaowahudumia.

Ni kweli kuwa mwaka 2018 ni mwaka muhimu kwa Benki na kampuni tanzu kwasababu ni mwaka ambao utekelezaji wa mpango mkakati wa biashara wa miaka mitano ulianza. Mkakati huo umeanzisha safari ya mageuzi ya kuijenga benki ya miaka ijayo. Katika safari hii, tumekusudia kuboresha huduma kwa wateja na kutumia njia bora zaidi za kidigitali zenye uwezo wa kuboresha uwiano kati ya gharama na mapato na kuifanya Benki kuwa kinara na kiongozi katika kujenga jamii ya mifumo toa fedha - ATMs, Simbanking, huduma za kibenki kwa njia ya intaneti, vituo vya mauzo na CRDB Wakala kwa lengo la kuwawezesha wafanyakazi wengi zaidi kuuza bidhaa.

Benki ilitekeleza mikakati kadhaa ya kuongeza amana kwa kuwahusisha wateja wakubwa na wateja kutoka taasisi kwa lengo la kujenga ukaribu na kuboresha uhusiano wa kibiashara. Benki pia ilianzisha kanda tisa (9) kwa matawi ya mikoani kwa lengo la kuongeza ukuaji wa biashara na kuharakisha shughuli za biashara. Benki ilitekeleza kampeni ya kuhamasisha wateja kwenye matawi 81 kutumia mifumo ya kidijitali. Hatua zilizochukuliwa kuboresha utendaji wa mawakala wa FahariHuduma zilileta matokeo mazuri. Idadi ya mawakala ndani ya mwaka husika iliongezeka kutoka 3,286 mwaka 2017 hadi 5,457 ilipofika Disemba 2018. Benki inatambua changamoto zinazowakabili mawakala wetu kama vile kutokuaminiwa na baadhi ya watu, uhaba wa vitendea kazi na mtaji.

Benki inawahakikishia mawakala kuwa itaendelea kutatua changamoto hizo ili kuhakikisha wanafanya kazi katika mazingira bora zaidi.

Tunafuraha kutangaza kupungua kwa mikopo chechefu kutoka asilimia 12.6 mwaka 2017 hadi asilimia 8.5 kutokana na mageuzi ya taratibu za kusimamia mikopo. Hatua tulizochukua ni pamoja na kuanzisha mfumo wa kurahisisha usimamizi wa mikopo kama vile mfumo unaojiendesha wenyewe wa kuratibu maombi ya mkopo (Automated Credit Origination system) kwa ajili ya mikopo binafsi, mfumo wa kufuatilia makusanyo (collection monitoring system - E-collect), mfumo wa kutoa tahadhari (early warning system (EWS) na mageuzi kwenye Idara ya Mikopo ili kuboresha taratibu za usimamizi wa vihatarishi vya mikopo ndani ya benki. Timu ya kwanza iliyofanya tathmini ya mageuzi ya kidigitali ilikamilisha mabadiliko ya mfumo wa maombi ya mkopo kuwa wa kigitalili.

Jitihada zaidi zinafanyika kuboresha taratibu na ubora wa mikopo ili kufikia malengo ya mikopo chechefu tuliyojiwekea na yale yaliyowekwa na mamlaka ya usimamizi. Jitihada hizo zinajumuisha kupitia upya taratibu za ndani ambazo zitaisaidia kuboresha huduma kwa wateja wetu kwa kuharakisha kupitia na kuidhinisha mikopo na hatimaye kupunguza tengo la hasara ya mikopo na kuongeza faida. Zaidi ya hayo, majaribio ya mchakato mpya wa udhamini yamekamilika na ripoti mpya ya tathmini ya maombi ya mikopo na vigezo vya taarifa muhimu za wateja vimeboreshwa na vimeanza kutumika.

Benki na kampuni zake tanzu ziliendelea kuimarisha mbinu za utendaji kazi na kuongeza uwezo wa matumzi ya Tehama ili kuwa wabunifu kuwezesha matumizi ya bidhaa na huduma za kisasa za kidijitali.

Mwaka 2018 ulikuwa mwaka muhimu sana kwetu kwani tuliweza kuongeza ufahamu wa huduma za benki za kidigitali na kuboresha huduma ya "SimBanking app" ili kurahisisha huduma ya kibenki kupitia simu za mkononi. Zaidi ya hayo, tulianzisha mfumo wa malipo wa QR code kukuza miamala isiyohusisha fedha taslim na kukamilisha kuunganishwa na mfumo wa serikali wa malipo kwa njia ya kielektroniki (GePG) ili wateja wetu wafanye malipo ya serikali kwa urahisi. Kituo chetu cha huduma kwa wateja kina mchango muhimu katika kutoa elimu na kusaidia wateja kutumia huduma za kibenki kwa njia ya kielectroniki na kupokea ushauri na malalamiko kutoka kwa wateja.

Mwishoni mwa mwaka 2018, Benki iliunganisha shughuli za kampuni tanzu ya Microfinance na Kampuni mama ili kuboresha huduma kwa wateja wadogo na kukuza biashara ndogo na za ukubwa wa kati (SME na MSME).
Ndani ya mwaka wa fedha husika, tuliimarisha muundo wa kitengo cha Vihatarishi na Uthibiti (Risk and Compliance) ili kuboresha usimamizi wa vihatarishi na kuweka msukumo kwenye uthibiti. Mabadiliko hayo yaliboresha hali ya utawala na majukumu yaliyopo.

Wafanyakazi wameendelea kuwa rasilimali muhimu na mwaka husika tuliendelea kuboresha maslahi ya wafanyakazi, mazingira ya kazi, mafunzo na maendeleo na huduma za matibabu. Benki ilisaini mkataba wa Hali Bora kati yake na Chama cha Wafanyakazi –TUICO. Uwezo wa Benki kukaa na wafanyakazi kwa muda mrefu umendelea kuimarika na wafanyakazi sasa huona fahari kufanya kazi Benki ya CRDB.

Benki na kampuni zake tanzu zilishiriki matukio mbalimbali ya shughuli za kijamii katika maeneo ya elimu, afya na mazingira. Taarifa zaidi kuhusu shughuli hizo za kijamii zinapatikana katika Ripoti ya Mwaka ya Benki.

Tunafuraha kwasababu mahusiano kati yetu na wadau muhimu ambao ni; Serikali, mamlaka za usimamizi, wateja na wawekezaji yaliendelea kuboreka.

Napenda kutoa taarifa kuwa ndani ya mwaka husika nilifanikiwakuwatembeleaviongoziwaserikali,wanahisana wateja kwa ajili ya kufahamiana na kupata mrejesho kuhusu huduma zetu. Nachukua fursa hii kuwashukuru wadau wetu kwa ushauri wao ambao utafanyiwa kazi ili kuboresha utendaji wa biashara.

Mkazo kwa Mwaka 2019

Sekta ya fedha kwa siku za baadae itakabiliwa zaidi na kasi kubwa ya ubunifu na mabadiliko ya teknnolojia. Sambamba na hali hiyo, matarajio ya wateja yataendelea kuongezeka kadri ushindani unapoongezeka.

Mwaka 2019, Benki na kampuni zake tanzu zitaendelea kuwekeza katika kukuza biashara, watu na bidhaa ili kuboresha huduma kwa wateja. Tutatumia kikamilifu ukubwa na upeo wetu kuboresha faida wanayopata wateja wanapotumia bidhaa zetu huku tukihakikisha tunakuwa na utamaduni imara wa kudhibiti vihatarishi na kujielekeza kuwa na ufanisi wa hali ya juu kiutendaji.

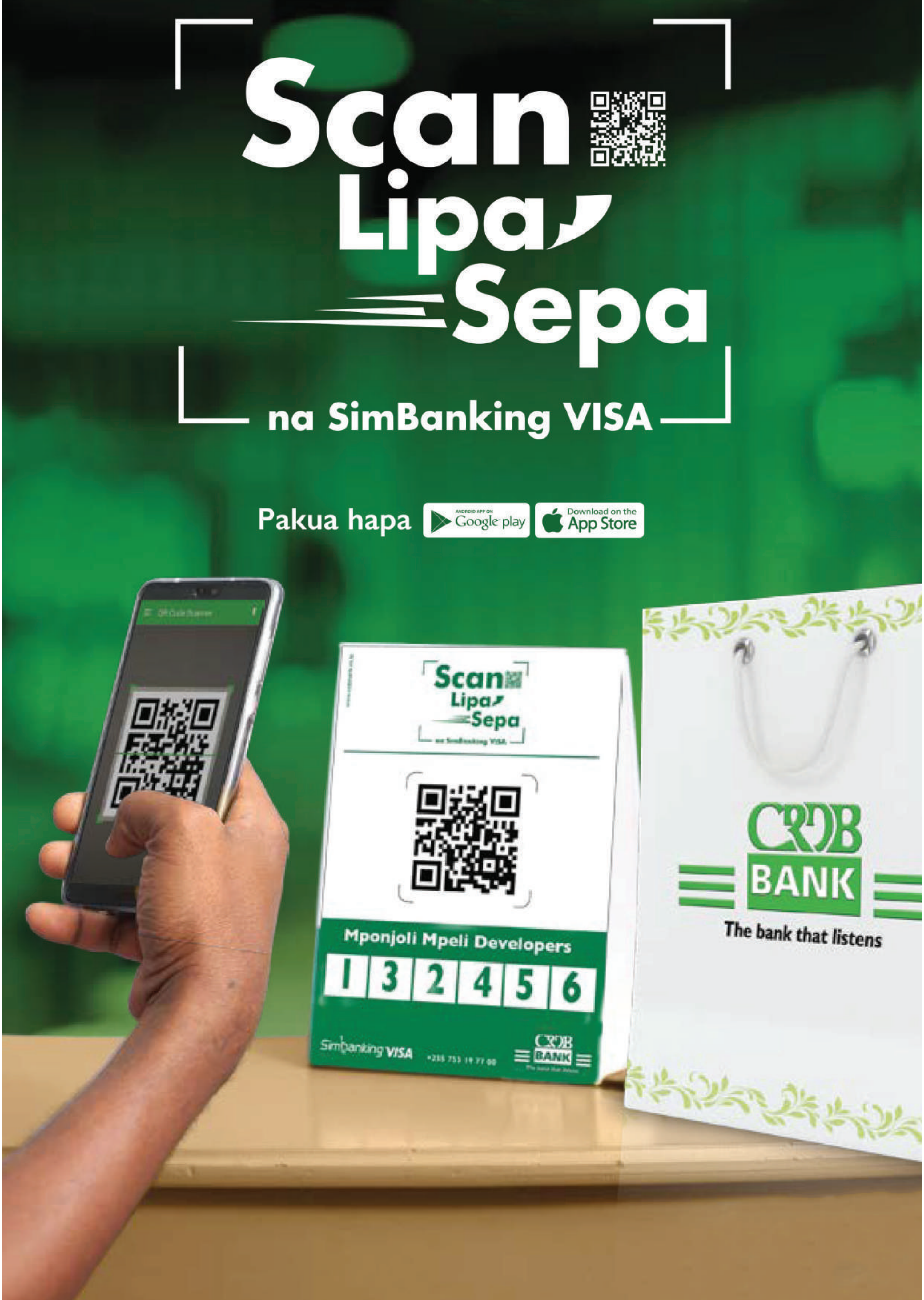
Lengo letu ni kufanya mageuzi ya biashara ili kuwa benki bora kwa wateja wadogo na wakubwa kwa kujenga kampuni yenye mtandao mpana wa huduma unaowezeshwa na ubunifu wa kidijitali. Tutaongeza wigo wa huduma zetu ili kufikia wilaya zote nchini kabla ya mwaka 2022 kwa kusajili mawakala wengi zaidi kila kona nchini kuendana na kauli mbiu yetu isemayo; – Ulipo Tupo, na hatimaye kuhamasisha wateja wetu wote watumie njia za kidijitali kupata huduma.

Benki inatarajia kukamilisha ujenzi wa jengo la makao makuu, hatua ambayo itaboresha taswira ya Benki. Benki na kampuni zake tanzu zinategemea kupata mafanikio zaidi mwaka 2019 kutokana na kuimarika kwa hali ya uchumi na usimamizi madhubuti wa mamlaka za usimamizi.
Shukrani

Nachukua fursa hii kuwashukuru kwa mara nyingine wajumbe wa Bodi za Benki ya CRDB, CRDB Microfinance Services Company Ltd, CRDB Bank Burundi S.A. na CRDB Insurance Broker Limited kwa kujituma na jitihada waliyoonyesha katika kuishauri Menejimenti. Benki na kampuni zake tanzu zimefaidika kwa kiwango kikubwa kutokna na maarifa, ujuzi na weledi wa wajumbe wa Bodi.

Natambua mchango wa Menejimenti na wafanyakazi kwa kujituma na hamasa waliyoonesha mwaka mzima. Pia napenda kuwapongeza wanahisa, wateja, Serikali, mamlaka za usimamizi na wadau wengine kwa kutuunga mkono katika kipindi chote cha mwaka 2018.

TUPO TAYARI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The bank that listens

We grew more transactions and execution towards our digital channels as the Bank witnessed more than 85% of total transactions taking place outside the branches, which is more cost effective

Frederick Bayona Nshekanabo
Director of Finance

Director of Finance Review

In 2018, CRDB Bank focused on dissemination of it's new strategy towards building a foundation for effective implementation along the five key focus areas - branch transformation, win war for deposits, shift to next generation of credit management, accelerate digital transformation, and move to modern performance management.

Maintaining our strategy

We remained customer-centric, managed our balance sheet for liquidity, contained expenses, and maintained a sharp eye on asset quality and risk management. As a result we made good financial progress and delivered a year of commendable performance. Amongst the highlight of 2018, profit before tax increased by 85.0% to TZS 99,117 million, whilst net profit attributable to owners of the parent entity was up by 77.1% to TZS 64,132 million. The return on average equity grew from 4.9% to 8.3% in 2018, and return on average assets was 1.6% compared to 0.9% in 2017. The cost-icome ratio remained at 66.7% as we yielded improved productivity gains from digitalization and strategic cost management.

Digitization

There was notable growth in the digital acquisition of customers. We grew more transactions and execution towards our digital channels as the Bank witnessed more than 85% of total transactions taking place outside the branches, which is more cost effective.

We had higher straight-through processing, which reduced the amount of manual inputs and paper work for an increasing number of mid and back-office functions. This enabled us to process increased business volumes with fewer resources, improving operating leverage as additional income earned flowed to the bottom line.

Sustainable growth

We manage our balance sheet conservatively, and our loans and advances are diversified across all economic sectors to minimise risk. We maintained our focus in retail segment growth through granular lending to consumers and to small and medium size enterprises, which play an important role in the diversification and growth of our economy. Retail customers has shown confidence to our simple and affordable product range, reflected in the gross loans and advances which grew by 6.1% to TZS 3,313.4 billion. Retail loans increased by 39.8% while corporate loans declined by 13.3%.

Liquidity

We continue to place priority in maintaining adequate liquidity and a balance mix of long term and short-term liabilities to provide a stable funding base. Our deposits grew by 8.4% to TZS 4,687.2 billion. Savings and current accounts accounted for the majority of the increase accounting for 82% of total deposits as at 31 December 2018. The gross loan-to-deposit ratio improved to 70.7% compared to 72.4% in 2017. The liquidity coverage ratio was maintained at 26% above the regulatory minimum ratio of 20%.

Capital

The Group has applied IFRS 9 retrospectively without restating comparative figures. Opening retained earnings as at 1 January 2018 was adjusted for differences in the carrying amounts of financial instruments which saw a decrease of TZS 24,986 million. The disclosure and classification of financial assets are in line with IFRS 9.

For capital adequacy purposes after adopting IFRS 9, the Bank of Tanzania allowed banks and finacial institutions, to spread the excess impairment equally over three years from 2018.

A 2-year moratorium on the implementation of capital charge for operational risk expired in 2017 and a formal implementation came into effect from August 2018 with an impact of increasing risk-weighted assets and reducing capital adequacy ratios. Despite of the regulatory changes made during the year, the Bank continued to maintain capital adequacy ratios of 14.3% and 16.0% for Tier I and Tier II respectively well above the minimum regulatory requirement.

Outlook

In 2019, we expect the operating environment to be more stable and conducive for businesses. While we expect to benefit from strong growth in loans, deposits, and prudent cost management, low interest rates may put pressure on earnings growth. However, we are confident that our diverse business mix centered on gradual growth will continue to drive positive results. We will continue to take market share and deliver renowned customer experiences. Moving foward, we will stay focused on adapting to new technologies which will provide us with opportunities to extend our leadership position in service and convenience. We will continue to invest in technology that will allow our customers to engage across every channel in our branches, call centers, ATMs, and our online and mobile platforms.

Management Discussions

LENDING BUSINESS

In 2018, the Bank's strategic focus was enhancement of credit management processes with the view of improving the Bank's asset quality. In line with the strategic focus, key initiatives during the year were; restructuring of credit department and improvements of credit underwriting processes, implementation of internally developed CreditPro solution for personal loan processing and implementation of application of personal loan through Mob app. The initiatives resulted into improved turnaround time from credit application to disbursement. The Bank also automated corporate rating, implemented Early Warning Signals (EWS) and a restructuring tool for loans with the amount above TZS 300 million.

The Non-Performing loan ratio declined from 12.6% in 2017 to 8.3% in 2018, with notable improvement in the impairment coverage ratio to 66.2% compared to 58.6% in 2017.

NPL Ratio declined from 12.6% in 2017 to 8.5% in 2018.

In line with market growth of credit to private sector and regulator measures instituted by the Bank of Tanzania aimed at stimulating banks' appetite for lending, the Bank recorded positive growth in gross loan book by 6.1% to TZS 3,313.4 billion in 2018.

Positive growth in gross loan book by 6.1% to TZS 3,313.4 billion in 2018.

The growth was contributed by the 25.6% growth in retail portfolio and overall improvement in the quality of the loan book.

During the year, the Group successfully implemented a new accounting standard (IFRS 9) which uses expected Credit Loss (ECL) model in determination of impairment provision for financial instruments. Despite the expected impact of the adoption of the new standard, the Group's impairment allowance declined by 19% compared to prior year due to portfolio clean up measures done during the year for completely stack up loan book to align with Bank of Tanzania guidance.

TREASURY AND CAPITAL MARKETS

In 2018, treasury main focus was raising revenue from foreign exchange, long term and short term investments. More focus was on enhancement of fixed income from bonds. Treasury operations contribution to the Group's revenue and profitability increased, as a result, managed to provide a stellar performance contributing TZS 211 billion to the overall revenue of the Bank, an increment of 25% from the TZS 169 billion achieved in 2017. Strategic decision to invest in fixed income securities yielded positive results contributing to 82% of total segment income.

Through its custodial unit, the Bank made good grounds in the capital markets both in the dometic and East Africa market.

Domestically, CRDB Bank won the best Custodian Bank of 2018' award issued by the Dar es Salaam Stock Exchange (DSE) and clearing and settlement bank for Tanzania Mercantile Exchange - TMX.

In 2019, the Bank will continue to monitor financial markets conditions both domestic and globally and exploit any business opportunities while remaining mindful of the financial risks posed by the tight global financial conditions and increasing prospects of global economic slowdown.

In addition, the Bank will increasingly focus on building strategic business relationships across its lines of business while streamlining its processes through the use of more efficient technology.

RETAIL BANKING

Retail banking oversees the needs of individuals, small and medium enterprises by offering safe financial solutions for both personal and business development. Customers within and across the borders of Tanzania have access to Bank's retail products at competitive rates. Retail banking promotes the saving culture and accelerates industrialisation.

Loan distribution by sector 2018

Personal	35%
Agriculture	20%
Mining & Quarrying	16%
Trade	10%
Financial Intermediaries	7%
Electricity	7%
Transport and Communication	2%
Others	1%
Hotel and Restaurants	1%

In 2018, the Bank continued to support retail customers through Bank-wide network and digital channels. Inorder to create more awareness, emphasis was placed on sales and product knowledge to customers. A total number of 405,522 new accounts were opened while retail deposits grew by 8.7% to TZS 2,626.3 billion in 2018, mainly driven by strong growth in demand and savings deposits (CASA). Overall retail loans and advances to customers grew by 25.6% to reach TZS 1,957.4 billion in 2018, mainly contributed by notable growth in personal loans. Retail loans contributed to 59.1 % (2017: 49.9%) of total loan portfolio.These results were achieved through client engagement and relationship management.

Personal Banking

Personal Loan portfolio increased by 39.8% from TZS 1,023.5 billion in 2017 to TZS 1,430.5 billion in 2018. The total number of personal loan borrowers stood at 131,987 in 2018 compared to 104,444 in 2017, an increase by 26.4%.

The new salary advance product was a success in the market reflected by 184,235 applications made totalling TZS 40.7 billion issued as salary advance to employees by December 2018.

Agent Banking

In efforts to accelerate financial inclusion, the Bank expanded its agent network across the country to reach the unbanked population and facilitate easy access to customers. Key initiatives taken during the year include; the introduction of online account opening to facilitate online self-account-opening.

During the year the Bank recruited 2,402 new agents making a total of 5,457 agents as at December 2018. Through the agent network, a total of 284,056 accounts were opened and deposit transaction value during the year amounted to 3,932.3 billion.

SME Banking

During the year, new products were successfully launched in the market such as Purchase Order Finance (POF), Safari Car Loan to Tour Operators, UBER loans for drivers who operate under UBER network and Hospital loans to hospitals for purchase of hospital equipment's. SME portfolio grew to TZS 421.58 billion from TZS 382.3 billion in 2017.

Diaspora Banking

Through diaspora banking, the Bank was able to reach different sets of Diasporas across the globe especially USA and Southern Africa. A total of 2,736 accounts were opened during the year with a total deposit balance of TZS 11.2 billion at the year end. Products offered were Tanzanite Savings account, Internet banking, Fixed Deposits (FDR) at competitive interest rates.

Premier Banking

Premier banking provides convenience to customers by offering exclusive services, personalised relationship and a range of affluent products such as platinum and infinity cards. During the year, 4 Premier Lounges were opened to make a total of 45 premier serviced branches. Increase in Premier outlets led to the increase in number of customers registered for premier services from 12,812 in 2018 (2017: 10,119).

Mortgage Finance

During the period under review a total of 319 borrowers were recruited with total loans amounting to TZS 46.0 billion. Developers such as NHC, SUMA JKT, WHC, AVIC and FUMBA Developers in Zanzibar were engaged to construct various housing projects country-wide.

In 2019 focus, the segment will continue to play a major role in supporting balance sheet growth, credit risk management, customer service and business development. The segment has been set to grow loan portfolio in SME, Personal and Mortgage Loans.

ALTERNATIVE BANKING

CRDB Bank is committed to enhance alternative business channels with a view to improve service delivery and meet customer expectations. In 2018, the key focus was acquisition and migration of customers to alternative delivery channels to decongest banking halls while aiming at providing convenient and reliable self-service to our customers. The initiative also aimed at increasing the number of users for Simbanking, Internet banking (IB), E-Commerce, POS and ATMs/Cards. Notable increase was recorded in customer usage of the bank's alternative channels reaching 86% of total bank's transactions by December 2018.

The bank continued to invest and improve its alternative channels with the view to enhance customer experience. Among the notable achievements in 2018 were; introduction of new internet banking platform - Omni Channel to provide the customer with an integrated user experience. The Bank also implemented Mvisa Mobile to support retail payment using mobile phones at various Merchants countrywide and enhanced its Simbanking application features to meet customer's expectation.

In 2019, the Bank will continue with its digital transformation journey through investment in alternative channels to keep abreast with changing technology and consumer dynamics to enhance customer value proposition and increase customer usage.

Number of SimBanking Customers
1,140,673
2018
933,190
2017

Number of SimBanking Transactions
26,459,025
2018
20,296,656
2017

Number of Internet Banking Customers
86,702
2018
34,688
2017

Number of Internet Banking Transactions
716,968
2018
424,117
2017

Number of Cards
5,077,104
2018
3,967,895
2017

Number of Card Transactions
21,150,817
2018
20,652,929
2017

Number of ATM Transactions
20,466,804
2018
20,071,569
2017

Value of ATM Transactions (TZS Billions)
3,117
2018
2,940
2017

Number of *fahari*Huduma Agents
5,457
2018
3,247
2017

Number of *fahari*Huduma Transactions
12,076,540
2018
7,961,352
2017

CORPORATE BUSINESS

Corporate Business contributes significantly to the Bank's revenue whilst supporting government initiatives such as optimization on Government Electronic Payment Gateway (GePG), country's flagship strategic projects such as Standard Gauge Railway (SGR), industrialization and other projects in private sector crucial to the economy. The segment maintained dominance in financing agriculture as well as commercial and non-commercial products such cotton, tobacco, coffee, tea and cereals. In 2018, the segment enhanced relationship management and provided bundled products and services to optimize on untapped value chain from existing strong customer base which created more business for the Bank.

In line with the strategic focus, the Bank implemented various initiatives including, improvement in asset quality, deposit base and credit systems.

As the result, the segment's NPL decreased to 11% in 2018 from 22% in 2017, whereas total loan portfolio decreased by 13% to TZS 1,357 billion contributed by proactive loan management approach and emphasis on quality portfolio growth.

Among the key milestones include; introduction of seamless cash management solutions through digitization and integration of clients' collections and payments platforms, bulk payment system -Xpronet, which enables corporate customers to conveniently perform fund transfer transactions without physical visit to branches, whereby customers can now transfer funds through EFT, TISS, TT, EAPS and Mobile Network Operators. In addition, the Bank launched the specialized products such as WEKEZA AKIBA - a financial inclusion initiative for deposit mobilization.

In 2019, the Bank will continue focusing on growing business with emphasis on asset quality, improve value proposition for new and existing customers base, strengthen transaction banking to increase transactional income and improve deposit base. Also, participate in larger government projects through strengthened syndication unit, expand structured trade finance business by capitalizing on import and export business opportunities using customized products and services that facilitate global trade, strengthen and create more awareness of special desks (China and India Desks).

INFORMATION AND COMMUNICATION TECHNOLOGY

During 2018, the Bank continued to invest in information and communication technology to keep abreast with the changing technology and consumer behaviour. The Bank maintained its position as innovative Bank by implementing a number of initiatives to ensure outstanding performance throughout the year. Notable infrastructure improvements were carried out in order to support the Bank's digitization drive. Upgrade was carried out on the card management infrastructure in order to improve system performance, enhance cyber security and enhance solutions for our customers. The Simbanking service platform was enhanced to meet the dynamic banking needs of our customers. Scan to pay (Quick Response-QR Code) was implemented which provided convenience on digital payments to our customers and merchants. Government Electronic Payment Gateway (GEPG) was integrated with our service platform to facilitate easy payments to various Government institutions through all touch points.

The Bank also recertified to the requirements of Payment Card Industry Data Security Standard (PCI DSS) as well as the requirements of ISO 27001:2013 (Information Security Management System) in addition to notable cyber security implementations that were carried out during the course of the year. These are expected to drive customer adoption of the Bank's digital channels and improve customer's confidence in the use of the Bank's digital services. The Bank has also initiated processes for ensuring full adoption of Service Management System practices and compliance to the requirements of ISO 20000:2018 (Service management System) standards to support to digital transformation journey and excellent customer service customers.

CRDB BANK BURUNDI SUBSIDIARY

Key strategic initiatives implemented

Key achievements recorded during the year included the launch of automated salary advance product, Fast Account Opening mobile application, and Mobile top up with one MNO. The Subsidiary focused on shift to next generation credit management. The measures undertaken included enhancement of proactive portfolio management where overall Portfolio at Risk and Non-Performing Loans stood at 2.3% and 0.6% respectively. Automation of loan losses impairment determination and operation through IFRS 9 was implemented.

In 2018, CRDB Bank Burundi S.A. made a profit after tax of TZS 2.6 billion compared to TZS 3.5 billion recorded in 2017. The decline in profit was caused by less sources of foreign exchange experienced. Interest income increased from TZS 15.1 billion recorded in 2017 to TZS 19.8 billion as at 31 December 2018. Foreign exchange income decreased from TZS 3,933.3 million recorded in 2017 to TZS 898.2 million. Total assets increased from TZS 149 billion in 2017 to TZS 206.1 billion in 2018. Total deposits increased by 17.5% to TZS 98.7 billion by year end. The credit portfolio increased from TZS 66.2 billion in 2017 to TZS 120.2 billion. By end of the year, The Bank had adequate capital, liquidity and risk foundations well placed to exploit opportunities and tackle challenges to unfold in 2019 and beyond.

Focus for 2019

The subsidiary is looking ahead to a brighter future in business performance in line with the strategy provided the business environment continues to be conducive. The operating environment is highly dependent on the outcome of ongoing political negotiations which will determine the future of donors' support and foreign investors in the country to stimulate economic activities. The subsidiary shall continue to anchor itself on the Bank's strong brand to expand its network using cost effective delivery channels supported by small mini-service centres and branch on wheels to drive financial inclusion.

CRDB MICROFINANCE SERVICES COMPANY LIMITED

In year 2018, the focus of the Company was mainly on enhancing its digital financial services through SIMAccount platform to meet the needs of low-income market segments. The Company managed to mobilize a customer base of 1.2 million for both retail and wholesale businesses, and a total of 402 partner microfinance institutions (MFIs) (in comparison with 449 partner MFIs as at 31 December 2017). The continuous drop in number of partner MFIs was contributed by business consolidation strategy adopted in 2015, which aimed at building strong MFIs that are operational and sustainable to serve their target markets.

Towards end of the year, the Parent Board took strategic decision to merge microfinance operations with the parent operations with the aim to ensure optimization of resources and tapping of value chain opportunities that may arise from different sectors of the economy.

Focus for 2019

Merging of microfinance activities to the parent will allow microfinance services to be extended to all Bank's service points and optimize utilization of the Banks distribution infrastructure, something that will bring growth in the microfinance clientele and business. More importantly, it is expected the microfinance business portfolios will grow further through offering of digital financial services to be enabled by leveraging on digital platforms within CRDB Bank Plc.

Reaching the unbanked community

CRDB INSURANCE BROKER LIMITED

Financial performance

CRDB Insurance Broker Limited for the year ended 31 December 2018 attained a growth in income of 23.36 percent from TZS 5.65 billion to TZS 4.58 billion realized in 2017. The profit after tax for the year was TZS 1.3 billion which is 30 percent growth compared to the profit of TZS 1.05 billion generated in year 2017. It is a commendable result given the fact that the overall growth of insurance industry declined to -3.5 percent in 2018. CRDB Insurance Broker was able to manage its business much better compared to the market performance and growth.

Key achievements

During the year, CRDB Insurance Broker has managed to underwrite more than 37,000 policies with more than 165,000 risks and lives covered. The company has developed unique products in collaboration with local and overseas insurance experts such as the Life insurance savings plan in partnership with Sanlam Life Insurance Tanzania; and has developed a unique Medical Plan for low income earners. The company has improved the operational capacity of its Core Insurance System and customised it to meet the compliance and business requirements.

Focus for 2019

The company will continue to be innovative and focus on value-added customer services to sustain its growth in the market. Adequate measures will be taken in the coming year to maintain and motivate the workforce and better cost management initiatives to ensure business growth and continuity.


CRDB BANK
The bank that listens
YOUNG money
TEENS ACCOUNT
Open your account
& Get free
TemboCardVisa
TemboCARD
CRDB BANK
Platinum Plus
YOUNG MONEY
01 / 14
TODD MPELI
VISA

Risk Management Report

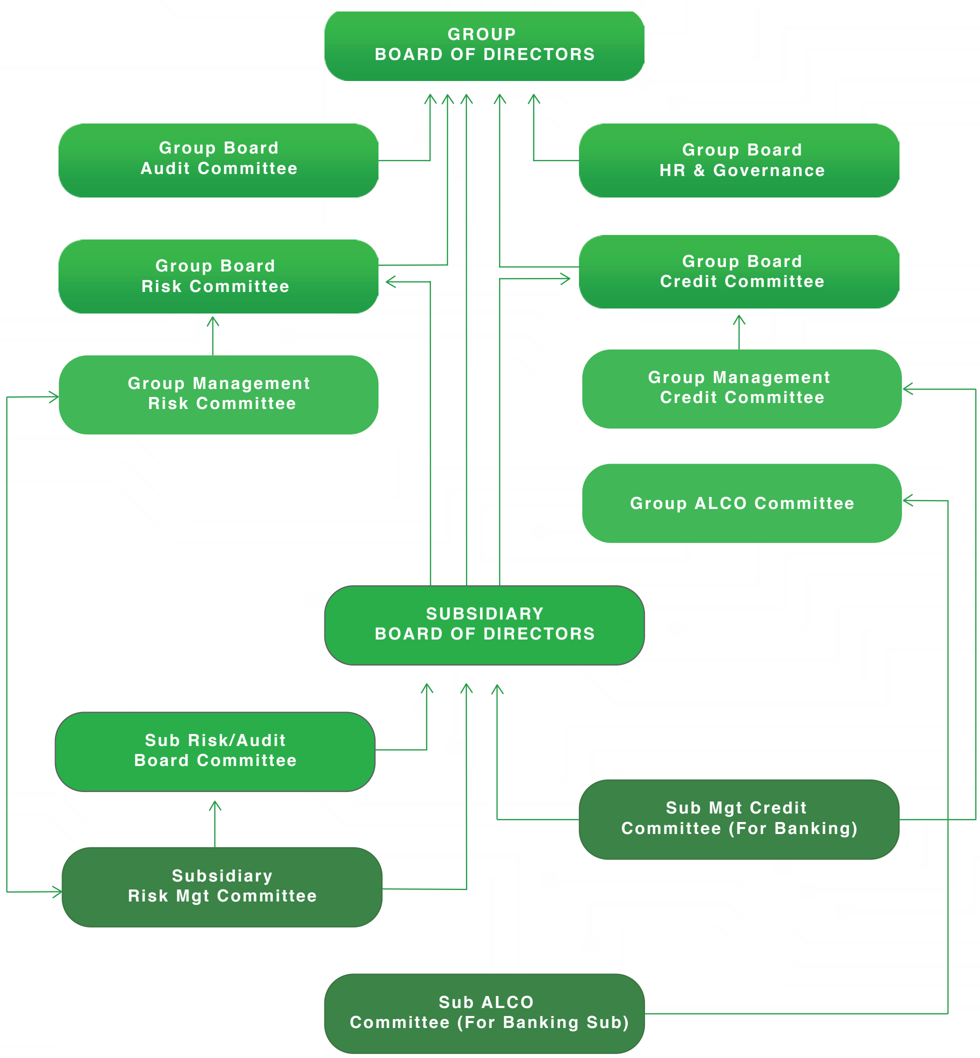
Risk Governance

Risks are inherent in every aspect of the CRDB Bank Group's operations. Risk management is therefore one of the key functions in ensuring that the bank remains robust, safe and sustainable. The Group exercises effective risk management by ensuring risk taking activities are consistent with objectives and risk tolerance levels as set by the Board, and there is an appropriate balance between risk and reward at all times.

The Group has a strong governance framework in place to ensure the risk decisions taken are appropriate and efficient and that they are effectively controlled within the established risk appetite framework. The Director of Risk and Compliance oversees this function within the group and reports to the Managing Director/Chief Executive Officer and independently reports the risk profile to the Board through the Board Risk Committee. The Committee oversees the establishment of enterprise-wide risk management policies, processes and sets various limits depending on the risk appetite. It also oversees the identification, monitoring, management and reporting of credit, market, liquidity, operational, environmental and social, strategic, compliance and reputation risks.

The Board is responsible for the review and approval of all risk control and management policies and oversees the Group's overall risk and governance process with the assistance of various Management and Board Committees as summarized in the diagram below:

The Group Risk Governance Structure



The Group Risk Governance Structure (Continued)

Model of Responsibilities in the Risk Function
The Group has successfully developed a strong and disciplined risk management culture where managing risk is a responsibility shared by all staff and is based on three lines of defence.

The business units and all support functions that are susceptible to risk make up the first line of defence. These units are responsible for and have adequate resources to identify, measure, mitigate, monitor and report the risks assumed.

The second line of defence is the Department of Risk and Compliance whose main roles are to provide independent oversight and support the risk management activities performed by the first line of defence. It is also responsible for ensuring that the risks are managed in accordance with the risk appetite defined by the Board, foster a strong risk management culture within the group and provide guidance, advice and expert opinion in all key risk-related matters.

Internal audit as the third line of defense in the Group provides enterprise-wide independent assurance over the design and operation of the internal controls, risk management and governance processes throughout the first and second lines of defence and assesses the adequacy of policies, methods and procedures and their implementation. The internal audit function is independent and the Group Director of Internal Audit reports directly to the Board Audit Committee.

The three lines of defense have a sufficient level of separation and independence to avoid compromising the effectiveness of the Risk Management Framework. They operate in coordination with one another in order to maximize their efficiency and strengthen their effectiveness.

In addition to the three lines of defense, the Bank of Tanzania as the regulator conducts regular on-site examinations to assess the Group's capacity to assume risks, External auditors provide feedback to the Management and Board on the effectiveness of internal controls as established during their annual audits.

Furthermore, an Independent review of risk management practices is carried out at least every three years by a reputable independent party to assess quality assurance and gap analysis of the Group's risk management framework, policies, programs and practices.

In addition to the three lines of defense, the Bank of Tanzania as the regulator conducts regular on-site examinations to assess the Group's capacity to assume risks, External auditors provide feedback to the Management and Board on the effectiveness of internal controls as established during their annual audits. Furthermore, a review of risk management practices is carried out at least every three years by a reputable independent party to assess quality assurance and gap analysis of the Group's risk management framework, policies, programs and practices.

Risk Management Framework, Policy and Procedures Reviews

The Group has in place a sound risk management framework to identify, evaluate/assess, monitor and manage the principal risks taken when conducting its business activities. The risk management framework is continuously evaluated and upgraded to the requirements of the markets in which the Group operates in order to remain in line with the regulatory standards and industry best practices. During the year under review, the Board reviewed all existing policies, charters and authority limits governing operations of the Group. All procedures due for review were reviewed by the management.

Principal Risks

The Group faces a variety of risks as a result of its business activities namely; credit risk, liquidity risk, market risk, compliance risk, operational risk, strategic risk and Environmental and Social Risk.

Credit Risk

It involve financial loss arising from the default or credit quality deterioration due to unwillingness of a customer or third parties to which the group has either directly or indirectly provided credit to perform an obligation or its ability to perform such obligation is impaired. Credit risk arises from on balance sheet claims such as loans and overdrafts as well as off balance sheet commitments such as guarantees, letters of credit, and derivative instruments.

With Credit Portfolio of over TZS 3 trillion, the group upholds credit risk management as a crucial function. The Group manages its credit risk through its Credit Policy, underwriting, independent loan review and quality control procedures, specialized turnaround and recovery function for non-performing loans and established management committees. The credit management and control is centralised in the Department of credit of the bank and reported to the Board of Directors and management regularly. In addition to the Department of Credit, the bank has a dedicated unit for credit risk management oversights in the Department of Risk and Compliance which carries out holistic independent risk and compliance reviews of the credit processes and functions.

Among the strategic Key Performance Indicators, Credit Risk Unit ensures a risk based approach in its risk identification, measurement, monitoring and controls by having an annual coverage of the bank's large

Credit Exposures. The Unit works closely with other lending business units to ensure all lending processes are in line and remain safe and sound. On a monthly and quarterly Basis, both Management and Board are appraised on the status and trend of the Credit Risk profile of the Bank.

The bank assesses the portfolio quality and puts on a watch-list loans showing signs of deterioration and migrated to Portfolio at Risk (PAR) and a non - performing category. The Group has continued to contain growth of risk weighted assets in line with capital limitations to ensure that new loans that qualify to be granted have very good credit rating grades. Compliance with various credit limits such as sector lending limits, segments, single borrowers, insiders, credit maturity periods and other limits are monitored and reported to the Board in every quarter.

Operational Risk

It results from inadequate or failed internal processes, people and systems or from external events. It also includes legal risk. The Bank has in place processes to continuously assess, control and monitor risks associated with its banking operations. The Group continued to develop new, and/or enhance existing internal policies, procedures and controls to manage operational risks. These initiatives aim at developing a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The main focus in 2018 were: to minimize frauds by introducing a "Don't be a stain" campaign which was launched towards the end of the year aiming at preventing fraudulent activities and promoting adherence to internal controls among staff as well as reporting frauds through a secure whistle blow channel and enhancement of system resources particularly memory and processing capacities in order to improve systems availability.

Market and Liquidity Risk

The Group has the Board risk committee which delegates the day to day risk management function to the Management team for execution and oversight. The senior management team oversees risk management through two risk management committees that are jointly responsible to ensure there is adequate risk management process in their respective areas of authority. Management of market and liquidity risks is done by the Assets Liabilities committee (ALCO) that is in charge of financial risks impacting the balance sheet.

Liquidity Risk

Liquidity risk refers to the possibility that the Group may not have adequate liquid financial resources to meet its obligations when they fall due, or can only obtain them at high cost.

The liquidity management process is monitored by the Asset and Liability Committee (ALCO) and its roles include: Day-to-day funding which is managed by monitoring future cash flows to ensure the requirements can be met. This role entails replenishment of funds as they mature or is borrowed by customers. The Group maintains an active presence in money markets to enable this to happen. Other roles are:

Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow; Monitoring balance sheet liquidity ratios against internal and regulatory requirements;

Managing the concentration and profile of debt maturities; and Monitoring maturity gaps to ensure that the 0 - 90 day (short-term) gaps remains positive at all times.

The Monitoring and reporting involves cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management.

The Group's major source of funding comes from customers core deposits. The Group maintains a diversified and stable funding base comprising of current/demand, savings and time deposits.

A considerable importance is placed on stability of these deposits, which is achieved through the retail banking activities, and by maintaining depositors' confidence in the business strategies and financial strength.

Where necessary, the Group utilizes available liquidity funding lines from the central bank and interbank market for short term liquidity requirements and in order to diversify the funding mix and reduce mismatch in its balance sheet. The medium and long term funds are borrowed from banks and financial institutions from local and international markets. The Group has established funding lines with local and foreign banks for short term funding requirements as part of its Contingency Funding Plan (CFP).

Market Risk

It refers to the possibility of incurring losses in the bank's financial positions arising from fluctuations in market prices, particularly interest rates, foreign exchange rates, equity share prices and other indicators whose values are set by market forces. In managing the market risks, the Group has a clear separation of duties where Department of Treasury and Capital Markets performs front office functions, Department of Centralised Operations carry out the back office functions and the Department of Risk and Compliance covers middle office functions.

Foreign Exchange Risk

The potential loss arising from impact of adverse movements in foreign exchange rates on its open foreign exchange denominated positions. The Group monitors its aggregate and individual currencies open positions daily to ensure they are within regulatory and internal limits and to mitigate against losses from adverse exchange rate movements.

Interest Rate Risk

It refers to negative impact on Group's financial position caused by adverse movements in interest rates. The major form of interest rate risk in the group arises from timing differences in maturity (for fixed rate) and re-pricing (for floating rate) between assets, liabilities and off balance sheet (OBS) instruments. The Group has established limits to manage interest rate gaps including limits on unrealised gains or loss from available for sale Treasury Bonds portfolio, and also monitors market trends in order to ensure timely action is taken to mitigate against losses on its re-pricing portfolios.

Gap Analysis

The Bank uses the Gap analysis to assess the interest rate sensitivity of re-pricing mismatch in its non-trading operations. The Bank's interest rate risk exposure calculations are generally based on the earlier of contractual repricing or maturity of assets and liabilities, although certain assets and liabilities such as deposits without a fixed maturity are assigned a maturity profile based on observed historical deposits trend. The Assets and Liabilities Committee of the Bank assesses and monitors on monthly basis the impact on net income (upwards or downwards) in case of interest rates movement over time buckets of (0-90 days, 91-180 days and 181-365 days). The Board Risk Committee receives gap analysis results quarterly.

Equity share price Risk

It refers to losses that may arise from volatility in prices of shares/stocks held by the Group on its own account. The Group is exposed to equity securities price risk as it currently holds 327,632 shares in DSE (at cost value of TZS 164 million) with mark to market value of TZS 458.7 million as at 31/12/2018. The Group has equity Investment in Tanzania Mortgage Refinance Company (TMRC) that is carried at cost hence no price risk exposure.

Compliance Risk

It involves losses that may be incurred due to failure to comply with applicable legal and regulatory requirements, internal policies and procedures, or ethical standards that may result in fines and penalties. The Group continued to review its policies and procedures to conform to the requirements of the laws and regulations and to ensure they remain adequate in mitigating risks inherent in business operations.

Money laundering, financing of terrorism and sanctions Risk

The Group has set minimum standards for our business and support units to mitigate and manage our actual and/or potential exposure to money laundering, terrorist financing sanctions, corruptions or other illicit financial activities.

Accountabilities have been established for the protection of bank's assets and reputation as well the interest of our customers and stakeholders. The Bank has adequate KYC policies and procedures, and proper system to monitor suspicious transactions and screening of sanctions so as to ensure compliance with Anti-money laundering and counter terrorism financing legislations.

Strategic Risk

It entails to loss arising from strategic decisions or poor implementation of decisions affecting the long-term interests of the Group's main stakeholders, or inability to adapt to changes in the environment. This refers to unexpected events or set of conditions that may significantly reduce the ability of Management to implement the Business strategy. The Group has a department of Strategy and Innovation which coordinates development and monitoring of strategic performance, while the Department of Risk and Compliance undertakes independent reviews of the strategic risk and reports monthly to management and quarterly to the Board.

Environmental and Social Risk

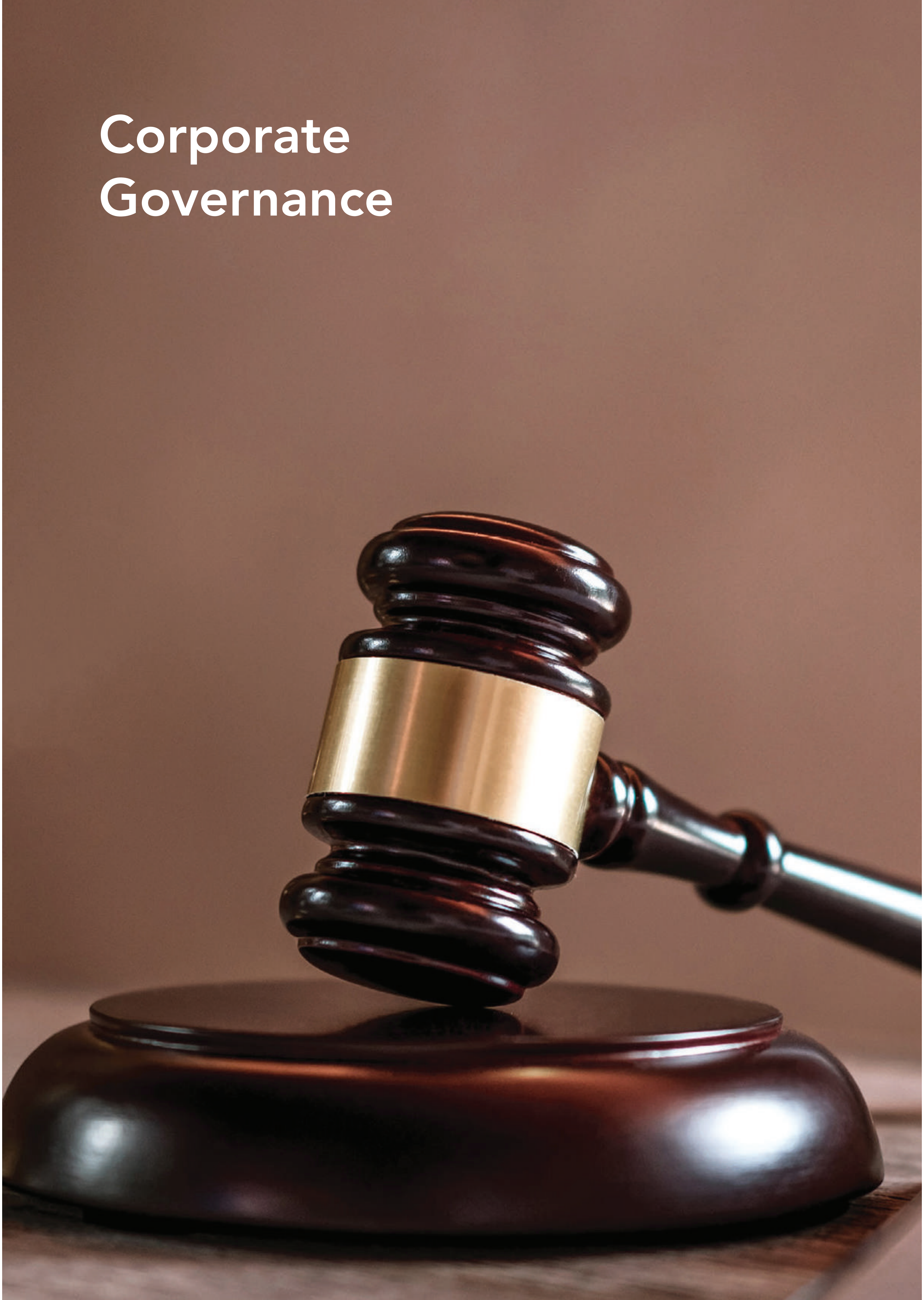
These are the potential negative consequences to a clients/investee's operations that result from impacts (or perceived impacts) on the natural environment (i.e. air, water, soil) or communities of people (e.g. employees, customers, local residents). Failure to effectively manage environmental and social issues in a business can lead to a range of financial, legal and reputational consequences for the Group.

Taking care of the ecological environment is a solemn responsibility for the Group. We have embraced a culture of responsible living with the ultimate intention of building a sustainable work environment that has minimal or nil adverse effects on the environment. All project loans that are being financed by the bank are subjected to assessment of environmental and social risks that are associated to the project in order to ensure implementation of issues identified in Environmental and Social Management Plan and to comply with local environmental laws, regulations and international standards. Also over the last couple of years, the Bank has embarked on building internal efficiencies to reduce the amount of paper used. The Bank has stopped sending printed monthly statement to customers by adopting e-statements which are sent to customers' emails. Additionally, a centralized printing system to track and control the amount of printouts on monthly basis was established.

Business Continuity Management Function

The Group recognises the importance of being able to prevent, manage and survive any possible incident that could disrupt its day-to-day business operations. In so doing, Business Continuity Management (BCM) has become the top agenda for Board and Senior Management and part of the Bank's business strategy. The group raised employee awareness on safety and life threatening situations (fire safety and rescue skills) and provided business continuity training to ensure the online replication of systems at the disaster recovery site can be activated to run the bank operations in case of any disruptive incidences happening in the primary data centre.

Corporate Governance



Board of Directors

Ally Hussein Laay

Non-Executive Director and Board Chairman

Ally Hussein Laay worked as the Director of Finance and Administration of the National Economic Empowerment Council. He has also worked with the International Care for Aids Programs, Mailman's School of Public Health of Columbia University of USA, Tanzania Social Action Fund (TASAF), Medical Stores Department, Coopers and Lybrand (now PWC) and Tanzania Electric Supply Company Ltd.

Mr. Laay holds an MBA from Cardiff Business School, University of Wales (UK), Post Graduate Diploma in Accountancy (PGDA (IFM) and Advanced Diploma in Accountancy (ADA IFM), Fellow Certified Public Accountant FCPA (T), Certification in Company Direction by Institute of Directors – UK and Institute of Directors Tanzania.

Boniface Charles Muhegi

Non Executive Director

Engineer Boniface Charles Muhegi is the Managing Director of JMK International Consultants LTD (an engineering and project management consulting firm). He was the Registrar (CEO) of Contractors Registration Board (CRB) for fifteen years up to 2014. Before that he worked for other Government institutions namely National Construction Council and Tanzania Electric Supply Company Ltd (TANESCO).

He obtained his training in the spheres of engineering and construction management from reputable higher learning institutions namely: Master of Science in Engineering from University of Melbourne Australia, Bachelor of Science in Engineering (Civil) from University of Dar es salaam, Advanced Post Graduate Diploma in Construction Management from the Institute of Housing Studies (IHS) Rotterdam, Netherlands. He has also attended short courses and seminars locally and abroad on technical, management and governance issues.

Engineer Muhegi served as a vice chair on the Advisory Board of Tanzania Building Agency (TBA) up to early 2014 and on the Board of Public Procurement Regulatory Authority (PPRA) up to 2018. He is a Chairperson of Governance and Human Resources Committee and member of Credit Committee.

Rose Felix Metta

Non - Executive Director

Rose Felix Metta is the Regional Manager of Morogoro National Social Security Fund (NSSF) office. Her previous positions include Director of Planning and Investments in LAPF Pensions Fund, Compliance Manager of LAPF Pensions Fund, Principal Finance Officer – Budget, Principal Officer – Investment, Head of Division – Capital Markets, Senior Planning Officer and Planning Officer of the National Social Security Fund.

Metta holds a Post Graduate Diploma in Social Security Financing from Maastricht University in the Netherlands, Masters in Business Administration (Finance) and Bachelor of Arts in Economics from the University of Dar es Salaam. She also holds a Certification and Diploma in Company Direction offered by the Institute of Directors from the United Kingdom. She is a member of the Board Risk and Audit Committees.

Board of Directors *(Continued)*

Hosea Ezekiel Kashimba
Non - Executive Director

Hosea Ezekiel Kashimba is the Director General of Public Service Social Security Fund (PSSSF). Prior to this position he held various posts within PPF Pensions Fund namely Director of Internal Audit, Internal Auditor and Payroll Accountant.

He holds a Master of Business Administration, (Corporate Management) – Mzumbe University, Advanced Diploma in Certified Accountancy– IDM Mzumbe, he also holds Certified Public Accountant (CPA) T. He holds a Certificate of Directorship – Institute of Directors Tanzania (IoDT). He is Chairperson of the Audit CWommittee and member of Risk Committee.

Ebenezer Ngea Essoka
Non - Executive Director

Ebenezer Ngea Essoka is the Executive Chairman IBURU. He retired from the Standard Chartered Bank (SCB) Group as Vice Chairman, Africa in November 2015 after over 30 years of banking experience. Prior to becoming SCB Vice Chairman, Africa, he was CEO South Africa and Southern Africa and CEO Central and West Africa.

He is currently the Chairman of SCB Cameroon, Chairman of SCB Ivory Coast, Executive Director and Chairman of the Audit Committee of SCB Mauritius and Senior Advisor Financial Institutions Unit, CDC Group PLC London –United Kingdom. In addition, he serves on the Global Advisory Council of the London Business School and is a founding member and Trustee of the Global Reach Network Foundation - an organization focused on bridging opportunity gaps for individuals and communities worldwide.

He holds an MBA in Finance and Diploma in International Business from Seton Hall University, South Orange, New Jersey (USA) and has also attended senior executive development programmes at INSEAD, London Business School, Templeton College, and Oxford University. He is a Member of the Board Audit and Governance and Human Resources Committees.

Charles Edward Kichere
Non - Executive Director

Charles Edward Kichere is the Commissioner General at Tanzania Revenue Authority (TRA).He worked as Deputy Commissioner General at Tanzania Revenue Authority (TRA), Head of Finance and Chief Accountant at Tanzania National Roads Agency (TANROADS), Principal Internal Auditor at Tanzania National Roads Agency (TANROADS), Internal Auditor at Tanzania National Roads Agency (TANROADS), Internal Auditor at Unilever Tea Tanzania Limited, and Internal Auditor at Unilever Tea Kenya Limited.

Kichere holds Bachelor of Laws (LL.B) from Tumaini University College, Dar es Salaam Tanzania, Master of Business Administration (MBA) in Finance at University of Dar es Salaam, Diploma in Financial Management of Donor Funded Projects at Africa Renaissance Centre, Mbabane Swaziland, Bachelor of Commerce in Accounting (B.Com Accounting) at University of Dar es Salaam. Mr Kichere is a holder of CPA (T). He is a member of the Credit and Audit Committees.

Board of Directors *(Continued)*

Dr. Neema Munisi Mori
Non - Executive Director

Dr. Neema Munisi Mori is a Senior Lecturer Department of Finance at University of Dar es Salaam, Tanzania, Director and Co-founder at MTI Investment Company in Tanzania and Norway, Associate Coordinator of Postgraduate Studies at UDSM Business School, also a Director and Co-founder at Institute of Management and Entrepreneurship management (IMED), a Consultancy firm in Tanzania. She also worked as Lecturer at Department of Finance, University of Dar es Salaam, Doctoral Research Fellow at University of Agder, Norway, Assistant Lecturer at University of Dar es Salaam, Tutorial Assistant at Department of Finance, University of Dar es Salaam and as Audit Trainee one at KPMG Tanzania.

Dr. Neema holds a PhD in International Business majoring in Corporate Governance and Boards of Financial Institutions from University of Agder Norway, Masters of Business Administration (MBA) majoring in Finance from University of Dar es Salaam. She holds Bachelor of Commerce (B.Com) degree majoring in Finance from University of Dar es Salaam. She is a member of the Credit and Governance and Human Resource Committees.

Prof. Faustine Karrani Bee
Non - Executive Director

Prof. Faustine Karrani Bee is the Vice-Chancellor of the University of Dodoma. He previously served in the same capacity at Moshi Co-operative University (MoCU). Professor Bee was first employed as Tutor by the then Co-operative College Moshi in 1988 and became a lecturer in 1993 at the same institution. In 2004 the Co-operative College Moshi was transformed into the Moshi University College of Co-operative and Business Studies (MUCCoBS), a Constituent University College of the Sokoine University of Agriculture (SUA), where Professor Bee rose through the academic ranks to a full professor.

Prof. Bee served as Principal of MUCCoBS between 2010 and 2014 before MUCCoBS was elevated into a full-fledged university by the name of the Moshi Co-operative University (MoCU), and Prof. Bee was appointed its first Vice Chancellor. He holds a PhD in Development Studies from University of South Africa, in Pretoria; a Master's degree in Development Studies from The Institute of Social Studies in The Hague – Netherlands; and a Bachelor Degree in Economics from University of Dar es Salaam. He was a Visiting Research Fellow of the Institute of Developing Economies in Tokyo, Japan between 1995 and 1996. He has served in various University Councils and Board of Directors. He is a member of Audit and Governance and Human Resource Committees

Madren Nduta Oluoch-Olunya
Independent, Non-Executive Director

Madren N. Oluoch-Olunya is a Management Consultant and Partner with Azali CPS – Nairobi, Kenya. She worked as Legal and HR practice with East African Breweries Limited, TPS Eastern Africa (Serena Hotels) and Agricultural Finance Corporation.

Madren holds a Master of Laws Degree from The London School of Economics and Political Science in UK, Bachelor of Laws (Honors) Degree - The University of Hull, UK, ACCA Diploma in Accounting and Finance – Kenya College of Accountancy, Certified Public Secretary – Institute of Certified Public Secretaries of Kenya, Advocate of the High Court of Kenya – Kenya School of Law, Certificate in Human Resource Practice – Chartered Institute of Personnel and Development (CIPD), UK and Certification in Company Direction from Commonwealth Association for Corporate Governance (CACG). She is a Founder Director and member of the Institute of Directors (Kenya). She was Chairperson of the Nomination Committee and member of Audit and Governance and Human Resource Committees.

Board of Directors *(Continued)*

Jes Klausby
Non - Executive Director

Jes Klausby is Senior Bank Analyst at the Danish Central Bank. He worked as Executive Vice President, Head of Group Finance of Nykredit Group, Chairman / Board Member of Dansk Pantebrevsbors a subsidiary of Nykredit Realkredit, Managing Director at Nykredit Bank a subsidiary of Nykredit Realkredit, Executive Vice President, Head of Central retail units in Nykredit Realkredit. He was also External examiner in Finance at Danish Universities and teacher in Finance at Copenhagen Business School.

Jes holds MSc in Mathematics and Economy from Aarhus University Denmark. He has attended a change management programme at INSEAD. He is Chairperson of the Risk Committee and a member of the Governance and Human Resource Committee.

Apollo Boniface Temu
Non-Executive Director

Apollo Boniface Temu is an Independent Chartered IT Professional. He was Chief of Party, Tanzania Country Deputy Director, PATH Digital Health Solutions, Seattle HQ based firm. He also served as Group Chief Executive – Calderberg Group, London. During his over 22 year career, amongst other roles he has served as Service Management and Technical Team Leadership - Lloyds Banking Group Edinburgh, Senior Technical Infrastructure Developer - Distributed Business Service - Halifax Bank of Scotland, Edinburgh and IT Consultant for various firms in the United Kingdom. Earlier career included Assistant Analyst Programmer at the Treasury Computer Services, Dar es Salaam, Tanzania.

He holds a Master of Science Degree in Information Technology Software Engineering from the Edinburgh Napier University, Higher Diploma – Institute of Management of Information System, London and Diploma in Computer Science from the Institute of Management of Information Technology, Tanzania. He has attended numerous courses such as Okinawa International Centre Computer Networks Systems Designer; Operations Excellence Academy/Cardiff University - Lean Enterprise Research Centre; other includes: ITIL Foundation Certified, Trained for ISEB Managers IT Service Management.

He has rich industry experience spanning Public Sector, Financial Services, Private Sector, Community and NGO, with diversified cultures in management and leadership in developing, implementing, and supporting IT and business solutions, while leading end-to-end business and community initiatives.

Associations & Accomplishments (Includes but not limited to): Chartered IT Professional Member of British Computer Society; The Institute for the Management of Information Systems; West Edinburgh Smilechildcare; Britain Tanzania Society; Ethinktanktz Tanzania; Tanzania Edinburgh Community Association and Tanzania Scotland Network.
He was a member of the Board Risk Committee and Board Credit Committee.

Prof. Mohamed Hersi Warsame
Non-Executive Director

Prof. Mohamed H. Warsame is the Chief Executive Officer – Dhow Financial Ltd. He worked as Professor – Howard University Business School, Managing Director/Chief Executive Officer – Onpoint Africa Holdings, LLC, Board Member – People's Bank of Zanzibar, CRDB Bank Burundi S.A, Adjunct Professor and Doctoral Research – Morgan State University.

Prof. Warsame holds a PhD in Business Administration – Morgan State University, Baltimore Maryland, M.Sc. In Finance – University of Strathclyde, Glasgow United Kingdom, B. Sc (High Honors) in Business Administration – Stuart School of Business, Illinois Institute of Technology Chicago, United State of America. He was a member of the Board Risk Committee and Chairman of the Board Credit Committee.

Executive Management

Abdulmajid Mussa Nsekela
Managing Director,
Tanzanian

He rejoined the Bank on 01 October, 2018 as Managing Director from NMB Bank PLC where he worked for 10 years as Business Head Retail, Head of Personal Banking and Senior Manager - Personal Banking.

He started his banking career at CRDB Bank in 1997 as Bank Officer and in 1998, he was selected to be part of the transition team that changed CRDB Bank culture. In 2000, he was promoted to Relationship Manager at Corporate Banking Department and later on to Senior Relationship Manager in 2003.

He holds a Master's Degree in Business Administration majoring in International Banking Finance (MBA-IBF) and Post Graduate Diploma in Business Administration (PDGBA) from Birmingham University (UK). He is also an alumnus of the Institute of Finance Management (IFM) where he graduated with Advanced Diploma in Banking.

Dr. Joseph Ochien'g Witts
Deputy Managing Director - Operations and Customer Service,
Tanzanian

He joined the Bank on 2 January 2001. Prior to his current role, Dr. Joseph Witts held different roles such as a Director of Alternative Banking Channels, Retail Banking, Retail Clients and Marketing, and Principal Internal Auditor at CRDB Bank Plc.

He worked for Citi Bank Tanzania as Head of Internal Control Department and Branch Operations Manager. He also worked as Chief Internal Auditor at Musoma Textiles.

Dr. Witts holds a Doctoral Degree in Business Administration from Walden University, Minneapolis, MN. USA. He holds a Master's Degree in Entrepreneurship and Enterprise Development (MEED) from the University of Dar es Salaam, and is a Certified Public Accountant - CPA (T). He holds an Advanced Diploma in Certified Accountancy (ADCA) from IDM Mzumbe, Tanzania. Dr. Witts has attended several, Executive Management Development Programs including Queens Business School in Ontario, Canada and Graduate School of Business in Cape Town, South Africa.

Esther Kileo Kitoka
Deputy Managing Director - Shared Services,
Tanzanian

She joined the Bank on 1st September 2006 as Risk Manager and later on was promoted to Director of Risk and Compliance, a position she held until September, 2011 when she became the Deputy Managing Director - Shared Services. While in CRDB Bank, Esther managed a two-year core banking system implementation project.

Before joining CRDB Bank, she worked for nine years at the Bank of Tanzania as a Bank Examiner. She is a CPA (T) and holds a Master's Degree in Commerce in Banking and Business Information Systems from the University of Sydney, Australia and a Bachelor of Commerce Degree in Accounting from the University of Dar es Salaam.

Management Team

Philip Stephen Alfred

Director of Alternative Banking Channels, Tanzanian

Beatus Peter Segeja

Director of Administration and General Services, Tanzanian

Elyas Bartholomew Mtenga

Director of Information & Communication Technology, Tanzanian

Izengo Daudi Soka

Director of Internal Audit, Tanzanian

John Baptist Rugambo

Company Secretary, Tanzanian

Alexander Samson Ngusaru

Director of Treasury and Capital Markets, Tanzanian

James Isaack Mabula

Director of Credit, Tanzanian

Anderson Yohana Mlabwa

Director of Risk and Compliance, Tanzanian

Tully Esther Mwambapa

Director of Marketing Research and Customer Services, Tanzanian

Management Team *(Continued)*

Frederick Bayona Nshekanabo

Director of Finance
Tanzanian

Goodluck Lema Nkini

Director of
Corporate Banking,
Tanzanian

Leslie S. James Mwaikambo

Director of
Centralised Operations,
Tanzanian

Dorah Hilda Ngaliga

Director of
Human Resources,
Tanzanian

Subsidiaries Management

Sebastian Adam Masaki
General Manager,
CRDB Microfinance Services Company Limited,
Tanzanian

Sebastian Masaki joined the Bank on 12 June 1996. Before the current position he worked as a Manager Business Banking, Manager Microfinance, Bank Officer Marketing and Bank Officer Research and Planning.

Sebastian holds a Master of Science in Marketing and Bachelor of Science in Statistics both from the University of Dar es Salaam.

Bruce Mwile Mwasenga
General Manager,
CRDB Bank Burundi Subsidiary,
Tanzanian.

Bruce Mwile joined the Bank on 13 February 2001. Prior to appointment as General Manager for CRDB Bank Burundi, he worked as Manager Corporate Banking and Senior Relationship Manager Corporate Banking. Before joining CRDB, he worked as Assistant Supervisor at Citibank Tanzania Limited.

Bruce holds a Masters' degree in Business Administration and Bachelor of Commerce both in Finance from the University of Dar es Salaam.

Arthur A. Mosha
General Manager,
CRDB Insurance Broker Limited,
Tanzanian

Arthur A. Mosha joined the Bank in September 2011. His experience in Insurance business includes Relationship Manager - Insurance and Manager Insurance and Principal Officer at CRDB Microfinance Services Company Limited.

Before joining the Bank, he worked at Alexander Forbes as Assistant Account Executive and Account Executive. Arthur holds a Masters Degree in Business Administration in Corporate Management from Mzumbe University and Bachelor of Arts Degree in Political Science and Public Administration from the University of Dar es Salaam.

He is a Certified Chartered Insurance Broker by London Chartered Insurance Institute

Corporate Governance Report

Corporate Governance Structure for CRDB Group

CRDB Group recognizes the importance of good corporate governance to strengthen banking infrastructure and corporate culture to sustain business performance and minimize risks. The Bank applies a system of checks and balances and a good internal control system while ensuring division of duties and responsibilities between work units. In 2018, CRDB Bank appointed a new external auditor, Ernst & Young replacing PricewaterhouseCoopers whose tenure ended.

The supreme governing body which oversees corporate governance within the Group is the Board of Directors for CRDB Bank Plc and Board of Directors for subsidiaries. Our governance structure is also made up of a number of Board and management committees to manage risk, credit, audit, governance and human resources and to ensure effective control of the business and finance matters.

Board Composition and Independence

The Group is led by an effective, committed and unitary Board, which is collectively responsible for the long-term success of the Company. It comprises of the Chairman, one independent non-executive director and non-executive directors. In 2018, the Board consisted of thirteen (13) directors, comprising twelve (12) non-executive directors and the Managing Director who is an Ex-Officio member. Non-executive Chairman, who is elected by directors every year leads the Board. Every shareholder with ten percent (10%) of the issued and fully paid up share capital of the Bank is entitled to appoint a Director. Shareholders owning between 1% and 10% of the issued and fully paid up share capital of the Bank are jointly entitled to elect a Director for every 10% of shares held, provided that any part of 10% which does not, by itself add up to a whole 10% is not entitled to elect a Director. The strategic investors (a consortium of IFC/AFCAP and CDC) owning 5% jointly appoints one director while shareholders owning less than 1% jointly elect one (1) Director and additionally one (1) Director for every 10% of shares held. All Shareholders elect one Independent Director.

A board-approved policy specifies the governance principles that ensure a balance of power and authority at board level. Board composition is driven by the following principles:-

- The Board will be of an appropriate size to allow efficient decision making
- The Chairman of the Board must be a non-executive director
- The Chairman must not have been an executive officer of the Bank in the last three years
- The Board must comprise non-executive directors and at least one independent director
- The Board should consist of directors with a broad range of expertise, skills and experiences appropriate to the Group's business from a diverse range of backgrounds

The Board consists of sufficient members with the right mix of skills, experiences and knowledge to perform their roles. Non-executive directors bring different perspectives to Board deliberations and constructive views are always encouraged. The composition is set to ensure that there is a balance of power that inspires robust challenge and debate such that no individual or group can dominate board processes or decision-making. As at 31 December 2018, all Board members who are recognised members of designated professional bodies were in good standing.

Diversity Policy

The Board considers the diversity of views and experiences as essential for ensuring that all aspects of strategies and plans are fully considered. The combination of personalities and experience on the Board ensures that there is a balance of power that stimulates robust challenge and debate such that no individual or group can dominate board processes or decision-making.

Chairman and Managing Director (CEO)

The Chairman is a non-executive director, and the roles of Chairman and Managing Director are distinct, with their responsibilities clearly defined. The Chairman is responsible for leading the Board and ensuring it's effectiveness. The Managing Director is responsible for execution of the Group's strategy, policies and the day-to-day business of the Group, supported by the management and executive committees which he chairs.

Company Secretary

The company secretary plays a leading role in good governance by helping the Board and its committees function effectively and in accordance with their terms of reference and best practice. Providing support goes beyond scheduling meetings to proactively manage the agenda and ensuring the presentation of high-quality up-to-date information in advance of meetings.

The Company Secretary assists the Chairman with all development processes including board evaluation, induction and training. All Directors have access to the advice and services of the company secretary. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

Board Responsibilities

The Board operates on the understanding that sound governance practices are fundamental to gaining the trust of stakeholders which is critical to sustaining performance and preserving shareholders' value. The board ensures that the Group manages risk effectively, monitors financial performance and ensures that effective succession planning arrangements and remuneration policies are in place. It is accountable to shareholders and sets the direction through the business strategy and policies.

It monitors implementation thereof through structured reporting systems including its various committees. The Board is required to meet at least eight (8) times a year.

Key activities of the Board during the year included:-

- Approve the approach and oversee the implementation of key policies pertaining to the Bank's capital adequacy assessment process, liquidity and funding plans.

- Oversee implementation of the Bank's governance framework and periodically review that it remains appropriate in the light of material changes to the Bank's size, complexity, geographical footprint, business strategy, markets and regulatory requirements.

- Establish, along with senior management the Bank's risk appetite, taking into account the competitive and regulatory landscape and the Bank's long-term interests, risk exposure and ability to manage risk effectively.

- Actively monitor the results of the Group's financial and operational performance each quarter.

- Oversee recruitment and appointment of Managing Director and Deputy Managing Director-Operations and Customer Services.

Appointment of Board Directors

Directors of the Board are appointed in accordance with the Bank's Articles of Association and as per requirements of regulatory bodies. Directors are required to retire by rotation and the Articles allow re-election of directors after expiry of three year terms as long as the director meets the eligibility criteria. A notice is published in the media to invite applications for the post of Board Directorship. Thereafter, the list of candidates is reviewed by the Board Governance and Human Resources Committee and Board and then presented to the AGM for voting by Shareholders. During the AGM, shareholders are provided with information on the potential directors' education, qualifications, experience and other key directorship requirements before election. When filling the vacancies, the board and shareholders take cognizance of the knowledge, skills, experience and other commitments of the candidates, as well as other attributes considered necessary for directorship. The appointment of Board members depends on the approval by the Bank of Tanzania.

At the Annual General Meeting (AGM) held on 19th May 2018, Mr. Juma A. Abdulrahman and Ms. Devotha N. Minzi belonging to the group of shareholders with less than 1% of the Bank's share capital retired. Mr. Apollo B. Temu and Prof. Faustine K. Bee were elected to represent the group of shareholders with less than 1% and Ms. Rose F. Metta was re-elected to represent the group of shareholders holding between 1% and 10% of the Bank's share capital.

The following Directors served during the year:

S/N	Name	Position	Age	Qualification/ Discipline	Nationality	Date of appointment	Date of Retirement
1	Ally H. Laay	Chairman	62	Accountant	Tanzanian	2004	-
2	Juma A. Abdulrahman	Member	66	Accountant	Tanzanian	2009	May 2018
3	Dr. Neema Munisi Mori	Member	40	Academician	Tanzanian	2017	-
4	Rose F. Metta	Member	49	Economist	Tanzanian	2012	-
5	Jes Klausby	Member	63	Banker	Danish	2017	-
6	Charles Edward Kichere	Member	48	Accountant	Tanzanian	2017	-
7	Boniface C. Muhegi	Member	64	Civil Engineer	Tanzanian	2004	-
8	Devotha N. Minzi	Member	58	Economist	Tanzanian	2015	May 2018
9	Ebenezer N. Essoka	Member	63	Banker	Cameroonian	2015	-
10	Madren N. Oluoch-Olunya	Member	46	Lawyer	Kenyan	2016	-
11	Prof. Mohammed H. Warsame	Member	45	Financial Analyst	Tanzanian	2016	-
12	Hosea E. Kashimba	Member	48	Accountant	Tanzanian	2016	-
13	Apollo B. Temu	Member	49	IT Expert	Tanzanian	May 2018	-
14	Prof. Faustine K. Bee	Member	59	Economist	Tanzanian	May 2018	-
15	Dr. Charles S. Kimei	Former Managing Director, Ex Officio	65	Economist	Tanzanian	1998	October 2018
16	Abdulmajid M. Nsekela	Managing Director, Ex Officio	47	Banker	Tanzanian	October 2018	-

The Company Secretary at the date of this report, who served throughout the year was Mr. John B. Rugambo, he also heads the Bank's Corporate Affairs Department.

The Board operates under an inclusive structure made up of Committees established to assist it in discharging its responsibilities and obligations. The Board establishes Committees when issues become too complex and/or numerous to be handled by the entire Board and ensures that the Committees have a specific charge or set of tasks to address.

The Committees members may include non-Board members. The Managing Director and Deputy Managing Directors attend Committee meetings as ex-officio members. The members and Chairs of Committees are appointed by the Board and serve for a period of one year and can be re-appointed. These Committees have been established with sets of specific terms of reference, which are reviewed on annual basis. The Board Committees are: Audit, Credit, Human Resources and Governance, Nomination and Risk. There are five key Management Committees namely: Executive Management (EXCO), Management (MCM), Assets and Liabilities Management (ALCO), Management Credit and Management Risk Committees. All the Board Committees must have at least three non-executive directors as members.

Board Meetings

The Board held eleven (11) meetings during the year, eight (8) meetings as planned and three (3) meetings being special. The Directors who served during the year and their attendance at Board meetings was as follows:-

S/N	Name of Director	Position	Number of Board meetings attended	Date of appointment/ retirement
1	Ally H. Laay	Chairman	11	-
2	Boniface C. Muhegi	Member	11	-
3	Juma A. Abdulrahman	Member	5	Retired May 2018
4	Rose F. Metta	Member	11	-
5	Devotha N. Minzi	Member	4	Retired May 2018
6	Hosea E. Kashimba	Member	11	-
7	Prof. Mohamed H. Warsame	Member	11	-
8	Ebenezer N. Essoka	Member	7	-
9	Madren N. Oluoch-Olunya	Member	10	-
10	Dr. Neema M. Mori	Member	11	-
11	Charles E. Kichere	Member	7	-
12	Jes Klausby	Member	11	-
13	Apollo B. Temu	Member	4	Appointed May 2018
14	Prof. Faustine K. Bee	Member	2	Appointed May 2018

Board Committees

As at 31 December 2018, the Board had five committees namely: Audit Committee, Credit Committee, Governance and Human Resources Committee, Nomination Committee and Risk Committee. The activities of the committees are governed by the respective Committee Charters which are approved by the Board. The composition of each committee is shown below:-

Current members of the Board Committees

Name	Audit Committee	Credit Committee	Governance and Human Resource Committee	Risk Committee	Nomination Committee
Ally H. Laay					
Jes Kalusby	√		√	▲	√
Prof. Faustine K. Bee	√		√		
Ebenezer N. Essoka	√		√		
Madren N. Oluoch-Olunya	√		√		▲
Prof. Mohamed H. Warsame		▲		√	√
Boniface C. Muhegi		√	▲		√
Charles E. Kichere		√			
Dr. Neema M. Mori		√	√		
Apollo B. Temu		√		√	
Rose F. Metta				√	
Hosea E. Kashimba	▲			√	√

Key:

▲ Chairperson

√ Member

Audit Committee

Committee purpose and responsibilities

The Board Audit Committee reviews significant accounting policies and financial reporting systems to ensure that they are adequate and are complied with at all times. It reviews the adequacy of internal control systems and monitors implementation of actions to address issues raised by internal auditors, external auditors and regulators.

The Committee assists the Board in evaluation and selection of external auditors at least annually. It also recommends termination of existing auditors whenever it is found that the performance is not in line with the assigned duties and responsibilities and/or there is no independence for the auditors to discharge their duties in a professional manner.

The Director of Internal Audit reports directly to the Audit committee.

Committee composition and activities

The membership of the Committee comprises five (5) Non-Executive Directors. The audit committee is chaired by an independent non-executive director.

The Committee members have considerable accounting, audit, finance and business experience and at least three (3) members of this committee are professional accountants of designated professional bodies.

Key activities undertaken by the Audit Committee during the year include:-

- Review of the scope of the annual audit plans for 2018 of the external auditor and internal auditor, and oversight of the work performed by auditors throughout the year
- Review of significant accounting, financial reporting and other issues raised by management, and the internal and external auditors;
- Review and approval of the internal auditors work plan and budget for 2018 while ensuring that it covers all high risk areas in the Group's operations;
- Review and provide recommendations on findings observed by internal auditors, external auditors and BOT examiners to the Board; and
- Monitors implementation of actions that address areas of weakness observed by auditors and BOT examiners.

The Committee held four (4) meetings as planned during the year. The external auditors were invited and attended two meetings to present audit findings and opinion on audited annual financial statements. The Managing Director, Deputy Managing Directors, Director of Finance and Director of Internal Audit also attended the meetings as invitees.

Members of the Audit Committee and their attendance were as follows:

Name	Position	Number of meetings attended	Date of appointment/ retirement
Hosea E. Kashimba	Chairperson	4	-
Ebenezer N. Essoka	Member	4	-
Madren N. Oluoch-Olunya	Member	3	-
Prof. Faustine K. Bee	Member	1	Appointed May 2018
Juma A. Abdulrahman	Member	2	Retired May 2018
Charles E. Kichere	Member	2*	-
Rose F. Metta	Member	4	-

*Moved to Credit Committee from July 2018

Credit Committee

Committee purpose and responsibilities

The main function of the Credit Committee is to monitor performance and quality of the credit portfolio, appraise and approve loans within its credit approval limit and recommend to the Board for approval facilities beyond its limit. The Committee reviews Credit Policy at least once a year and ensures that it contains sound fundamental principles that facilitate identification, measurement, monitoring and control of credit risk as well as having appropriate plans and strategies for credit risk management.

Committee composition and activities

The Board Credit Committee comprises five (5) Non-Executive Directors. The committee members provide core banking and risk knowledge, together with a breadth of experience which bring knowledge from other sectors.

Key activities undertaken by the Credit Committee during the year include:-

- Review of management's strategies and activities for managing credit risk, including stress test results and compliance with underwriting standards;
- Review and assess the process for establishing the Group's allowance for credit losses;
- An ongoing critical review of the credit portfolio asset quality and provisioning; and
- Review credit applications above management approval limit and recommend to the board for those above their limits.

The Credit Committee held ten (10) meetings during the year as planned. The Managing Director, Deputy Managing Directors, Director of Corporate Banking and Director of Credit participated in the meetings as invitees.

Members of the Credit Committee and their attendance were as follows:-

Name	Position	Number of meetings attended	Date of appointment/ retirement
Prof. Mohamed H. Warsame	Chair person	10	-
Boniface C. Muhegi	Member	9	-
Charles Kichere	Member	5	-
Dr. Neema M. Mori	Member	10	-
Apollo B. Temu	Member	1	Appointed May 2018
Devotha N. Minzi	Member	4	Retired May 2018

Governance and Human Resources Committee

Committee purpose and responsibilities

The main function of this Committee is to develop, review and enhance the Group's approach to corporate governance and human resources management practices. The Committee ensures that there is a succession plan for executives and other key positions within the Group. It is also responsible for reviewing and recommending reward strategy and annual compensation for the Board, senior management and other employees of the Group.

The committee makes general recommendations to the Board on corporate governance, including directorship practices, recruitment and retirement policies for Executives of the Group, issues arising from AGM, the functions and duties of the Committees of the Board, and any changes/issues that the Committee believes to be desirable in the matters to be covered by the Board or any of its Committees.

Committee composition and activities

The Board Governance and Human Resource Committee comprises six (6) experienced and non-executive Directors.

Key Activities undertaken by the Governance and Human Resource Committee during the year include:-

- Review of and recommendation to the Board on the remuneration package for the Group CEO and other senior executives;
- Review of succession planning for management and key positions in the Group to ensure there is bench strength and plan to develop those in the talent pool;
- Assessment of the appropriate size and composition of the Board and its Committees.
- Review of and recommendation to the Board on the incentives payable to senior executives based on performance and risk criteria structured to increase shareholder value; and
- Review human resource practices focusing on the areas of human capital development plans, recruitments, staff welfare, and performance management to enhance productivity.

Governance and Human Resource Committee held five (5) meetings during the year as planned.

Name	Position	Number of meetings attended	Date of appointment/ retirement
Boniface C. Muhegi	Chairperson	5	-
Madren N. Oluoch-Olunya	Member	4	-
Jes Klausby	Member	5	-
Dr. Neema M. Mori	Member	4	-
Ebenezer N. Essoka	Member	4	-
Prof. Faustine K. Bee	Member	1	Appointed May 2018
Juma A. Abdulrah-man	Member	3	Retired May 2018

Risk Committee

Committee purpose and responsibilities

The main function of the Risk Committee is to assist the Board in reviewing risk management strategies and policies and recommend them for approval. It provides the Board with regular assessments of the Group risk profile and monitors the implementation of risk management action plans. The Committee also reviews adequacy and effectiveness of balance sheet management and its related risks through the Asset Liability Management Committee (ALCO) reports presented by Management to the Committee every quarter.

Committee composition and activities

The Board Risk Committee comprises five (5) independent Non-Executive Directors.

At each scheduled meeting; the Risk Committee received a report from the Group Chief Risk Officer which includes updates on risk categories identified by the Group. The Group's capital and liquidity position are also reviewed on a regular basis.

Key activities undertaken by the Risk Committee during the year include:-

- Review of the Group's capital adequacy in line with the Group's strategic plan and regulatory requirements;
- Review of the Group's key risks and risk management framework and strategy as developed by management; and
- Regular review of minutes and updates of ALCO and risk committee of management to determine their effectiveness.

The Risk Committee held four (4) meetings during the year as planned. The Managing Director, Deputy Managing Directors and Director of Risk and Compliance participated in the meetings as invitees.

Members of the Risk committee and their attendance were as follows:-

Name	Position	Number of meetings attended	Date of appointment/ retirement
Jes Klausby	Chair person	4	-
Rose F. Metta	Member	4	-
Hosea E. Kashimba	Member	4	-
Prof. Mohamed H. Warsame	Member	3	-
Apollo B. Temu	Member	1	Appointed May 2018
Juma A. Abdulrahman	Member	1	Retired May 2018

The Committee continues to focus on ensuring the Group have effective controls and oversight to comply with existing regulatory obligations. Compliance tests are conducted as per the annual activity plan to establish the level of compliance with our policies, procedures and regulatory requirements across the Group.

IT resilience and the dynamic threat posed by cyber risk are recognized as key risks and are a crucial area of focus for the Board Risk Committee. Important and material issues are brought to the Board Risk Committee for information, consideration and discussion as appropriate. The Committee challenges the Group to further improve its ability to mitigate and respond to cyber risk and ensure that the IT strategy aligns well with the Bank's strategy. Technology resilience will also remain a key focus for 2019 as the Group continues to invest in its infrastructure.

Nomination Committee

Committee purpose and responsibilities

This committee was formed specifically for the purpose of assisting the Board in overseeing recruitment process of the Managing Director (MD) and Deputy Managing Director – Operations and Customer Service (DMD – OCS) through:

- Ensuring the Recruitment Consultant understands the Board's requirements and criteria for selection of candidates to fill the vacant executive positions
- Providing management with relevant guidance during the recruitment process;
- Conducting preliminary interviews for shortlisted candidates prior the final Board interview;
- Ensuring that recruitment timeline is complied with.

Committee composition and activities

The Board Nomination Committee comprises five (5) Non-Executive Directors under the chairmanship of Independent Director. Key activities undertaken by the Nomination Committee during the year include:-

- Reviewed the job description of the two executive positions i.e. Managing Director and Deputy Managing Director- Operations and Customer Service;
- Oversaw implementation of recruitment timeline to ensure it is observed;
- Reviewed the scope of work of a recruitment consultant;
- Made recommendations to the Board concerning compensation and other terms of employment for incoming executives;
- Recommended to the Board, suitable candidates for the two posts, terms and conditions of employment, including the remuneration and any variation to those terms and conditions;

- Provided guidance to the management on any issue regarding recruitment and hiring of the two executives; and
- Conducted interviews for shortlisted candidates.

Nomination Committee held six (6) meetings during the year as planned. Members of the committee and their attendance were as follows:-

Name	Position	Number of meetings attended	Date of appointment/ retirement
Madren N. Oluoch-Olunya	Chair person	6	-
Boniface C. Muhegi	Member	6	-
Prof. Mohamed H. Warsame	Member	6	-
Hosea E. Kashimba	Member	4	Appointed May 2018
Jes Klausby	Member	5	Appointed May 2018
Juma A. Abdulrahman	Member	2	Retired May 2018
Devotha N. Minzi	Member	2	Retired May 2018

Appointment of Directors

Directors of the Board are appointed in accordance with the Bank's Articles of Association and as per requirements of regulatory bodies. The Directors are elected by Shareholders at the Annual General Meetings (AGMs) in which shareholders are provided with information on the potential directors' education, qualifications, experience and other key directorship requirements before the election. When filling the vacancies, the board and shareholders take cognizance of the knowledge, skills, experience and other commitments of the candidates, as well as other attributes considered necessary for directorship.

Independence of Directors

Directors are expected to bring independent views and judgement to Board deliberations. An independent director must be independent of management and able to exercise unfettered judgement, free of any business or other association that could materially interfere with the exercise of the director's ability to act in the best interest of the Group. In assessing whether a director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations.

The Board has procedures in place to ensure it operates independently of management. This is assisted by the non-executive directors in the absence of management at each scheduled Board and Board committee meeting.

Induction and Ongoing Education

The Group appreciates the importance of a well-focused induction plan to bring business and its issues alive for a new Director, taking into account the specific role they have been appointed to fulfil. On appointment, Directors receive the Group's governance pack containing all relevant governance information such as governance structures, relevant legislation and policies.

Continuous professional development is an important aspect of every professional's working life, including Directors. Skills and knowledge need to be kept up-to-date to ensure the efficiency of the Board as a whole and the ability of every single Director to contribute to the highest standards. Ongoing education and training remain a focus, whereby the Directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments that could affect the Group and its operations.

The Chairman leads the learning and development of Directors and the Board generally and regularly reviews and agrees with each Director their training and development needs. Directors have access to a wide range of briefing and training sessions and other professional development opportunities. They undertake the training they consider necessary to assist them in carrying out their duties and responsibilities as Directors.

Topics covered in 2018 include Benefits of Rating, Review of correspondent relationship, and Introduction to Digital Banking, Credit Management, Corporate Governance and Role of the Board of Directors.

Access to Independent Professional Advice

Written guidelines entitle each director to seek independent professional advice at the Bank's expense, with the prior approval of the Chairman. The Board can conduct or direct any investigations to fulfil its responsibilities and can retain, at any legal, accounting or other services that it considers necessary from time-to-time to perform its duties, all at the expense of the Bank.

Succession Planning

The Board of Directors reviews at least annually composition of the Board and its committees. This review, based on the Bank's strategic objectives, is aimed at ensuring that the Board is able to meet the current and future needs of the Group.

Retaining board members with considerable experience is seen as imperative in ensuring continuity and maintaining appropriate levels of oversight. The Board's future needs are considered on an ongoing basis to ensure adequate succession planning.

Director Resignation Policy

A director must submit a letter of resignation to the Board Chairman on a change in employment and upon accepting a directorship with another public company or any other organisation that would require a significant time commitment . A notice must be given to the Chairman of the Governance and Human Resources Committee, the Managing Director and the Company Secretary. The letter of resignation will be discussed by the Governance and Human Resources committee for further action.

Conflict of Interest

The Board has a comprehensive procedure for reviewing and approving actual and potential conflicts of interests. All directors are required to disclose outside business interests before they are appointed to the Board. A person should not serve as a director if his business or permanent occupation creates permanent conflict of interest between him and the Bank, or if it is reasonable to assume that such conflict may exist permanently as outlined in the Bank of Tanzania Guidelines for Boards of Directors of Banks and Financial Institutions, 2008. Directors have a continuing duty to notify the Chairman and Company Secretary as soon as they become aware of actual or potential conflict situations.

If a significant conflict of interest with director exists and cannot be resolved, the director is expected to tender his or her resignation. In situation of conflict of interest the bank is required to make public disclosures on shareholding and business agreement.

As of 2018, the Board has not recognized any potential conflict of interest.

The provision of financial services to directors by the Bank is subject to any applicable legal or regulatory restrictions. Financials services are provided to directors on arm's length terms and conditions. Refer to Note 46 – Related party transactions in the Financial Statement for further information, including details of related party dealings and transactions.

Board Effectiveness Review

The Chairman of the Board leads the annual review of the Board's effectiveness and that of its committees and Individual Directors with the support of the Human Resource and Governance committee. The board performance evaluations are facilitated annually to ensure effectiveness of the Board. The 2018 review sought the Directors' view on range of topics including; strategy, planning and performance, risk and control; Board composition and size; the Board's calendar and agenda; the quality and timeliness of information; and support for Directors and Committees.

The reviews concluded that the performance of the Board, its committees, and each directors continues to be effective.

All Directors have demonstrated a commitment to their roles. Most Directors commented favorably on the performance of the Board as a whole, describing it as hardworking, collegiate, questioning and highly engaged.

Director's Remuneration

Remuneration of all directors is subject to annual review to ensure that levels of emoluments and compensation are appropriate. This is after considering the volume of work, industry benchmarks and international practices. Non-executive directors are paid fees as approved by the Annual General Meeting of the shareholders.

The non-executive directors are not eligible for pension scheme membership and are not part of Bank's remuneration scheme.

Information on aggregate amounts of the emoluments and fees paid during the year to directors in comparison to previous year is disclosed below:-

Name	2018 TZS' Million	2017 TZS' Million
Ally H. Laay	69	69
Boniface C. Muhegi	77	65
Devotha N. Minzi	38	65
Juma A. Abdulrahman	44	65
Bede P. Lyimo	-	29
Rose F. Metta	59	59
Madren N. Oluoch-Olunya	77	59
Frederick T. Sumaye	-	12
Hosea E. Kashimba	68	59
Ebenezer N. Essoka	59	59
Prof. Mohamed H. Warsame	77	65
Dr. Neema M. Mori	59	29
Charles E. Kichere	59	29
Jes Klausby	68	15
Apollo B. Temu	23	-
Prof. Faustine K. Bee	23	-
Dr. Charles S. Kimei **	-	-
Abdulmajid M. Nsekela**	-	-
TOTAL	**801**	680

** Dr. Charles S. Kimei (Former Managing Director) and Mr. Abdulmajid Nsekela (Managing Director) are ex-officio members who are paid monthly salary by the Bank. This is part of key management remuneration disclosed on page 240

Remuneration Policies

In determining the remuneration to be paid to the non-executive directors, the Bank uses it's Remuneration policies. Management usually sends a proposal of the fees to be paid to the non-Executive directors by showing the percentage increase and reasons for the increase and forward the proposal to the Board before final approval to the Annual General Meeting.

Compensation of Key Management Personnel

On annual basis, the Board reviews and approves compensation of key management personnel. The remuneration of key management personnel during the year was TZS 7,449 million (2017: TZS 8,514 million).

Ethical Behaviour and Organization Integrity

Good corporate governance is about commitment to values and ethical business practices as enshrined in the CRDB Code of Ethics which governs all its business interactions and relationships to stakeholders. The Group's corporate governance structure involves managing and controlling relationships amongst different stakeholders including shareholders, Board of Directors, employees, customers, suppliers and the community at large. CRDB Code of Ethics can be accessed via the Bank's intranet and all employees and directors are required to confirm annually in writings.

Insider Trading

The Bank has an Insider Trading policy providing guidance on the conduct of insiders in the trading of its shares. Insiders are allowed to trade three days after disclosure of quarterly, annual financial results and any other material information for a period of three weeks. Risk and Compliance Department is responsible for monitoring Compliance to this Policy.

Whistle Blower Protection

The Group has a Whistle-blower Protection Program for confidential reporting of unacceptable or undesirable conduct. The system enables disclosures to be made to a protected disclosure officer by the Group's employees. The Group does not tolerate incidents of fraud, corrupt conduct, bribery and adverse behaviour, and legal or regulatory non-compliance. Employees are encouraged to raise any issue involving illegal, unacceptable or inappropriate behaviour or any issue they believe could have a material impact on the Group's profitability, reputation, governance or regulatory compliance.

Relationship with Stakeholders

In fulfilling their responsibilities, the Directors believe that they govern the Group in the best interests of shareholders, whilst having due regard to the interests of other stakeholders in the Group including customers, employees, regulators and suppliers. The Management communicates regularly with major shareholders and potential investors throughout the year by participating in investor presentations and shareholders' meetings. Feedback from these meetings is reported to the Board.

Generally, the Group continues to maintain a good relation with all Stakeholders. Shareholders are encouraged to attend the AGM, or appoint proxies to represent them in case they fail to attend. The Bank has a standing agenda in the AGM which allows the shareholders to contribute their ideas on issues to be discussed during the meetings.

There is a dedicated Registrar Office under Corporate Affairs Department to handle shareholders issues immediately as they arise such as payment of dividends, transfer of shares and shareholding matters in general. In addition there is an Investor Relations Unit which is responsible for providing information to both existing and prospective investors.

MANAGEMENT

Management Team

Management of the Bank is under the Managing Director who is assisted by Deputy Managing Director Shared Services and Deputy Managing Director Operations and Customer Service. Director of Risk and Compliance, Director of Strategy and Innovations, Head of Legal and Compliance and Director of Corporate Affairs who also report directly to the Managing Director.

Shared Services is composed of the Finance, Administration and General Services, Information and Communication Technology, Human Resources, and Centralized Operations departments and Project Management Office. All of which are headed by Directors.

Operations and Customer Service is composed of Retail Banking, Corporate Banking; Marketing, Research and Customer Service; Alternative Banking Channels and Treasury departments; which are also headed by Directors. The Director of Internal Audit reports directly to the Board through the Board Audit Committee.

Management Committees

Management of CRDB Bank has six (6) committees playing various roles in overseeing operations of the Bank and implementation of strategies and policies.

Executive Committee

The committee is composed of Managing Director who is the Chairman, Deputy Managing Directors, all Directors reporting directly to him and General Managers for CRDB Burundi and CRDB Microfinance. The Executive Committee meets at least once per quarter to discuss and review the effectiveness of the Bank's strategies and policies.

The main objective of the Executive Committee is to provide leadership to the Group and ensure efficient deployment and management of the Bank's resources. Other functions of the Committee include:

a) Develop and periodically review policies for Board approval;

b) Oversee implementation and monitor the Bank's corporate vision, strategies, and business plans;

c) Formulate the Bank's overall strategy and financial targets that are to be agreed with individual business, departments and approved by the Board;

d) Monitor performance against the business strategy of the Bank and taking appropriate actions to ensure attainment of the goals;

e) Review viability of any acquisition or establishment of any new business or disposal of any business within its mandate or for board approval; and

f) Review and recommend the annual budget to the Board for approval.

Management Committee

The committee chaired by the Managing Director is composed of Deputy Managing Directors, All Directors and General Managers. The Committee is responsible for reviewing and monitoring implementation of operational plans to ensure timely identification of challenges and issues that might affect the achievement of targets for remedial action. It meets at least once in a month.

Asset Liability Management Committee

The committee is composed of Managing Director, Deputy Managing Directors, and all directors from Operations and Customer Service (business), Director of Finance, Director of Risk and Compliance and Director of Strategy and Innovation. The Committee meets at least monthly and may hold extraordinary meetings on the occasion of exceptional events requiring immediate decision making.

The Committee is responsible for:-

a) Managing the balance sheet to ensure proper allocation of resources to achieve performance targets;

b) Reviewing the current and prospective liquidity positions and monitoring alternative funding sources to ensure adequate liquidity is maintained at all times;

c) Reviewing the current and prospective capital levels (risk based) to determine its adequacy in relation to expected growth and asset quality;

d) Reviewing the monthly performance against established targets/projections and budgets and analyzing the reasons for any variances for timely actions; and

e) Measuring and monitoring investment risk of the Group on an ongoing basis and ensuring a quality portfolio of assets is maintained within the limits set by the Board and Bank of Tanzania regulations.

Credit Committee

The Committee meets at least once in a week.
The Committee has the following duties:-

a) Review and recommend for approval credit applications that are above the approving authority of the Deputy Managing Director;

b) Monitor and evaluate weekly turnaround and recovery reports and provide guidance on the actions to be taken to maintain a quality loan portfolio; and

c) Review at least quarterly loan portfolio performance trend, exposure against limits and compliance to Bank policies and Bank of Tanzania regulations.

Risk Committee

Management Risk Committee oversees risk management practices in the Group. The Committee meets monthly under the Chairmanship of the Managing Director and is attended by all Heads of Departments. The main responsibilities of the Committee are:-

a) Implementing strategies and policies of the Board on risk management;

b) Monitoring risk exposures through key risk indicators and deliberate on the actions to mitigate them;

c) Implementing systems to measure monitor and control risk together with regular reporting to the Board and its risk Committee on the level of exposure to various risks and implemented/ proposed mitigation strategies.

Tender Committee

The Committee is responsible for oversight of the tender process in the Bank as delegated by the Managing Director. The main duties of the Committee include identification of competent suppliers, contractors and consultants as required, oversight of procurement processes from the tender up to evaluation stage and recommend the tender results to the Managing Director for the final award.

BY ORDER OF THE BOARD

Ally H. Laay
Chairman

27 March 2019
Date

Corporate Social Responsibility and Sustainability

THE VALUE WE CREATE

Investing in our people

We distributed over TZS 159,223 million to our employees through salaries, incentives and medical schemes during the year. CRDB Bank Plc, its subsidiaries have created direct job opportunities to 3,031 individuals in Tanzania and 70 Burundi.

Our Banking agency service delivery channel has created more than 6000 business opportunities. Moreover, the Bank offered internship programs for university students to provide them with necessary practical skills to match their theoretical knowledge which will later be useful for the participants in the working world.

Deepening financial inclusion

Through our strong branch network, agency banking and partnership with mobile network operators, the Bank has ensured that its services are accessible to remote parts of country to facilitate financial inclusion.

CRDB Microfinance Ltd, the Bank's subsidiary was able to extend credit to informal sector individuals with simplified collateral requirements and terms and provide financial literary education to support their businesses. During the year, CRDB Microfinance issued loans amounting to TZS 61.8 billion to SACCOS, VICOBA and small scale individual entrepreneurs.

Community investment and development

CRDB Group believes in giving back to the communities in which it operates. This is done through a number of programs that benefit various sections of the community. During the year, the Bank spent a total of TZS 764 million to support programs related to education, improving access to health care services, environmental care, responding to disasters and natural calamities, developing talents in youths and building financial literacy to small scale business owners.

Contribution to government revenue

CRDB has remitted TZS 106,107 million to the government of Tanzania and Burundi in taxes, dividend and regulatory fees during the year.

Value Added Statement	2018	2017
Income earned from financial services	586,288	560.344
Cost incurred in provision of services	(143,444)	(150,628)
Value added from financial services	442,844	409,716
Non-operating income	219,255	210,697
Non-operating expenditure	(310,172)	(322,690)
Value – added	351,927	297,723
Distribution of value added		
Employees and management	159,223	131,033
To Government	106,107	81,726
To Shareholders	20,896	13,056
Reinvestment	65,701	71,905
Value distributed	351,927	297,723

Value Added by Sector

	2018	2017
To Employees	45.2%	44%
To Government	30.2%	27.4%
To Shareholders	5.9%	4.4%
Re-Investment	18.7%	24.2%

CORPORATE SOCIAL RESPONSIBILITY

The implementation of corporate social responsibility is conducted by the Bank not only to fulfil regulatory requirements, but also as the embodiment of the Bank's responsibility to stakeholders. In carrying various CSR activities we adhere to employee, heath and work safety practices, sustainable finance and environment, and social and community development. Our CSR Policy is aimed at enhancing corporate franchise and stakeholder value. The Bank is committed to actively engage in various CSR activities and making a positive contribution to the society.

Long-term relationship with customers and stakeholders

CRDB Bank considers customer trust as a very important matter and believes that the protection of customers' interest is a key way to build customer trust. The Bank always strives to maintain customer confidence by applying prudential principles and promoting security and convenience for customers. The Group strives to provide the best banking solution for the customers, stakeholders, and communities.

Our stakeholders are those individuals or organization who have interest in the Bank and whose actions impact on our ability to execute our strategy. Our intention is to build and promote stakeholder engagement activities and relationships that are meaningful and support us in fulfilling our purpose, enhancing our reputation and meeting regulatory requirements.

We are passionate about driving the growth of our society and fulfilling the aspirations and changing the lives of our clients through financial inclusion. We place our clients in the center of everything we do by seeing them as dynamic and unique individuals they are – each with their unique aspirations and ambitions. We strive to bring data, technology and service excellence together through new ways of working to empower our clients, and ensure that we continuously deliver an exceptional, personalized experience.

With the rapid pace of technological advancement, there is increasing disruption as competitors introduced digitalized and simplified ways of financial transactions. Technologies such as block chain and crypto-currencies are fundamentally changing the operating landscape of financial services, increase pressure to provide sustainable affordable services. The Group is positioned strategically to embrace technology and ensure that its keeps pace with the modern technology so as to meet the demands of our stakeholders.

Being a Good Employer

CRDB Bank is committed to developing human resources sustainably to improve quality, competence and employee welfare. The Bank enhances transparency through its communication tools such as intranet, circulars and corporate communication emails so as to keep employees informed about the Bank's employment policies and other relevant information. As the Bank's commitment to develop favourable and productive industrial relations, its hiring policy is annually reviewed and recommendations from key stakeholders such as Trade Union representing staff views are considered. During the year the Bank reviewed and signed a collective bargaining agreement with Trade Union -Tanzania Union of Industry and Commercial Workers (TUICO).

CRDB Bank believes that the best performance is achieved through the creation of a favorable working climate. This is developed and reflected in our corporate culture. A favorable working climate is developed with an awareness of healthy performance competition, through a transparent and fair assessment for individuals. CRDB Bank continued to maintain a strong organization health index in line with global benchmarks as rated by McKinsey which indicates strong capacity to continuously improve its performance in future.

During 2018, a number of specialized training programs were conducted namely; E-collection system, digital marketing, credit card and digital microfinance to instil digital culture among the Banks employees.

The Bank pays great attention to efforts to create occupational safety in the office environment, through the development and structuring of the workspace with reference to the following:

- Completeness and appropriateness of facilities and working environment;
- Cleanliness of the working environment;
- Harmony in working layout; and
- Completeness and appropriateness of security measures

CRDB Bank is concerned about the welfare of its employees and continues to manage employee compensation and benefits in a competitive position in the Tanzanian banking industry. The Bank provides regular salary increases, as well as bonuses for employees based on the performance, as a manifestation of its commitment to improve employee welfare.

OSHA conducts health and safety tests across the head and branch offices to ensure that employees are not exposed to any health or safety issues in their workplaces. During the year, employees were given a special training on what to do in the face of fires so as to avoid major injuries. As in 2017, there were no work accidents in within CRDB working environment in 2018, as a result of the Bank's commitment to ensure employee security and safety.

Gender and Diversity Inclusiveness

CRDB Bank provides equal employment opportunities for all employees regardless of their ethnicity, religion, race, class, and gender. Its policy on employee deployment and placement is based on an employee's merits and competence.

Category	Male	Female	Total
Top Management	19	4	23
Middle Management	463	305	768
Others	1,272	1,038	2,310
Total	**1,754**	**1,347**	**3,101**

CRDB Bank has a relatively low turnover rate with the national banking industry which indicates a relatively favourable working atmosphere with a high level of togetherness. The annual turnover rate as of December 2018 was 4%. In order to ensure employee development, the Bank organizes distance learning for its employees and offers e-learning training programs.

Responsible Marketing, Product and Service Design

Responsible marketing as well as product and service design are intrinsic to the way we do business. Acting responsibly promotes customer trust and confidence in the Group's products and services, enhances our reputation and prevents adverse financial consequences.

Product and Service Governance

At CRDB Bank, Responsible Marketing and Advertising is conceptualized as an extension of its Corporate Social Responsibility and is premised in the belief that CRDB Bank, being a market leader in Financial Services must play an active role in reinforcing responsible social and ethical values. The Group believes that business should not only focus on profits but also in building an informed consumer population, capable of understanding benefits of available financial products and services to improve their lives as well as making an informed decisions on the same.

In 2018, the Bank invested considerable resources in campaigns and activations that were targeted at empowering its customers into making informed choices on financial matters and banking services. All campaigns undertaken, new products designed as well as corporate communications were conceived on the basis of prevailing truths and realities.

Strategically, the marketing campaigns undertaken during the year focused on providing detailed information to consumers on matters relating to financial planning and independence. For instance, the Jiachie na Mikopo ya Wafanyakazi campaign, which ran from April 2018 was executed in the context of creating an entrepreneurial spirit among the income-earning group as well as alleviating consumer's burden in terms of debt repayment.

The Shuhudia Kombe la Dunia na TemboCard Visa campaign, on the other hand, sought to address a common, but often disregarded, problem - money safety. Tanzania is largely a cash economy and there are risks both physical and economic in cash transactions. Over reliance on cash transactions, especially for large amounts, often precipitates a conducive environment for crimes including robberies, muggings and even corruption. The campaign targeted to provide financial education to users on the benefits of using electronic platforms to transact, which also allows them to enjoy secure, fast and traceable payments.

CRDB Bank believes that responsible and ethical marketing is integral to the business and forms the basis of the Bank's brand promise. The Bank will continually go out of its way to provide a relevant information to its customers and open up its practices for public scrutiny as a way of collecting feedback for improvement.

Social Media and Website

The Bank prides itself in giving its customers unfettered access to products and services information, giving them multiple channels for reaching the Bank to get information i.e. Bank's website, 24hrs Call Centre and world recognized "Very Responsive" Bank owned social media accounts such as Facebook, Instagram and Twitter.

To ensure excellent service, we work closely with our Contact Centre's web team to ensure that all customer complaints are responded to within few hours. The maximum tolerable time is 12 hours. As we advertise heavily on digital platforms it is important for us to have strong guidelines in place.

CRDB Group is active on Facebook, Instagram, Twitter and LinkedIn. We publish a range of communications about promotions, new products and services, news and announcements, corporate social responsibility activities and crisis communications. We also engage with customers and employees via:

- Video and photo sharing websites (e.g. YouTube, Instagram).
- Blogs, including corporate blogs, personal blogs or blogs hosted by external media outlets
- Wikis and online collaborations (e.g. Wikipedia).

FY18 Social Media Highlights: The Bank saw an increase in engagement across all of our social media channels. The number of our Facebook friends rose by almost 20,000 and our Instagram followers exceeded 90,000.

Responsible Sourcing and Procurement

As a large financial institutions, the Group has a responsibility to consider sustainability principles in all activates not just within the Group but also along the supply chain and when interacting with other originations. CRDB Bank promotes responsible and inclusive procurement practices and apply standards of integrity and best practice in managing the supply chain.

The Bank's officials have the responsibility of ensuring that any procurement process is open and transparent and that decisions are justified. Procedures are in place to ensure that procurement processes are conducted soundly and all procurement related actions are documented.

The Bank places importance on competitive tendering taking place on a basis that is free, fair, competitive and not open to abuse. It requires bidders to confirm that it will not offer or facilitate, directly or indirectly, any improper inducement or reward to any CRDB officer or business associates, in connection with any tender, or in the subsequent performance of the contract if it is successful.

In addition, the bidding company is required to confirm it has an Anti-Bribery Policy/ Code of Conduct and a Compliance Program, which includes all reasonable steps necessary to assure that the No-bribery commitment given in their tender submissions will be complied with all parties. Copies of the bidding companies Anti- Bribery Policy/Code Conduct and Compliance Program are required to be attached in submitting a bid.

The Bank treats all suppliers fairly, that payments are effected within 30 days from date of receipt of invoices, assuming all is in order in terms of the three way matching principle i.e. Local Purchase Order (LPO), delivery note duly signed and stamped indicating receipt of the goods and invoice that matches with the LPO.

The Bank embraces both local and international bidders purely based on competitive tendering basis.

Protecting the planet

As a corporate body, the Bank has a role in environmental conservation and one way is management of its operational activities in a more environmentally friendly manner. It implements energy saving policies across all work units to make significant contributions particularly considering the size of the Bank's network. Branches are encouraged to manage energy use efficiently, effectively and rationally without compromising work comfort, health safety and user productivity. Some of the Bank's process such as issuance of monthly banks statements are now automated so as to reduce the number of print outs as well as encouraging the habit of switching off lights and air conditions after working hours to save electricity usage.

The Bank has initiated several environmentally friendly policies at its head and branch offices.

Efficiency of transportation costs for official and training travel, replacing with:

- Teleconference and video-conference facilities for meetings;
- E-learning facilities for online employee learning; and
- Digital document delivery/access via email and intranet.

Reduce paper use through paperless banking initiative:

- The printer default prints on both sides;
- Minimizing color prints;
- Implementation of paperless working environment for back offices such as Internal Memo Automation;
- Use of projectors in meetings instead of printed handouts;
- Use of paperless reports for board and management meetings through use of Diligent Boards system; and
- Implementation of environmentally friendly policies related to banking solutions, such as e-statements for credit card billing, cash withdrawal at ATMs without a receipt, and the development of digital banking (Simbanking).

Efficiency in electricity utilization, including the setting of air conditioning temperatures, turning off lights outside working hours, and water-saving campaigns.

Community Investment and Development

CRDB Group believes in giving back to the communities in which it operates. This is done through a number of programs that benefit various sections of the community. The public relations unit is responsible for all corporate social responsibilities programs, focusing on reaching out to the community and its serves as an umbrella for all CRDB Group's CSR efforts to help the community. Our community social investment activities are directed towards areas of education, health and the environment.

Education

Education is among the key areas considered when investing in our communities. CRDB supports the government's initiatives in improving the quality, access and development of educational infrastructure in Tanzania. During the year, the Bank constructed and

equipped a total of 14 classrooms, each with a capacity to host 40 students across various public primary and secondary schools. All classes were equipped with desks. These donations were made to ensure that there is a conducive learning environment for both students and teachers.

In addition, the Bank donated TZS 70 million to Msasani Primary School in Dar es Salaam for the construction and equipping of two classrooms and desks respectively. The Bank donated TZS 50 million to Ruaha Primary school in Kilombero for the purchasing school supplies and also, advanced a TZS 10 million donation to Almuntazir School in Dar es Salaam in their quest to create awareness on autism in Tanzania.

Financial Literacy

CRDB Bank actively supports the financial literacy programs to improve the literacy index and financial inclusion of people in our communities. During the year, the Bank donated TZS10 million towards the purchase of milling and hauling machines for a women trust fund in Mbeya and a further of TZS 5 million towards supporting SME-industry exhibitions organised by the Simiyu Council. Similarly, CRDB Bank also sponsored the Kibaha Industrial Exhibition as part of deliberate efforts to sensitize the public on the benefits of building sustainable economic activities with a great potential for the future.

Health

CRDB Bank believes in good health and wellness. As per Bank's policy, the Bank supports primary healthcare programs, especially for children and mothers. We subscribe to the idea that life has to be nurtured, right from infancy to be able to give a child a better future that will translate into productivity.

In May 2018, the Bank donated TZS 240 million to Bugando Medical centre a major referral hospital located in the Northern zone of Tanzania. The donation was aimed to aid renovation and expansion of the Emergency Department. The renovated department will have well-equipped resuscitation and emergency theatre rooms. This investment on construction work will directly help improve health services hence reduce the mortality rate.

Also, in June 2018, the Bank extended TZS 100 million towards supporting construction of the children ward of the Jakaya Kikwete Cardiac Institute, which deals with both chronic and congenital cardiovascular diseases. Jakaya Kikwete Cardiac Institute (JKCI), is well-known for conducting high-tech diagnosis procedures to children, technically known as "Cardiac Catheterisation" which involves diagnosis and treating cardiovascular condition without opening patient's chest. CRDB Bank is proud to be one of the partners in helping JKCI making the impossible, possible.

Sports

CRDB Bank, supports sports and art activities within the community so as to give youth the opportunity to engage in their hobbies and promote healthy lifestyles. During the year, the Bank extended TZS 70 million in the form of cash donations, kits and also prize money towards sports related activities. The Bank donated TZS 50 million towards the construction of a National soccer stadium in Chato District under "Mfuko wa Elimu – Geita" which was received and acknowledged by President John Pombe Magufuli, during the launch of CRDB Bank's Chato branch.

Environment

The environment that surrounds us – air, soil, water and ecosystems, is equally important for the health and wellbeing of all. At CRDB Bank, we believe that taking care of the ecological environment is a solemn responsibility for every human being. As a corporate citizen in the United Republic of Tanzania, we have embraced a culture of responsible living, with the ultimate intention of building a sustainable work environment that has minimal adverse effects on the environment. On occasional basis, our staff from head office and branches organize clean-up events and coordinate their volunteers to engage in community work of cleaning our surroundings.

Humanitarian assistance

As a corporate citizen CRDB Bank believes in being compassionate to our surrounding communities to ensure that they do not feel alone especially when they are faced with calamities. The Bank actively provides assistance to people affected by natural disasters. In November 2018, Rukwa region experienced heavy rainfalls that resulted to floods along the Lake Rukwa basin. The floods left thousands of people in urgency need for food, shelter and humanitarian assistances. The Bank responded fast by offering a helping hand to the victims through a donation of TZS 5 million to help on the immediate need of food, clean water and medicines.

2018 | Moments

Dr. Kimei welcomes Bank's new CEO on board

October 2018: Our Former CEO Dr. Charles Kimei and Bank's Board Chairman Mr. Ally Laay warmly welcomes our newly appointed CEO Mr. Abdulmajid "Nsekela. Karibu Nyumbani Mr. Majid"

"TWENZETU RUSSIA" World Cup Campaign

April 2018: CRDB Bank Plc issued a total of 24 air tickets for its clients to go and watch 2018's FIFA World Cup finals in Russia. The Campaign was codenamed #TenzetuRussia" and winners were found through their frequency use of CRDB's debit cards.

Annual General Meeting

May 2018: The 23rd Annual General Meeting of CRDB Bank Plc held in Arusha in May 2018 at the Arusha International Conference Centre (AICC).

Twende9teen Festival in Dar es Salaam

December 2018: The Bank welcomed parents to bring in their children and enjoy with other children in harmony of our Kids savings account. Parents got an opportunity to register their kids for new savings account.

Empowering Education in Ruangwa

March 2018: CRDB Bank Plc constructed two classrooms and donated 40 desks to Kassim Majaliwa Secondary Schools; actions that the Prime Minister termed as a gesture of corporate kindness; as the move shows commitment that deepens financial access across the country

CRDB launches a new branch in Chato

March 2018: CRDB Bank Plc launches a new branch at Mlimani in Chato district, Geita officiated by President Dr. John Pombe Magufuli.

MD expressing appreciation to the Danish Embassy

CRDB Bank CEO Mr. Abdulmajid Nsekela meets the Danish Ambassador to the United Republic of Tanzania, His Excellency Einar H Jensen at the Danish Embassy in Dar Es Salaam, Tanzania.

Mr. Nsekela took the opportunity to pay tribute to Danish Government for it's continued cooperation and support, assuring the Ambassador of CRDB Bank's commitment to being an enabler for business.

What's your 2018 Best Moment at CRDB Bank?

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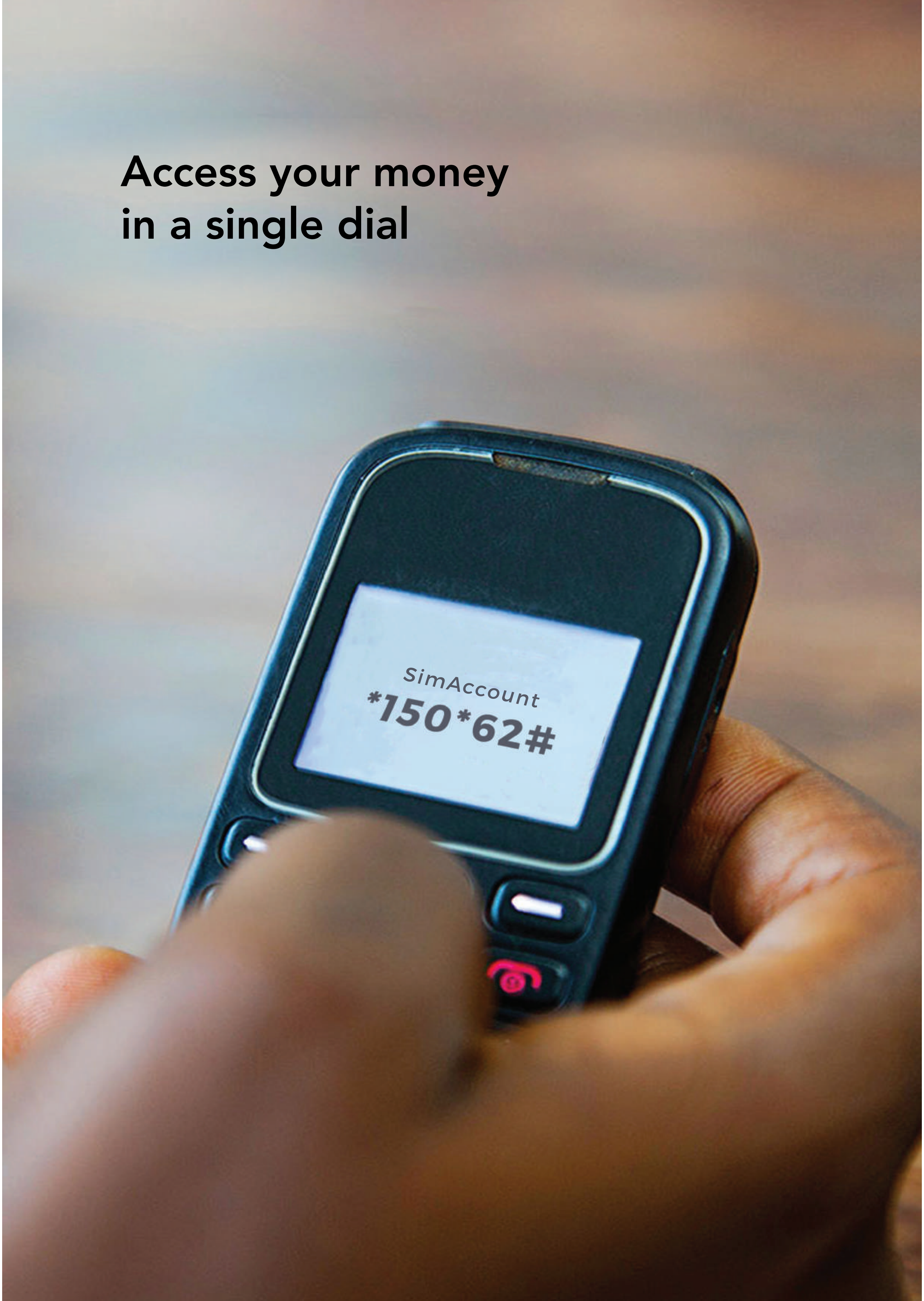

DIRECTORS REPORT

The Directors have the pleasure to submit their report and the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of CRDB Bank Plc ("the Bank") and its subsidiaries, CRDB Microfinance Services Company Limited, CRDB Bank Burundi S.A. and CRDB Insurance Broker Limited (together "the Group").

PERFORMANCE FOR THE YEAR

Business Environment

The Tanzanian economy estimated to grow by 7.2% in the year 2018 reflected by an increase in government spending on infrastructure projects, expansion of the private sector and steady investment flows attracted by tax incentives in the country. Tanzania is the fastest growing country in terms of annual economic growth within the East African Community. The annual inflation rate in Tanzania declined to 3.3% in 2018 compared to 4.0% in 2017.

The banking sector has remained relatively sound in 2018 with a total of 52 financial institutions country-wide with 884 branches concentrated mostly in the major cities. The Bank of Tanzania has been implementing an accommodative monetary policy to increase liquidity and expand the credit market. Some of the measures taken under the policy include reducing discount rates and reducing appetite for government securities which resulted into single digit interest rates for short terms ecurities. These interventions had a positive impacts on the growth of loans disbursed to the private sector. Other initiatives include engagement of banks to come up with strategies for reduction of NPL ratio and improvement of credit management practices. Such initiatives brought positive results as evidences by downward trend of sector NPL ratio from 11.9% in 2017 to 10.4% in 2018.

The liquidity position of the banking sector also continues to improve with most banks maintaining capital ratios above the regulatory benchmarks, but some banks especially the small banks are still showing signs of liquidity stress however, the Bank of Tanzania is keen on ensuring that appropriate measures are taken to ensure stability in the banking sector.

Group Performance

CRDB Bank remains to be the largest commercial Bank in Tanzania with a leading share of total deposits (23%) and total assets (20%) in the market. During the year, the Group's total asset grew to TZS 6,035.4 billion (2017: TZS 5,901.6 billion) whereas customer deposits increased to TZS 4,687.2 billion (2017: TZS 4,325.9 billion). Loans and advances to customers increased by 8.1% from TZS 2,893.8 billion in 2017 to TZS 3,126.7 billion in 2018. Such positive trend was contributed by innovative products and services that were offered to the public.

In 2018 the Group recorded a profit before tax of TZS 99.1 billion (2017: TZS 53.6 billion), an increase of 85% from the previous year. During the year, interest income increased from TZS 560.3 billion recorded in 2017 to TZS 586.3 billion in 2018, an increase of 4.6%. The interest expenses decreased from TZS 150.6 billion in the prior year to TZS 143.4 billion, a decrease of 4.8%. Combined with commissions and fees, total non-interest income increased from TZS 210.7 billion to TZS 219.9 billion, an increase of 4.4%.

Operating cost increased by 7.4% from TZS 399.5 billion in 2017 to TZS 428.9 billion in 2018. Cost management and digital transformation initiatives show positive trend towards cost containment.

The Bank continues to maintain its focus on strengthening business performance by pursuing industry leading volume growth, credit quality management, operational efficiency efforts and channel transformation to achieve our vision of being a Digitally Enabled Bank. We are focused on transforming our business in order to be the best Bank for our target retail, business and corporate clients, by building an organization with a multi-channel distribution network supported by digital innovations.

The financial perfomance of the Group is summarized in key performance indicators outlined below:-

KEY PERFORMANCE INDICATORS (KPIs)

Key Performance Indicator	Definition and Formula	CRDB Group ratios	
		2018	2017
Return on Equity	(Net profit/Total equity)*100%	**8.3%**	4.9%
Return on Assets	(Profit Before Tax/Total assets) *100%	**1.6%**	0.9%
Operating Income	(Operating expense/Net interest income + Non Interest income) *100%	**66.7%**	66.7%
Earnings per share	Profit attributable to equity shareholders/ Number of ordinary shares in issue (TZS)	**24.6**	13.9
Gross loans to customer deposits	(Gross loans to customers/Total deposits from customers) *100%	**70.7%**	72.4%
Non-performing loans to total loans **	(Non-performing loans/Gross loans and advances)*100%	**8.5%**	12.6%
Growth in total assets	(Increase in assets for the year/Total asset opening balance)*100%	**2.3%**	9.2%
Growth in loans and advances to customers	(Increase in Loans and advances /Opening balance of loans and advances)*100%	**8.0%**	(10.9)%
Growth in customer deposits	(Increase in customer deposits/Opening balance of customer deposits)*100%	**8.4%**	5.3%
Tier 1 Capital ratio	(Core capital/Risk weighted assets including off balance sheet items)*100%	**14.3%**	14.0%
Total Capital ratio	(Total capital/Risk weighted assets including off balance sheet items) *100%	**16.0%**	17.0%

**There were no non-performing loans within the Government guaranteed loans as at 31st December 2018 (2017: TZS 36.2 billion)

CRDB Microfinance Services Company Limited

As at 31 December 2018, the subsidiary recorded a loss of TZS 8.7 billion in 2018 (2017: TZS 0.8 billion profit). The loss incurred has been attributed to the increase in provision for bad loans. There was also slowdown in wholesale lending which has been the core business of the company mainly due to introduction of the new cooperative regulations pertaining to SACCOS which restrict its members to borrow an amount not more than 25% of its core capital from financial institutions which have impacted lending and deposits from this major business sector. Efforts are now directed towards digitisation as a cost effective way of serving the microfinance segment.

CRDB Bank Burundi S.A.

CRDB Bank Burundi S.A. recorded a profit after tax of TZS 2.6 billion compared to TZS 3.5 billion recorded in 2017. The decline in profitability is partly contributed by the volatility in the foreign exchange market.

The subsidiary total assets as at 31st December 2018 increased to TZS 206.1 billion from TZS 149 billion in 2017. Total deposits were TZS 98.7 billion compared to TZS 84 billion in 2017. Burundi is still facing economic issues which continue to challenge businesses in the country.

CRDB Insurance Broker Company Limited

During the year ended 31 December 2018 the Company made a profit after tax of TZS 1.3 billion compared to TZS 1 billion recorded in 2017. The increase in the company's profit by 30% year-on-year is commendable in comparison to the industry's average growth of -3.5% in 2018. The insurance sector experienced sluggish growth specifically during the last two quarters of 2018 owing to the impact of the new regulation of applicability of minimum rates for insurance businesses.

Commission income earned was TZS 5.6 billion against TZS 4.6 billion recorded in 2017 which is 22% resulting from the recruitment of new clients and retention of the existing portfolio.

Operating costs amounted to TZS 4.4 billion in 2018 against the TZS 3.1 billion recorded in 2017. This has increased significantly due to increased business operations and initiatives taken to position the company strategically in the market.

Total assets of the Company increased to TZS 3.8 billion in 2018 compared to 2.2 billion in 2017, representing a 73% yearly growth. The subsidiary uses the parent branch network to expand its insurance brokerage service.

PRINCIPAL RISKS AND UNCERTAINTIES

CRDB is exposed to the following principal risks and uncertainties according to the nature of the business:-

Credit Risk

This is the risk of loss associated with borrower's potential inability or unwillingness to fulfil their contractual obligations on a timely basis. Credit risk may arise directly from the risk of default of a primary obligor (issuer, debtor, counterparty, or borrower) or indirectly from a secondary obligor (guarantor or reinsurer). We quantify credit risk, at both the individual obligor and portfolio levels, to manage expected credit losses in order to limit earnings volatility and minimize unexpected losses.

Strategic Risk

This is the risk that the enterprise or particular business areas will make inappropriate strategic choices, or will be unable to successfully implement selected strategies or related plans and decisions. Business strategy is the major driver of our risk profile and consequently, the strategic choices we make in terms of business mix determine how our risk profile changes. Responsibility for selecting and successfully implementing business strategies is mandated to the individual heads of the businesses.

Operational Risk

The Bank is exposed to operational risks that may arise from inadequate or failed internal processes, people, systems or external events. However, the Group has adequate operational risk policies and framework that cater for mitigation of these risks.

Liquidity Risk

This is the risk that we may be unable to generate sufficient cash or its equivalents in a timely and cost effective manner to meet our commitments as they come due. Liquidity risk arises from mismatches in the timing and value of on-balance sheet and off balance sheet cash flows. Our liquidity profile is structured to ensure that we have sufficient liquidity to satisfy current and prospective commitments in both normal and stressed business and liquidity environments.

Market Risk

This is defined to be the impact of market prices on our financial condition. This includes potential gains or losses due to changes in market-determined variables such as interest rates, credit spreads, equity prices, foreign exchange rates and implied volatilities.

Information Technology and Cyber Risk

This is the risk of financial loss, service disruptions, theft of intellectual property and confidential information, litigation and reputational damage due to the failure of information technology systems. We continue to develop advancements in cyber defense capabilities in an effort to support our business model, protect our systems and enhance the experience of our clients on a global basis by employing industry best practices and collaborating with peers and experts to provide our customers with confidence in their financial transactions.

Compliance Risk

Compliance risk is the current or prospective risk to earnings, capital and reputation arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from incorrect interpretation of relevant laws or regulations. The Group has developed adequate controls to ensure that it complies with all country laws, regulations and international compliance requirements.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts ultimate responsibility for the risk management and internal control function of the Group. It is the responsibility of the Management to ensure that adequate internal control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- Operational efficiency;
- Safety of the Bank's assets;
- Compliance with applicable laws and regulations; and
- Business continuity.

Good governance is dependent on adequate and effective Governance Framework which is in line with best international practices. In order to ensure the internal controls remain adequate, the Bank has a fully-fledged Risk and Compliance function that coordinates and oversees the implementation of enterprise-wide risk management framework within the Group. In addition, the Board through its Risk Committees evaluated the internal control systems during the financial year ended 31 December 2018. It is of the opinion that they adequately and efficiently mitigate risks inherent in the Group's operations.

KEY STRENGTH AND RESOURCES

The Group continues to give its top priority to key resources which are people and technology which gives us strength in service delivery, productivity and financial strength.

The Group has skilled and experienced employees who are considered as a key resource in pursuing its business objectives and continues to encourage open and honest communication in decision making.

Information and Communication Technology (ICT) is an enabler in service delivery. This is the reason why the Group continued to invest in advanced technology so as to realise operational excellence and better service delivery to our customers. In 2018, the Bank continued with fine-tuning of the core banking system to support business growth and innovation.

The Group continues to focus on enhancing productivity culture throughout the Group. Our aspiration is to continuously make our business more customer friendly and efficient in the long term while managing short term expenses to an appropriate level. Given the strength of the Group, we have ample capacity to support our customers.

SOLVENCY

The state of affairs of the Group and the Bank as at 31 December 2018 is set out on page 103 of the financial statements. The Directors consider the Group and Bank to be solvent within the meaning ascribed by the Tanzania Companies Act No.12 of 2002.

CASH FLOWS

In 2018, Group's investment in government securities decreased by TZS 110.2 billion (2017: increase of TZS 376.2 billion) and lending to customers increased by TZS 391.2 billion (2017: decrease of TZS 163.4 billion). On the other hand, deposits from customers increased by TZS 367.7 billion (2017: increase of TZS 210.1 billion). Such investment activities and customer deposits are the major factors explaining the Bank's movement in cash flow generated from operations. The Bank continues to maintain sound liquidity position to meet its cash flow commitments.

LIQUIDITY AND FUNDING

The Bank places a strong emphasis on managing liquidity risk and daily cash flow management which is handled by the Treasury Department to ensure the Bank holds sufficient liquid assets to enable it to continue with its normal operations. Asset Liability Committee (ALCO) also manage the Bank's exposure to liquidity risk by ensuring that limits are in line with realistic assumptions and track compliance on a monthly basis. Stress test to ascertain the Bank's resilience to market shocks is done by Risk and Compliance Department.

The Bank's main sources of funding are customers' deposits, shareholders' funds, facilities from Development Financial Institutions (DFI's), and occasionally interbank borrowings as part of its normal market operations.

CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS

Results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. When preparing the financial statements, it is the Directors' responsibility under the Tanzania Companies Act 2002 to select suitable accounting policies and to make judgments and estimates that are reasonable and prudent. The accounting policies that are deemed critical to our results and financial position, in terms of the materiality of the items to which the policies are applied and the high degree of judgment involved, including the use of assumptions and estimation, are described in notes 2 and 6 to the Financial Statements.

STOCK EXCHANGE INFORMATION

The Bank is listed on the Dar es Salaam Stock Exchange. The share price as at 31 December 2018 was TZS 150 (2017: TZS 160). Market capitalization as at 31 December 2018 was TZS 391.78 billion (2017: TZS 417.89 billion).

FUTURE DEVELOPMENT PLANS

The strategic theme for the five years, 2018-2022 are "Fostering digitalization towards building the bank of the future". CRDB Bank has adopted a three-phase digital transformation roadmap that will culminate in a fully digitalized bank by the end of 2022. The digital transformation shall enhance the bank's ability to deliver products and services in an agile manner, improve efficiency and customer experience.

RESULTS AND DIVIDENDS

The Board recommends a dividend of TZS 8 per share from the year 2018 profit after Tax (2017: TZS 5 per share). The total amount of dividend recommended is TZS 20.9 billion (2017: TZS 13.1 billion), which is 32.6 % of the net profit.

CAPITAL STRUCTURE

The Bank's capital structure for the year under review is as follows:

Authorized
4,000,000,000 ordinary shares of TZS 25 each

Issued and fully paid
2,611,838,584 ordinary shares of TZS 25 each

SHAREHOLDERS OF THE BANK

The Bank's Articles of Association recognize three categories of shareholders, namely shareholders holding 10% or more of the total paid up shares, shareholders holding between 1% and 10% of the total paid up shares and shareholders holding less than 1%. As at the end of the year, the shareholding of these three Groups was as follows:

Shareholding group	2018		2017	
	No. of shares	%	No. of shares	%
10% and more	808,949,743	31.0	808,949,743	31.0
1% to less than 10%	723,578,040	27.7	683,950,144	26.2
Less than 1%	1,079,310,801	41.3	1,118,938,697	42.8
Total	**2,611,838,584**	**100.0**	**2,611,838,584**	**100.0**

Companies Shareholding

Shareholders holding 1% or more of the total paid up capital as at 31 December 2018 are listed here under:

Shareholders	2018		2017	
	No. of shares	%	No. of shares	%
DANIDA Investment Fund	548,067,648	21.0	548,067,648	21.0
PSSSF Pension Fund	318,959,644	12.2	318,959,644	12.2
CDC Group Plc/Re: IFC/AfCap	130,692,741	5.0	130,692,741	5.0
Aunali F. Rajabali and Sajjad F. Rajabali	109,999,999	4.2	107,655,562	4.1
Kimberlite Frontier Master Africa Fund LP RCKM	109,143,932	4.2	100,641,213	3.9
National Social Security Fund - Uganda	100,000,000	3.8	100,000,000	3.8
Duet Africa Opportunities Master Fund IC	37,583,840	1.4	37,583,840	1.4
Hans Aingaya Macha	32,764,200	1.3	32,764,200	1.3
National Health Insurance Fund	32,040,040	1.2	32,040,040	1.2
Western Zone Tobacco Cooperative Union (WETCU)	30,000,000	1.2	30,000,000	1.2
CMG Investment Limited	29,330,971	1.1	29,330,971	1.1
Change Global Frontier Markets, LP Fund-CGPA	28,730,740	1.1	-	-
Mehar Singh Virdi	25,214,028	1.0	25,164,028	1.0
Total	**1,532,527,783**	**58.6**	**1,492,899,887**	**57.2**

Directors Shareholding

Name	Status	Nationality	Shareholding (No. of shares)
Ally H. Laay	Chairman - Non- Executive Director	Tanzanian	28,812
Boniface C. Muhegi	Non-Executive Director	Tanzanian	2,241,352
Jes Klausby	Non-Executive Director	Danish	-
Charles E. Kichere	Non- Executive Director	Tanzanian	-
Dr. Neema M. Mori	Non- Executive Director	Tanzanian	24,444
Rose F.Metta	Non -Executive Director	Tanzanian	16,216
Prof. Mohamed H. Warsame	Non -Executive Director	Tanzanian	2,550,000
Hosea E. Kashimba	Non -Executive Director	Tanzanian	64,875
Madren N. Oluoch-Olunya	Independent Director	Kenyan	-
Ebenezer N. Essoka	Non – Executive Director	Cameroonian	-
Apollo B. Temu	Non -Executive Director	Tanzanian	5,290
Prof. Faustine K. Bee	Non -Executive Director	Tanzanian	5,155
Abdulmajid M. Nsekela	Managing Director	Tanzanian	50,000

The total number of shareholders by end of 2018 is 29,847 (2017: 30,048 shareholders), which included thirteen (13) members of the Board as outlined in section 7 of the report of directors.

TREASURY POLICIES

The Group operates a centralized treasury department for managing treasury activities in accordance with the framework of treasury policies and guidelines approved by the Board. The treasury department transacts with a number of counterparty banks and financial institutions and adopts a systematic approach to the control and monitoring of counterparty credit risk. The Group, through its Risk and compliance department, monitors compliance against the principal policies and guidelines.

The key treasury policies are:

Market Risk Policy

The policy provides guidance/ framework for managing exchange rate and interest risks, also protect the value of the bank assets from adverse effects of market rate movements.

Liquidity Policy

Provide guidance for on management of the liquidity risk under normal and crisis situation. This set out a liquidity management decision-making structure in the bank, approaches to funding and planning for liquidity planning and management, regulatory compliance and contingency funding. Strong cash generation in recent years and a prudent financing strategy have resulted in the Group currently being adequately positioned to withstand the credit challenges in the bank and capital markets.

Contingency Funding Policy

The policy provides guidance for managing stressed liquidity situation created by a problem or market wider crisis and ensure that the bank is able all the time to meet its matured obligations as they fall due and remain as good as going concern.

Limit Policy

Provide guidance/framework for managing market and liquidity risks for the counterparties at domestic and international level. It also provides guidance for investment and credit exposures limit.

Current liquidity including the level of borrowing

The Bank ensures that liquidity is monitored and adequately to manage its liquidity gap by determining the excess or shortage of funds at selected maturity dates by tracing cash inflows and outflows over a series of specified time buckets. The aim is to trace and reflect the maturity periods for the Bank's assets and liabilities.

Maturity profile and un-drawn of committed borrowing

The Bank is sound and will remain to be sound in liquidity position as it has adopted a more conservative approach to the investment of its surplus cash, with money market deposits being placed with relatively stronger financial institutions for shorter periods. Bank counterparty credit risk has been and continues to be, monitored closely on a systematic and ongoing basis, taking account of the size of the institution.

EMPLOYEES' WELFARE

Management and Employees Relationship

Our leadership believes in creating an environment where high performing individuals care about each other and work towards achieving the success of the organization. Our leaders passionately drive clarity and directions allowing our employees to connect to each other as they are bound by a common mission and vision.

The Bank's management focuses on building the right culture as a strategic human resource priority by ensuring that Bank's culture is embedded across all levels and the same is driven across the entire workforce. Having the right culture is an essential element for the Bank's future development as we transform towards creating the digital era banking. Amongst the key components in this development is ensuring that our leaders are charged by the major roles of fostering strong leadership capabilities, talent management, enhancing employee relationship and development.

Our leaders believe and always strive in creating an enabling environment where all employees will be able to utilize their fullest potentials while allowing them to connect to each other with dignity and respect. Through this approach, the management maintains a harmonious working environment with both the employees and the Trade Union.

Resultant to these initiatives the Bank has been able to retain its key staff and maintained the turnover rate below 2 percent which is far below the industry rate. Additionally, CRDB Bank continued to maintain a strong organization health index as compared to the global benchmarks as rated by McKenzie and which indicates strong capacity to continuously improve its performance in future.

Training and Development

As an effort to improve operational efficiency, the Bank continued to make use of its Training Centre in imparting relevant knowledge and skills to its staff to better their performance. Meanwhile, the Human Resource Department ensured that the business units have the adequate number of staff with the right skills and in the right roles.

The Bank continued to take advantage of the modern facilities at the Training Centre for the development of its workforce. During this period a number of specialized training were conducted namely e-loan collects, digital marketing, credit card and digital microfinance to instil digital culture. The Bank used different learning methodologies to offer these trainings which included: blended learning through different facilities like Video Conferencing which allowed facilitators from one point to interact with different business units; web-based learning (eLearning) whereby one could learn at their own pace, e-library which is rich in electronic digitized texts or business news; Distance Learning Programs for Professional Banking Qualification and face to face training sessions which were conducted within and outside the bank or outside the country.

In order for the Bank to transform into digital banking; it continued to invest in different available digital avenues to ensure its workforce has the required knowledge and skills to remain competitive in the market. All employees of the Bank which includes those working in Burundi, have access to more than one learning option and are encouraged to use the opportunity to re-tool and up-skill themselves in their specialised area of working and personal development so as to enable them to discharge their duties effectively. In the year 2019, the Bank will focus on credit management, management development and supervisory skills, data analytics, and other basic banking courses.

Employee Wellbeing Initiatives

CRDB Bank places top priority on Occupational Safety and Health matters. We care about the physical and mental health, safety and wellbeing of our colleagues. We provide them with a growing range of health and wellbeing resources, including medical cover, occupational health services and an employee assistance program.

The Bank continued to offer Employee Wellness Programs which are unique and far beyond the normal offerings to our employees and their family members. The offerings included the programs for teenagers, house-maids and counseling sessions for all staff and their dependents. Gym facilities for all Dar es Salaam-based staff including free instructors for the Centers were offered which aimed at creating healthy habits through regular physical exercise and providing education on preventive care through healthy eating habits.

We continued encouraging our employees to participate in various sports activities and working in partnership with external leading health specialists to ensure that health and fitness are a top priority.

Financial Assistance to staff

Loans are available to all confirmed employees depending on the assessment of the need and circumstances, as long as it is in line with the Human Resources and Credit Policies.

Staffing

The Bank has a clear hiring policy which is built on the provision of equal employment opportunities to all genders. It provides equal access to employment and ensures the best person is competitively appointed to any given position free from discrimination of any kind and without regard to factors like race, colour religion, sex, nationality, national origin, tribe, age or disability, social origin, political opinion, gender, pregnancy, marital status, HIV/AIDS, station of life which does not impair someone's abilities to carry out his duties. Employees are valued for their unique potential and talent as they represent the face of the business. The Bank's identity is that of a diverse family that finds relevance in serving its diverse client base.

The hiring policy is annually reviewed through process views and recommendations from key stakeholders such as "Trade Union" are considered.

Persons with Disabilities

It is the Group's policy to provide employment to disabled persons wherever practicable. The Group has always considered this policy whenever it recruits.

The basis of development and promotion is based on the ability of an employee to perform at a higher position to which he or she is promoted. The performance management system results of an employee form a very important part in assessing the candidate's potentiality for promotion. Training, development and promotions are free from discrimination of any kind. As at 31 December 2018 there were two (2) persons with disabilities who are employees of the Bank.

Employee Benefit Plan

The Group makes contributions to various Social Security Pension Funds, which are statutorily defined contribution pension schemes. The Group's obligations under the schemes are limited to specific contributions legislated from time to time.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

GENDER PARITY

Gender and Diversity Inclusiveness is an important component of our strategy, and gender diversity has been identified as a key area for improvement. The Bank developed the Gender Diversity and Inclusiveness policy which predominantly aims at adhering to the best human resource practices and standards by dedicating efforts that will increase the number of women employees in senior roles.

As at 31 December 2018, the Group total workforce stood at 3,101 staff where 1,754 (56.4%) were males and 1,347 (43.6%) females. The biggest age group in our workforce is below 35 years of age (62%), 35% are between the ages of 36-55 years and 3% are above 56 years. This provides a healthy pipeline and succession pool within the group that will enable us to deliver over the long term.

In 2018, the Group continued to focus on driving women agenda through special sessions which aimed at inspiring and empowering more women to draw unique leadership qualities that would enable them to rise to the highest levels of leadership.

RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the normal course of business, a number of banking relationships are entered into with related parties' i.e. key management staff, Directors, their associates and companies associated with Directors. Such relationships are guided by policies approved by the Board to ensure the same is done at arm's length.

Loans and advances to companies associated with Directors amounted to TZS 159 million (2017: TZS 200 million), while loans and advances to Directors and other key management personnel amounted to TZS 5.3 billion (2017: 5.2 TZS billion). The volumes of related party transactions for the year and the outstanding amounts at the year-end are provided under Note 46 of the financial statements.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group did not make any political contributions during the year (2017: NIL).

ENVIRONMENTAL FOOTPRINT

At CRDB Bank, we believe that taking care of the ecological environment is a solemn responsibility for every human being. As corporate citizen in the United Republic of Tanzania, we have embraced a culture of responsible living, with the ultimate intention of building a sustainable work environment that has minimal or nil adverse effects on the environment.

Over the last couple of years, the Bank has embarked on building internal efficiencies to reduce the amount of paper used within the Bank. Notably, the Bank has successfully implemented paperless banking by rolling out e-banking services all customer correspondences and launched web and mobile - based banking solutions that have cut of the amount of paper used. A good example is the departure from sending printed monthly statement to customers towards the adoption of e-statements which are sent to customers' emails. Additionally, the Bank has established a centralized printing system to track and control the amount of printouts on a monthly basis.

The Bank is also embarking in a digitization journey using agile methods where several customer facing initiative are being implemented, for instance the online lending solutions for salaried employees, pensioners and agents using the Simbanking mobile application, in which customers apply without visiting branches as well as elimination of the paper trail throughout the processes.

Similarly, we have adopted collaboration technologies within the Bank's communication systems, such as videoconference kits to cut the number of hours and material resources spent travelling, by air or road for meetings and also the use of electronic reports for management meetings. This is our broad strategy to reduce our carbon footprint and lessen our strain on the environment. The Bank has also ensured an efficient use of power within all its premises including placing reminders on power and Air Conditioning switches for staff to turn off power when not in use.

The Bank has continued supporting the provision of solar energy facilities to small households by granting loans through its microfinance window. The loans were directly channeled to designated company who partnered with the bank for supply and installation of solar energy equipment.

In a bid to ensure environmentally sustainable financing, the Bank has established a unit designated for assessment and management of Environmental and Social Risks associated with financed projects. An Environmental and Social Risk Assessment manual providing guidelines in project financing has also been developed with a policy statement which elaborates the commitment of the bank in promoting environmentally sound and sustainable projects. The policy has adopted both local environmental laws and regulations and internationally acceptable standards in assessment and management of projects in order to eliminate or mitigate such environmental and social risks associated with different projects.

The Bank had no environmental-related incidents in 2018 nor was it subjected to any fines or legal action for environmental issues.

CORPORATE SOCIAL RESPONSIBILITY

At CRDB Bank, we believe in responsible citizenship as we derive utmost satisfaction in the continued prosperity of the community around us.

Through our comprehensive Social Investment Policy, we endeavour to play an active role in promoting sustainability and social consciousness. Since the establishment of CRDB Bank in 1996, we have continuously provided financial and non-financial support to a range of sustainable causes, with the view to helping these causes achieve optimal impact.

The Bank also offers donations and grants to deserving initiatives and charitable organizations within the community. The giving back culture is guided by the Bank's CSI policy that requires that at least 1% of its profit is invested in community support initiatives on annual basis.

Our Main Pillars

The Bank's corporate citizenship strategy seeks to implement various initiatives in the areas of Education, Health, Environment, and Humanitarian Assistance. Our focus on these four areas is due to the fact that they are the main recurring challenges facing our communities in urban and rural areas. We strongly believe that through education and health, we will be able to make a positive difference for generations to come. Similarly, keeping a sustainable environment and promoting healthy lifestyles remain critical to our surrounding community.

Health and Sports

CRDB Bank believes in good health and wellness. As a matter of policy, the Bank supports primary healthcare programs, especially for mother and child. This is because we believe in getting the basics right, whether it's in maternal or paediatric healthcare. We also subscribe to the idea that life has to be nurtured, right from infancy to be able to give a child a better future that will translate into productivity. During the 2018 financial year, the Bank spent a total of TZS 240 million on healthcare projects.

The notable projects include the donation of TZS 100 million towards supporting children wards at the Jakaya Kikwete Cardiac Institute, which deals with both chronic and congenital cardiovascular diseases. Jakaya Kikwete Cardiac Institute (JKCI), is specialized in offering cardiovascular care, training and research services.

Similarly, an amount of TZS 100 million was extended to Bugando Medical centre in Mwanza to aid renovation and expansion of the Emergency Department to handle 200 outpatients approximately twice of its current capacity. Notably, the Bank also invested TZS 20 million towards the construction and operationalization of a modern reception area at the Sekou Touré Regional Hospital in Mwanza.

In a bid to promote healthy lifestyles, the Bank spent TZS 20 million in sponsorship of sporting activities including marathons, ball games and provision of sporting equipment and kits. Notably, the Bank supported the national soccer team "Taifa Stars" and separately provided sports gear to the Tanzanian Prison soccer team.

Financial Education and Literacy

A sum of TZS 183 million was channelled towards supporting education initiatives across the country. During the financial year, the Bank constructed and equipped a total of 14 classrooms, each with a capacity to host 40 students across various public primary and secondary schools worth TZS 120 million. The Bank a donation to Almuntazir School in Dar es Salaam worth TZS 10 million in their quest to create awareness on autism in the country.

In furthering the wholesome agenda of financial inclusion, a significant amount was spent towards supporting entrepreneurial activities as well as financial literacy programs, which took place in different parts of the country. Notably, the Bank donated TZS 10 million towards acquisition and purchase of milling and hauling machines for a women trust fund in Mbeya and a further of TZS 5 million towards supporting SME-industry exhibitions organised by the Bariadi/ Simiyu Council. Similarly, the Bank sponsored the Kibaha Industrial Exhibition as part of deliberate efforts to sensitize the public on the benefits of building sustainable economic activities with a great potential for the future and to support this initiative, the Bank pledged a sum of TZS 75 million to be disbursed over a period of two years.

Humanitarian assistance

In December 2018, Rukwa region experienced heavy rainfalls that resulted in floods along the Lake Rukwa basin. The situation left thousands of people in urgent need for food, shelter and humanitarian assistance. CRDB Bank was amongst the first responders by offering a helping hand to the victims through a donation of TZS 5 million to help on the immediate need of food, clean water and medicines.

EVENTS AFTER REPORTING PERIOD

There were no material events, adjusting or non-adjusting, which have occurred between the reporting date and the date when financial statements are authorised for issue.

AUDITORS

The auditors, PricewaterhouseCoopers have completed their two term regulatory tenure as Bank auditors. At the Annual General Meeting held on 19th May 2018, Ernst & Young were appointed as the Bank's Auditors. Ernst & Young have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing their re-appointment as the Bank's auditors for the subsequent year will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

Ally H. Laay **Chairman**	27 March 2019 **Date**
Hosea E. Kashimba **Director**	27 March 2019 **Date**

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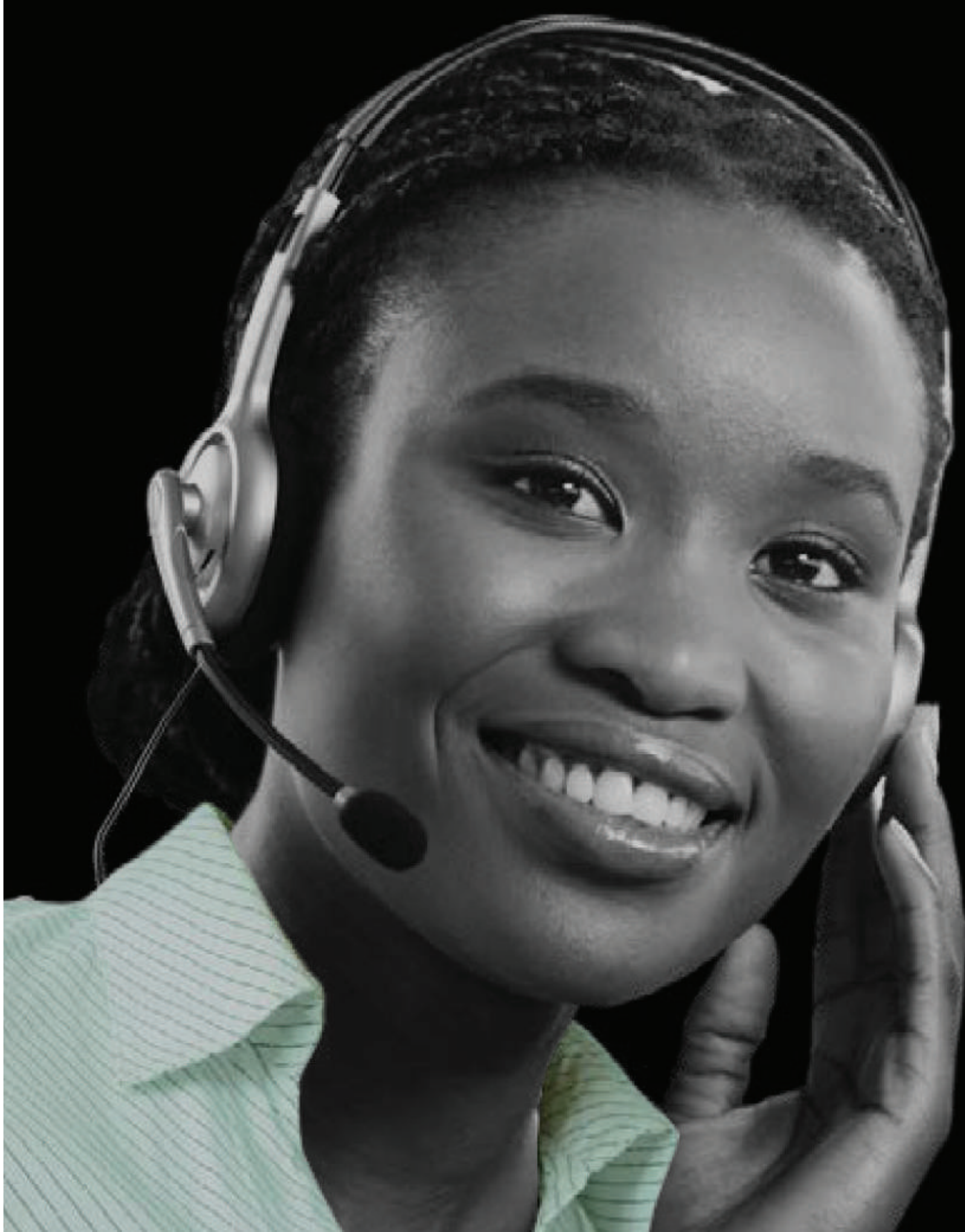

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STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the Year ended 31st December 2018

The Companies Act, CAP 212, Act No.12 of 2002 requires Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Bank as at the end of the financial year and of its profit or loss for the year.

It also requires the Directors to ensure that the Group and the Bank keep proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Group and the Bank and to take reasonable steps toward the prevention and detection of fraud, error and other irregularities.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, CAP 212, Act No.12 of 2002. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Bank and its profit in accordance with International Financial Reporting Standards (IFRS).

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

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

Signed on behalf of the Board of Directors by:

Ally H. Laay
Chairman

27 March 2019
Date

DECLARATION OF THE DIRECTOR OF FINANCE
For the Year ended 31st December 2018

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 Director of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing a true and fair view of the entity's position and performance in accordance with applicable International Financial Reporting Standards (IFRS) and statutory financial reporting requirements.

Full legal responsibility of the preparation of financial statements rests with the Board of Directors has declared under the Statement of Directors' Responsibility on page 94

I, Frederick Bayona Nshekanabo, being the Director of Finance of CRDB Bank Plc, hereby acknowledge my responsibility of ensuring that Consolidated financial statements for the year ended 31 December 2018 have been prepared in compliance with International Financial Reporting Standards (IFRS) and the requirements of Companies Act No.12 of 2002 and Banking and Financial Institutions Act (BFIA), 2006 and its regulations.

I, thus confirm that the financial statements give a true and fair view position of CRDB Bank Plc and its subsidiaries as on that date and that it has been prepared based on properly maintained financial records.

Signed By:

Frederick B. Nshekanabo
Director of Finance
ACPA 1388

27 March 2019
Date

TO THE MEMBERS OF CRDB BANK PLC

REPORT ON THE AUDIT OF THE GROUP AND BANK FINANCIAL STATEMENTS

Opinion

We have audited the consolidated and separate financial statements of CRDB Bank Plc (the ''Bank'') and its subsidiaries (together, the ''Group'') set out on pages 101 to 241, which comprise the consolidated and separate statements 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 statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2018, and the consolidated and separate financial performance and consolidated and separate cash flows of the Group and the Bank for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provided the basis for our audit opinion on the accompanying consolidated and separate financial statements.

TO THE MEMBERS OF CRDB BANK PLC
REPORT ON THE AUDIT OF THE GROUP AND BANK FINANCIAL STATEMENTS

Key Audit Matter (Continued)

No.	Key audit matter	How our audit addressed the key audit matter
1.	Credit risk and impairment of loans and advances to customers	
	Impairment As at 31 December 2018, the provision for impairment on Financial Assets at Amortised Cost is TZS 115,486 billion and on Financial Assets at Fair Value Through Other Comprehensive Income is TZS Nil. This represents the estimation of expected losses at the year end. As of 1 January 2018, the Company adopted the accounting standard "IFRS9: Financial instruments". The adoption of IFRS 9 resulted in reclassifications of financial assets and the implementation of an Expected Credit Loss (ECL) model. The determination of appropriate provisions for impairment is a key audit matter as it requires management judgement, is subject to estimation uncertainty and relies on available data. Areas which involve judgement and estimates include determination of probability of default (PDs), exposure amount given default (EAD) and ascertaining of future cash flows which the bank will obtain when realizing the assets pledged as collaterals. There is a risk that the provision for impairment of financial assets does not represent a complete and accurate estimate of expected losses and that the carrying value of these items is misstated. This includes the risk that the ECL model is not in compliance with IFRS 9. The accounting policy and key sources of estimation uncertainty in relation to financial asset impairment provisions are disclosed in Note 2(k) to the financial statements on pages 119 to 122.	Our audit procedures included: • We undertook an assessment of the company's new provisioning methodology and compared it with the requirements of IFRS 9. • We reviewed the application of the business model to existing portfolios and reviewed the results of the Solely Payments of Principal and Interest test for relevant financial instruments. • We evaluated the design and operating effectiveness of the company's controls and IT controls around credit management, ECL model and provision assessment. • We tested key controls over completeness and accuracy of data inputs to loan loss provisioning. • We assessed management's assumptions in relation 'significant increase in credit risk' and the allocation of loans to various categories based on the levels of risks. The management is required to estimate probability and exposures at default. This involves consideration of certain factors including macro-economic variables such as inflation and economic growth. • We tested a sample of loans to ensure that they have been included in the correct stage/buckets depending on the risk profiles of the customers in accordance with the Bank's methodology and IFRS 9. • We reviewed the IFRS 9 and IFRS 7 disclosures for adequacy and compliance with the amendments relating to IFRS 9.

TO THE MEMBERS OF CRDB BANK PLC (CONTINUED)
REPORT ON THE AUDIT OF THE GROUP AND BANK FINANCIAL STATEMENTS

Key Audit Matter (Continued)

No.	Key audit matter	How our audit addressed the key audit matter
2.	Compliance – open tax positions	
	The Group is multinational and has operations in Tanzania and Burundi. Operating in these territories presents increased operational, regulatory and financial risks due to the need to comply with multiple regulatory and legislative environments, including legislation relating to tax. We focused on compliance with tax laws and regulations because breaches of compliance could have a significant effect on the results and financial position of the Group. The Group had open tax assessments amounting to TZS 1.7 billion as at year-end as disclosed in note 36. Inappropriate assumptions over provisioning for tax exposures was one of the judgmental areas we focused on. We also considered there to be a risk that the disclosures on tax in note 44 which are significant to the understanding of the Bank's and the Group's income tax position are not complete.	Our audit procedures included: • Assessing of key controls over the identification, evaluation and measurement of potential obligations arising from legal and regulatory matters. • Involving our tax specialists to analyse and evaluate the assumptions used to determine provisions for tax matters based on their knowledge and experience of local regulations and practices. • Inspecting appropriate documentation considered necessary to understand the position and conclusions made by the Group on open tax positions and using our experience of local practices, assessing the judgements made by the Group in arriving at any potential provisions and contingencies relating to compliance with tax laws and regulations. • Considering the exposure to breaches of legislation by making appropriate enquiry of the Group management in relation to compliance with laws and regulations and the existence and status of any significant regulatory and legal matters. • Inspecting correspondence with tax authorities for matters such as inspection reports for the components that we directly audited, and inspecting reports received from component auditors to identify actual and potential noncompliance with tax laws and regulations that could materially affect the Group's financial statements. • Instructing component audit teams to perform full scope audits and consider compliance with tax and banking laws and regulations as areas of higher inherent audit risk and performing procedures to respond to this risk. • Evaluating the completeness of the Group's disclosures on tax positions.

Other Information included in the Group's 2018 Annual Report

The other information comprises the Bank Information, Directors' Report, Statement of Directors' Responsibilities and the Declaration by the Head of Finance. The other information does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

In connection with our audit of the consolidated and separate financial statements, our 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 our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania, and 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.

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We 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 the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion.

TO THE MEMBERS OF CRDB BANK PLC (CONTINUED)
REPORT ON THE AUDIT OF THE GROUP AND BANK FINANCIAL STATEMENTS

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

Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

As required by the Companies Act, 2002 of Tanzania, we report to you, based on our audit, that:

- We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- In our opinion, proper books of account have been kept by the Group and the Bank, so far as appears from our examination of those books;
- The Directors' Report is consistent with the consolidated and separate financial statements;
- Information specified by law regarding directors' remuneration and transactions with the Group and the Bank is disclosed; and
- The consolidated and separate statements of financial position and consolidated and separate statements of profit or loss and other comprehensive income are in agreement with the books of account.

As required by the Banking and Financial Institutions (External Auditors) Regulations, 2014 of Tanzania, we report to you, based on our audit, that;

- In our opinion, the capital adequacy ratios as presented in Note 5.5 to the financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 of Tanzania.

The engagement partner on the audit resulting in this independent auditor's report is Neema Kiure Mssusa.

29/3/2019

Neema Kiure Mssusa - (FCPA 1227)
For and behalf of:
Ernst & Young
Certified Public Accountants
Dar es Salaam

Date

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		GROUP		BANK	
	Note	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Interest and similar income	7	586,288	560,344	567,431	547,754
Interest expense	8	(143,444)	(150,628)	(135,804)	(146,982)
Net interest income		442,844	409,716	431,627	400,772
Impairment released – Government securities	20	780	-	780	-
Impairment released – Placements	23	37	-	37	-
Loan impairment charges	24	(115,323)	(153,374)	(115,019)	(152,327)
Off Balance sheet impairment charges	25	(145)	-	(145)	-
Credit Card Impairment charges	26	(18)	-	(18)	-
Net interest income after loan impairment charges		328,175	256,342	317,262	248,445
Fee and commission income	9A	173,198	163,295	166,580	154,828
Fee and commission expense	9B	(19,433)	(13,997)	(25,348)	(33,723)
Net fee and commission income		153,765	149,298	141,232	121,105
Foreign exchange income	10	31,326	37,351	30,428	36,033
Income from security trading	11	11,698	4,490	11,698	4,490
Other operating income	12	3,033	5,561	1,178	3,300
Other operating expenses	13	(175,416)	(155,319)	(161,332)	(144,479)
Depreciation and amortization	14	(43,281)	(48,752)	(41,853)	(45,636)
Employee benefit expenses	15	(210,183)	(195,393)	(194,822)	(176,311)
		(428,880)	(399,464)	(398,007)	(366,426)
Profit before income tax		99,117	53,578	103,791	46,947
Income tax expense	16A	(34,985)	(17,366)	(34,203)	(16,138)
Profit for the year		64,132	36,212	69,588	30,809
Profit attributable to:					
Owners of the parent entity*		64,132	36,212	69,588	30,809
Non-controlling interests		-	-	-	-
		64,132	36,212	69,588	30,809

*The Group's subsidiaries are 100% owned by the parent entity.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

	Note	GROUP		BANK	
		2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Revaluation gain on government securities at fair value through OCI		**11,306**	21,913	**11,306**	21,874
Income tax relating to these items		**(3,339)**	(6,285)	**(3,339)**	(6,285)
Revaluation gain on Government securities at FVOCI net of tax		**7,967**	15,628	**7,967**	15,589
Translation reserve		**250**	(580)	**-**	-
Unrealised gain on equity investments		**1,705**	526	**1,705**	39
Other comprehensive income for the year, net of tax		**9,922**	15,574	**9,672**	15,628
Total comprehensive income for the year		**74,054**	51,786	**79,260**	46,437
Total comprehensive income attributable to:					
Owners of the parent entity		**74,054**	51,786	**79,260**	46,437
Non-controlling interests		**-**	-	**-**	-
		74,054	51,786	**79,260**	46,437
Basic and diluted earnings per share attributable to equity holders of the parent entity (TZS)	17	**24.55**	13.86	**26.64**	11.80

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

		GROUP		BANK	
		2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
ASSETS					
Cash and balances with Central Banks	19	700,991	1,146,841	691,163	1,126,272
Government securities at amortised cost	20	757,080	698,291	700,129	651,606
Government securities at FVOCI	20	481,003	406,256	481,003	406,256
Corporate Bonds	21	3,516	-	3,516	-
Non-current assets held for sale	22	16,600	16,600	16,600	16,600
Loans and advances to banks	23	345,698	265,142	362,353	284,961
Loans and advances to customers	24	3,126,733	2,893,838	3,061,544	2,844,786
Credit cards	26	533	-	533	-
Equity investments at FVOCI	27	7,013	2,747	7,013	2,747
Other assets	28	149,345	102,066	144,192	98,910
Investment in subsidiaries	29	-	-	22,411	22,411
Current income tax	16B	16,842	12,646	13,915	9,688
Property and equipment	30A	280,328	219,984	268,918	208,816
Motor vehicles	30B	10,047	13,081	8,865	11,472
Prepaid operating lease	31	10,572	10,752	10,572	10,752
Intangible assets	32	42,571	37,737	41,536	36,616
Deferred tax asset	33	86,515	75,627	85,087	74,214
TOTAL ASSETS		6,035,387	5,901,608	5,919,350	5,806,107
LIABILITIES					
Deposits from customers	34	4,687,174	4,325,871	4,583,090	4,238,104
Deposits from Banks	35	3,994	79,722	3,994	80,679
Other liabilities	36	97,520	91,039	105,850	107,773
Provisions	37	4,041	3,231	4,041	3,231
Grants	38	9,977	13,406	9,914	13,406
Short term Borrowings	39.1	-	89,733	-	89,73
Subordinated debts	39.2	32,400	89,583	32,400	89,583
Long term borrowings	39.3	426,661	475,563	426,661	475,563
TOTAL LIABILITIES		5,261,767	5,168,148	5,165,950	5,098,072
EQUITY					
Share capital	40	65,296	65,296	65,296	65,296
Share premium		158,314	158,314	158,314	158,314
Retained earnings		489,227	463,424	474,991	442,494
Legal provision reserve		1,228	317	-	-
Translation reserve		3,520	3,270	-	-
General Banking reserve		31,020	27,217	30,195	26,796
Revaluation reserve	41	25,015	15,622	24,604	15,135
TOTAL EQUITY		773,620	733,460	753,400	708,035
TOTAL LIABILITIES AND EQUITY		6,035,387	5,901,608	5,919,350	5,806,107

The financial statements on pages 101 to 241 were approved and authorised for issue by the Board of Directors on 22 March 2019 and signed on its behalf by:

Ally H. Laay
Chairman

Abdulmajid M. Nsekela
Managing Director

Hosea E. Kashimba
Director

STATEMENTS OF CHANGES IN EQUITY

GROUP	Note	Share capital TZS' Million	Share premium TZS' Million	Retained earnings TZS' Million	Regulatory Banking risk reserve TZS' Million	General Banking reserve TZS' Million	Legal provision reserve TZS' Million	Revaluation reserve TZS' Million	Translation reserve TZS' Million	Total TZS' Million
Year ended 31 December 2018										
At 1 January 2018		65,296	158,314	463,424	-	27,217	317	15,622	3,270	733,460
Impact of adopting IFRS 9		-	-	(30,063)	-	-	-	-	-	(30,063)
Deferred tax asset				8,931						8,931
Other adjustments		-	-	(107)	-	-	-	-	-	(107)
At 1 January 2018 (restated)		65,296	158,314	442,185	-	27,217	317	15,622	3,270	712,221
Profit for the year		-	-	64,132	-	-	-	-	-	64,132
Comprehensive income										
Gain on government securities at fair value through OCI	41	-	-	-	-	-	-	7,967	-	7,967
Transfer of excess depreciation net of deferred tax	41	-	-	279	-	-	-	(279)	-	-
Translation reserve		-	-	-	-	-	-	-	250	250
Unrealised gain on equity investments		-	-	-	-	-	-	1,705	-	1,705
Total comprehensive income		-	-	64,411	-	-	-	9,393	250	74,054
Transfer to general Banking reserve and regulatory Banking risk reserve		-	-	(3,399)	-	3,803		-	-	404
Legal provision		-	-	(911)	-	-	911	-	-	-
Transactions with shareholders		-	-	-	-	-	-	-	-	-
Dividends declared	18	-	-	(13,059)	-	-	-	-	-	(13,059)
At 31 December 2018		65,296	158,314	489,227	-	31,020	1,228	25,015	3,520	773,620

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

GROUP	Note	Share capital TZS' Million	Share premium TZS' Million	Retained earnings TZS' Million	Regulatory Banking risk reserve TZS' Million	General Banking reserve TZS' Million	Legal provi-sion reserve TZS' Million	Revaluation reserve TZS' Million	Translation reserve TZS' Million	Total TZS' Million
Year ended 31 December 2017										
At 1 January 2017		65,296	158,314	406,670	48,843	26,537	147	(2,031)	3,850	707,626
Profit for the year		-	-	36,212	-	-	-	-	-	36,212
Comprehensive income					-	-	-	-	-	
Gain/Loss on debt instruments at fair value through OCI	41	-	-	-	-	-	-	15,628	-	15,628
Transfer of excess depreciation net of deferred tax	41	-	-	349	-	-	-	(349)	-	-
Translation reserve		-	-	-	-	-	-	-	(580)	(580)
Unrealised gain/(loss) on equity investments		-	-	(1,848)	-	-	-	2,374	-	526
Total comprehensive income		-	-	34,713	-	-	-	17,653	(580)	51,786
Transfer to general Banking reserve and regulatory Banking risk reserve		-	-	48,159	(48,843)	680	170	-	-	166
Transactions with shareholders										
Dividends declared	18	-	-	(26,118)	-	-	-	-	-	(26,118)
At 31 December 2017		65,296	158,314	463,424	-	27,217	317	15,622	3,270	733,460

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

BANK	Note	Share capital TZS' Million	Share premium TZS Million	Retained earnings TZS' Million	Regulatory Banking risk reserve TZS' Million	General Banking reserve TZS' Million	Revaluation reserve TZS' Million	Total TZS' Million
Year ended 31 December 2018								
At 1 January 2018		65,296	158,314	442,494	-	26,796	15,135	708,035
Impact of adopting IFRS 9		-	-	(29,772)	-	-	-	(29,772)
Deferred tax asset				8,931				8,931
Other adjustments		-	-	5	-	-	-	5
At 1 January 2018 (restated)		65,296	158,314	421,658	-	26,796	15,135	687,199
Profit for the year		-	-	69,588	-	-	-	69,588
Comprehensive income								
Gain on debt instruments at fair value through OCI	41	-	-	-	-	-	7,967	7,967
Transfer of excess depreciation net of deferred tax	41	-	-	-	-	-	-	-
Revaluation surplus – Motor Vehicle		-	-	203	-	-	(203)	-
Unrealised gain on equity investments		-	-	-	-	-	1,705	1,705
Total comprehensive income								
		-	-	69,791	-	-	9,469	79,260
Transfer to general banking reserve and regulatory banking risk reserve		-	-	(3,399)	-	3,399	-	-
Transactions with shareholders								
Dividend declared		-	-	(13,059)	-	-	-	(13,059)
At 31 December 2018		65,296	158,314	474,991	-	30,195	24,604	753,400

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

BANK Year ended 31 December 2017	Note	Share capital TZS' Million	Share premium TZSMillion	Retained earnings TZS' Million	Regulatory Banking risk reserve TZS'Million	General Banking reserve TZS'Million	Revaluation reserve TZS' Million	Total TZS' Million
At 1 January 2017		65,296	158,314	389,223	48,533	26,537	(187)	687,716
Profit for the year		-	-	30,809	-	-	-	30,809
Comprehensive income								
Gain/Loss on debt instruments at fair value through OCI	41	-	-	-	-	-	15,589	15,589
Transfer of excess depreciation net of deferred tax	41	-	-	306	-	-	(306)	-
Other movements		-	-	-	-	-	39	39
Total comprehensive income		-	-	31,115	-	-	15,322	46,437
Transfer to general Banking reserve and regulatory Banking risk reserve		-	-	48,274	(48,533)	259	-	-
Transactions with shareholders								
Dividend declared	18	-	-	(26,118)	-	-	-	(26,118)
At 31 December 2017		65,296	158,314	442,494	-	26,796	15,135	708,035

STATEMENT OF CASH FLOWS

		GROUP		BANK	
	Notes	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Cash flow from operating activities					
Profit before income tax		**99,117**	53,578	**103,791**	46,947
Adjustment for:					
Depreciation of property and equipment	30A	**30,996**	36,607	**30,260**	34,193
Amortization of intangible assets	32	**8,664**	8,472	**8,381**	8,217
Depreciation of motor vehicle	30B	**3,305**	3,351	**2,896**	2,903
Amortization of prepaid operating leases	31	**316**	322	**316**	322
Loss on disposal of property and equipment	12	**736**	452	**885**	480
Other adjustments to property and equipment		**-**	470	**-**	1,607
Loan impairment charges and non-cash recoveries		**115,323**	160,417	**115,019**	159,370
Provisions - Government securities	20	**(780)**	-	**(780)**	-
Provisions - Placements	23	**(37)**	-	**(37)**	-
Provisions – Off balance sheet	25	**145**	-	**145**	
Provisions – Credit cards	26	**18**	-	**18**	
Other assets impairment charges	28	**8,277**	3,544	**8,073**	3,314
Grant utilization	38	**(5,248)**	(5,927)	**(3,543)**	(3,165)
Foreign currency exchange loss on grants	38	**50**	296	**51**	283
Foreign currency exchange gain on borrowings	39	**9,914**	(3,398)	**9,914**	(3,398)
Foreign currency exchange (gain)/loss on cash and cash equivalents		**(16,578)**	(17,475)	**(16,578)**	(17,398)
Net interest income		**(442,844)**	(409,716)	**(431,627)**	(400,772)
		(188,626)	(169,007)	**(172,816)**	(167,097)
Changes in operating assets and liabilities:					
Statutory minimum reserve		**5,399**	95,636	**5,399**	96,276
Government securities		**(110,196)**	(376,218)	**(99,363)**	(384,377)
Investments in Bonds		**(3,294)**	-	**(3,294)**	-
Loans and advances to banks		**-**	3,156	**-**	7,892
Loans and advances to customers		**(391,202)**	163,431	**(375,473)**	178,522
Other assets		**(57,205)**	5,994	**(55,775)**	(1,190)
Deposits from Banks		**(78,228)**	(41,874)	**(76,685)**	(43,437)
Deposits from customers		**367,747**	210,106	**353,638**	188,738
Other liabilities		**1,212**	35,537	**(7,187)**	33,465
Provisions		**811**	1,516	**811**	1,516
		(264,684)	97,284	**(257,890)**	77,405
Adjustment for:					
Interest received from loans and advances to customers and Banks		**437,229**	435,724	**425,715**	429,237
Interest received from government securities		**149,672**	-	**142,709**	-
Interest paid		**(105,660)**	(109,346)	**(102,728)**	(108,458)
Income tax paid	16B	**(43,703)**	(53,556)	**(42,937)**	(51,790)
Net cash (used in)/generated from operating activities		**(15,772)**	201,009	**(7,947)**	179,297

STATEMENT OF CASH FLOWS (CONTINUED)

	Notes	GROUP 2018 TZS' Million	GROUP 2017 TZS' Million	BANK 2018 TZS' Million	BANK 2017 TZS' Million
Cash flows from investing activities					
Purchase of property and equipment	30A	**(92,125)**	(75,764)	**(91,291)**	(61,504)
Purchase of motor vehicle	30B	**(417)**	(437)	**(417)**	(385)
Acquisition of leasehold land	31	**(121)**	(231)	**(121)**	(231)
Purchase of intangible assets	32	**(13,459)**	(11,940)	**(13,269)**	(11,666)
Investment in shares	27	**-**	(139)	**-**	(139)
Proceeds from disposal of property and equipment		**233**	237	**-**	-
Net cash used in investing activities		**(105,889)**	(88,274)	**(104,972)**	(73,925)
Cash flows from financing activities					
Dividends paid		**(13,012)**	(25,582)	**(13,012)**	(25,582)
Repayment of borrowings	39	**(205,196)**	(81,380)	**(205,196)**	(81,380)
Interest paid on borrowings	39	**(42,265)**	(30,964)	**(42,265)**	(30,964)
Grants received	38	**715**	1,010	**-**	-
Proceeds from borrowings and subordinated debt	39	**-**	348,524	**-**	348,524
Net cash from financing activities		**(259,758)**	211,608	**(260,473)**	210,598
Cash and cash equivalents at 1 January		**1,068,492**	726,584	**1,047,537**	714,169
Net cash (used in)/generated from operating activities		**(15,772)**	201,099	**(7,947)**	179,297
Net cash used in investing activities		**(105,889)**	(88,274)	**(104,972)**	(73,925)
Net cash from financing activities		**(259,758)**	211,608	**(260,473)**	210,598
Effect of exchange rate change on cash and cash equivalent		**16,578**	17,475	**16,578**	17,398
Cash and cash equivalents at 31 December	42	**703,651**	1,068,492	**690,723**	1,047,537

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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NOTES

1 GENERAL INFORMATION

CRDB Bank Plc (the "Bank") and its subsidiaries CRDB Microfinance Company Services Limited, CRDB Insurance Broker Limited, and CRDB Bank Burundi S.A (together, "the Group") provide corporate and retail Banking services including microfinance and insurance services. The Bank is a public limited company incorporated under the Companies Act No.12 of 2002 and is domiciled in Tanzania.

The Bank and CRDB Microfinance Services Company Limited and CRDB Insurance Brokerage Limited operate in Tanzania. CRDB Bank Burundi S.A. operates in Burundi.

The Bank's shares are listed on the Dar es Salaam Stock Exchange (DSE). The address of its registered office is as follows:

4th Floor
Office Accomodation Scheme Building
Azikiwe Street
PO Box 268
Dar es Salaam

The consolidated and Bank's financial statements for the year ended 31 December 2018 were approved for issue by the Board of Directors on 22 March 2019. Neither the entity's owners nor others have the power to amend the financial statements after issue.

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements are presented in Tanzania shillings (TZS) and the amounts are rounded to the nearest million, except where otherwise indicated.

(i) Compliance with IFRS

The consolidated and Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The directors believe that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- Debt instrument at fair value through OCI and motor vehicles-measured at fair value
- Other financial assets and liabilities measured at amortised cost as explained in the accounting policies below.

(iii) New and amended standards adopted by the Group and Bank

The following standards have been adopted by the Group and Bank for the first time for the financial year beginning in 1 January 2018:

IFRS 9, 'Financial instruments'

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures on the basis that it is not possible to do so without the use of hindsight. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments:

Disclosures'.

The impact of the adoption of IFRS 9 on the Group is disclosed under note 3. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail under note 2.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

IFRS 15, 'Revenue from contracts with customers'

IFRS 15 is effective and has been implemented by the Group on 1 January 2018. The standard replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognise the revenue as each performance obligation is satisfied.

The new standard provides a more detailed principles - based approach for income recognition compared to IAS 18 Revenue, with revenue being recognised as or when promised services are transferred to customers. The new standard applies to 'fees and commission income' but not to financial instruments or lease contracts.

The Group's main source of revenue is out of scope of IFRS 15. The Group has identified and reviewed the contracts with customers that are within the scope of this standard. The outcome of the reviews has not resulted in the identification of additional performance obligations for certain products and as a result thereof a deferral of revenue relating to those products. In nearly all cases the Group's the pattern of revenue recognition under previous accounting policies is consistent with the requirements of IFRS 15, however, while certain income streams from LCs and guarantees differ in pattern of recognition, the differences were not material. IFRS 15 did not have a material impact on the Group's consolidated financial statements and therefore no adjustment to retained earnings in respect of adoption was done.

Transfers of Investment Property-Amendments to IAS 40

The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. The list of evidence for a change of use in the standard was re-characterised as a non-exhaustive list of examples to help illustrate the principle.

The Board provided two options for transition:

- prospectively, with any impact from the reclassification recognised as adjustment to opening retained earnings as at the date of initial recognition, or
- Retrospectively - only permitted without the use of hindsight.

The amendment did not have an impact on the Group since the Group has no investment properties.

IFRS 4 - Insurance contracts.

Amendments to IFRS 9 Financial instruments allow an entity that issues insurance contracts the opportunity to utilize two options - where IFRS 9 is applied prior to the forthcoming insurance contracts standard. These are;

- Overlay approach - which permits an insurer to reclassify certain income/expenditure, arising from designated financial instruments, from profit or loss to OCI, and
- Deferral approach - temporary exemption from IFRS 9 for insurers whose predominant activity is issuing insurance contracts.

The Group does not issue any insurance contracts and therefore the amendment did not have any impact to the Group .

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

Amendments clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The amendment did not have significant impact to the Group.

Annual improvements 2014-2016 cycle

The following improvements were finalised in December 2016:

- IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10, which are no longer relevant.
- IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

The improvements did not have significant impact to the Group.

(iv) New standards and interpretations not yet adopted by the Group and Bank

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group and Bank.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(iv) New standards and interpretations not yet adopted by the Group and Bank (continued)

IFRS 16, 'Leases'

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

Impact assessment:

As at the reporting date, the Group had non-cancellable operating lease commitments of TZS 52,820 million, see note 45. Of these commitments TZS 2,643 million relates to short term leases which will be recognized on a straight-line basis as expense to profit or loss.

For the remaining lease commitments, the Group expects to recognize right-of-use (ROU) assets of approximately TZS 39,076 million on 1 January 2019, lease liabilities of TZS 34,676 million (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018). The Group expects that net profit before tax for 2019 will decrease by approximately TZS 921 million as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately TZS 6,653 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

IFRS 17 - Insurance Contracts

This is a comprehensive new accounting standard for insurance contracts covering recognitio and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 - Insurance Contracts that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The amendments are effective for annual period beginning on or after 1 January 2021. The Group does not issue any insurance contracts and therefore the amendment on UFRS 17 is expected not to have any impact to the Group .

Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a Group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

Upon adoption of the new standard the Group will be required to provide information about judgements and estimates made in determination of liabilities arising from uncertain tax positions. The Group expects to adopt the standard beginning 1 January 2019.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(iv) New standards and interpretations not yet adopted by the Group and Bank (continued)

Annual improvements to IFRS standards 2015-2017 cycle

The following improvements were finalised in December 2017:

- IFRS 3 - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.
- IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- IAS 23 - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

The amendments are effective for annual period beginning on or after 1 January 2019. The Group expects to adopt the standard beginning 1st January 2019. The Group is still assessing the impact of amendments.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

The narrow-scope amendments made to IFRS 9 Financial Instruments in December 2017 enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

The amendments are effective for annual period beginning on or after 1 January 2019. The Group expects to adopt the standard beginning 1st January 2019. The Group is still assessing the impact of amendments.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 128 Investments in Associates and Joint Ventures.

The amendments are effective for annual period beginning on or after 1 January 2019. The Group expects to adopt the standard beginning 1st January 2019. The Group is still assessing the impact of amendments.

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

(b) Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries CRDB Microfinance Services Company Limited, CRDB Insurance Broker Limited and CRDB Bank Burundi S.A. for the year ended 31 December 2018. The reporting date for all subsidiaries is 31 December.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group.

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

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

Separate financial statements

In the separate financial statements, investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. Dividend income is recognised when the right to receive payment is established.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on non-performing loans for which no impairment provision has been recorded is recognised using the effective interest method. Interest income is not recognised for non-performing loans for which an impairment provision has been recorded.

For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

(d) Fees and commission income

Fees and commission are generally recognised on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and amortised over the loan tenure.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

(e) Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established.The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- for equity instruments designated at FVOCI dividend income is presented in other income; and
- for equity instruments not designated at FVOCI and not held for trading, dividend income is presented as net income from other instruments at FVPL.

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Tanzanian Shillings (TZS), which is the Group's presentation and functional currency.

(ii) Transactions and balances

Transactions in foreign currencies during the year are converted into Tanzanian Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:-

a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

b) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

c) All resulting exchange differences are recognised in other comprehensive income and accumulated in 'translation reserve' in equity.

(g) Classes of financial instruments

Accounting policies applicable in current period under IFRS 9

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

Category (as defined by IFRS 9)		Class (as determined by the Bank)		Subclass
Financial Assets	Amortized cost	Loans and Advances to Banks		
		Loans and advances to customers	Loans to individuals	Personal Loans
				Mortgage Loans
			Loans to corporate entities	Corporate Customers
			Loans to SMEs	SME Loans
			Loans to Microfinance	Microfinance Loans
		Investment in Debt securities	Government securities	Treasury Bill and Bonds (SPPI)
			Private Bonds	Private Bonds
	Fair value through profit or loss (FVPL)	Equity Investment (Which are not under scope of IAS 28 and IFRS 10)		
	Fair value through other comprehensive income (FVOCI)	Equity investments designated at FVOCI		
		Other treasury bonds held to collect contractual cash flows and sale		
Financial liabilities	Financial liabilities at amortised cost	Deposits from Banks		
		Borrowings, subordinated debts and other liabilities		
		Deposits from customers	Retail customers	
			Corporate customers	

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(h) Financial assets

The Bank classifies its financial assets in the following categories: At amortized cost, Fair value through profit or loss (FVPL) and Fair value through other comprehensive income (FVOCI).

Classification and subsequent measurement of financial assets depends on;

i) The Bank's business model for managing the asset; and
ii) The cash flow characteristics of the asset.

Based on these factors, the Bank classifies its financial assets into one of the following three measurement categories.

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

- **Fair value through profit or loss (FVPL):** Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Other income' in the period in which it arises.

- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest and are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Other Income'.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a Group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial assets (continued)

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

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Management determines the appropriate classification of its financial assets at initial recognition.

(i) Loans and receivables

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

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

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method. Loans and receivables are reported in the balance sheet as loans and advances to other banks or customers, cash and balances with central Bank, some government securities or other assets. Interest on loans is included in the statement of profit or loss and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of profit or loss as 'loan impairment charges'.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:

(a) those that the Group upon initial recognition designates as at fair value through profit or loss;
(b) those that the Group designates as available for sale; and
(c) those that meet the definition of loans and receivables.

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

Interest on held-to-maturity investments is included in the statement of profit or loss and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the statement of profit or loss as 'net gains/ (losses) on investment securities'.

(iii) Available for sale

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

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income and accumulated in a separate reserve in equity, revaluation reserve, until the financial asset is derecognised. Interest income is calculated using the effective interest method, and recognized in the profit and loss under interest and similar income.

(i) Recognition of financial assets

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

(j) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on market prices or dealer price quotations. This includes listed equity securities and debt instruments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the balance sheet date.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at FVOCI. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed ca/sh flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets

Accounting policies applicable in current period under IFRS 9

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

- Loans and advances to banks;
- Loans and advances to customers;
- Debt investment securities;
- Credit cards;
- Corporate bonds;
- Loan commitments issued; and
- Financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Lifetime ECL, i.e. ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

For the purposes of determining ECL, all facilities whose contractual payments are more than 30 days due but less than or equal to 90 days due are grouped in stage 2 as they are taken to have experienced a significant increase in credit risk.

As part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as stage 3 for ECL calculations or whether stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Bank;
- The borrower having past due liabilities to public creditors or employees;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Bank;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection; and
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

More details on the determination of a significant increase in credit risk are provided in Note 5.1.1.

Measuring ECL – Explanation of inputs, assupmtions and estimation techniques

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

The ECL is determined by projecting the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

PD – the probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts.The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets (continued)

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

portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

EAD – the expected balance sheet exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortized products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on an analysis of the Group's recent default data.

LGD – The loss that is expected to arise on default which represents the difference between the contractual cash flows due and those that the Bank expects to receive. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to note 5.1.1 for an explanation of forward- looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on an annual basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Definition of default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due.

Under IFRS 9, the Bank will consider a financial asset as 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

The Bank's write-off policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to profit or loss.

The Group writes off non-performing financial assets that have been past due for more than four (4) consecutive quarters. The Group may write-off financial assets in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets (continued)

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

enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The assessment is done to specific borrower.

(i) Assets carried at amortised cost

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

Significant financial difficulty of the issuer or obligor;

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

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

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

The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is revised by adjusting the allowance account. The amount of the reversal is recognised in profit or loss in impairment charge for credit losses.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

(ii) Assets classified as available-for-sale

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available- for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets (continued)

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

An impairment assessment is performed in a similar manner as explained in Note 2(k) (i) for loans whose terms are renegotiated as a result of financial difficulty of the borrower in the year the terms were renegotiated even if the loan is classified as performing.

(l) Impairment of non-financial assets

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

For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(m) Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. A loan will remain at its original stage until it meets the criterias of cure as described in Note 2(n).

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition. The Group monitors the subsequent performance of modified assets until they are completely and ultimately derecognised. The Group may determine that the credit risk has significantly improved after modification, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

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

The table below shows financial assets which were modified during the period with the related modification loss suffered by the Bank;

Amount in TZS' Million	2018
Amortised costs of financial assets modified during the period	223,490
Net modification loss	(13,601)

(n) Cure of non-performing financial assets including restructured loans

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

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

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

i) in the case of overdraft facilities, the account hassatisfactorily performed for a minimum period of two consecutive quarters; and

ii) In the case of term loans, the obligor has timely paid four consecutive installments.

These periods have been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions. The Group has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2018.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Cure of non-performing financial assets including restructured loans

On the other hand, credit exposures may migrate from stage 2 to stage 1 when there is a significant improvement of the credit exposure. In determining whether an exposure should shift backward from stage 2 to stage 1, The Bank shall consider the following;

i. All outstanding payments on the credit facility are made on time and there are no payments in arrears.

ii. There is improvement of the quantitative and qualitative factors that caused significant increase of the credit risk.

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

For credit exposures that have cured i.e shifted from stage 2 to stage 1, interest income is calculated on carrying amount of the asset at the beginning of the period before allowance for ECLs using effective interest rate. The carrying amount amount of the exposure shall be the amortised cost at the end of the period less allowance for ECL computed.

For credit exposures that have shifted from stage 3 to stage 2, objective evidence of impairment still exists and accordingly interest income is computed on carrying amount of the asset at the beginning of the period after allowance for ECLs using effective interest rate. The carrying amount amount of the exposure shall be the amortised cost at the end of the period less allowance for ECL computed.

(o) Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when extinguished. Such financial liabilities include deposits from banks or customers, other liabilities, subordinate debts and borrowings.

(p) Derecognition of financial assets and liabilities

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control. The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:
(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

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

(q) Offsetting financial instruments

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

(r) Income tax

Income tax expense is the aggregate of the charge to the profit or loss in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the Tanzanian Income Tax Act.

Deferred income tax is provided in full, using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(t) Property and equipment and motor vehicles

Upon initial recognition motor vehicles are recorded at cost which includes expenditure that is directly attributable to the acquisition of the items. Subsequently, motor vehicles are stated in the statement of financial position at revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The valuation is determined by independent valuers with reference to the market value of the motor

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Property and equipment and motor vehicles

vehicles. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation increase arising on the revaluation of such motor vehicles is recognized in other comprehensive income and cumulated in revaluation reserve in equity except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

A decrease in the carrying amount arising on the revaluation of such motor vehicles is recognized in profit or loss to the extent that it exceeds the balance, if any, held in revaluation reserve relating to a previous revaluation of that asset. Excess depreciation arising on the revaluation is amortized over the remaining useful life of the revalued assets through a transfer from revaluation reserve to retain earnings.

Land and buildings comprise mainly branches and offices. All property and equipment except motor vehicles are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. Depreciation of assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (or lease periods if shorter), as follows:

Bank buildings	40 years
Computer equipment	5 years
Motor vehicles	7 years
Office equipment	5 years
Furniture and fittings	5 years
Smart card equipment	8 years
Mobile branch	7 years
Security equipment	5 years
Leasehold improvement	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

When revalued assets are sold, the amounts included in revaluation surplus relating to those assets are transferred to retained earnings.

(u) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. Amortization methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted where appropriate.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (ten years for the core banking system, and three to five years for other systems).

(v) Cash and cash equivalents

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

(w) Employee benefits

(i) Retirement benefit obligations

The Group's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate. The Group makes contributions to various Social Security Pension Funds, which are statutory defined contribution pension schemes. The Group's obligations under the schemes are limited to specific contributions legislated from time to time.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Employee benefits (continued)

sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(ii) Other entitlements

Contract staff are entitled to gratuity payment at the completion of the contract. Provision is made for gratuity in line with the contracts. The gratuity is not a defined benefit arrangement.

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(x) Share capital

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

(y) Dividend distribution

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until declared at the Annual General Meeting. Payment of dividends is subjected to withholding tax at the enacted rate of 5%.

(z) Earnings per share

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

(aa) Legal and other claims

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(ab) Grants

Grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. Grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(ac) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Determination

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.

(ad) Contingencies and commitments

Transactions are classified as contingencies where the Group's obligations depend on uncertain future events. Items are classified as commitments where the Group commits itself to future transactions if the items will result in the acquisition of assets.

Financial guarantees

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

Acceptances and letters of credit

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

(ae) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Team, which is chief operating decision maker. The Group's is divided into three business segments and two geographic segments. Details of the Group's segments are provided under note 4.

3 TRANSITION DISCLOSURES FROM IAS 39 TO IFRS 9

IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach. The revised approach prescribes the rules for measuring impairment allowances for financial assets, the classification and measurement of financial assets, and hedge accounting. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to amongst other things, expected future economic conditions. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

The Group retrospectively adopted IFRS 9 on 1 January 2018 with the cumulative adjustment to the Group's opening 1 January 2018 reserves and, as permitted by IFRS 9, did not restate its comparative financial results.

The adoption of IFRS 9 has resulted in the following financial impacts in the Group and Bank at the date of initial application.

- Common equity tier 1 (CET 1) ratio of the Group reduced by 0.5% to 13.5% (2017: 14.0%) and for the Bank; CET 1 ratio reduced by 0.5% to 13.3% (2017: 13.8%).
- Shareholders' equity has been reduced by 4.8% and 4.9% for the Group and Bank respectively, driven by the effects of additional impairment provisions following the implementation of the expected credit loss methodology.

The most significant IFRS 9 transition impact for the Group and Bank is the introduction of, IFRS 9 new ECL requirements which results in the early recognition of credit impairment provisions primarily as a result of the drivers outlined in the table below. This impact was solely as a result of the adoption of IFRS 9 and is not as a result of changes in the credit quality of the Group's loan exposures.

12-month ECL for performing loans (stage 1)	IFRS 9 contains a minimum 12-month ECL for exposures for which there has not been a significant increase in credit risk (SICR), whereas IAS 39 required credit impairments to be recognised only following the identification of objective evidence of impairment.
Significant increase in credit risk (SICR) (stage 2)	A lifetime ECL is recognised for all exposures for which there has been a SICR, being a significant increase in the probability of default, since origination.
Lifetime model (stage 3)	In terms of determining ECL for stage 1 and 2 exposures where there is a probability of default, the potential loss from a lifetime perspective is considered, which would include the probability of recovery post default and subsequent re-default. For stage 3 exposures, being exposures that are either in default or where default is imminent, this would include consideration of cures and subsequent re-default.
Off-balance sheet exposure	IFRS 9's scope includes off-balance sheet exposures, such as unutilized loan commitments, financial guarantees and letters of credit.
Forward looking information	IFRS 9 requires consideration of forward looking economic expectations in the determination of SICR and in the measurement of the ECL

3 TRANSITION DISCLOSURES FROM IAS 39 TO IFRS 9 (CONTINUED)

Reconciliation between the carrying amount under IAS 39 to the balances reported under IFRS 9 as at January 2018 is, as follows:

GROUP	IAS 39 measurement		Reclassification	Remeasurement		IFRS 9
	Category	Amount		ECL	Amount	Category
Financial assets						
Cash and balances with central Banks	L&R	1,146,841	-	-	1,146,841	**AC**
Loans and advances to banks	L&R	265,142	-	(301)	264,841	**AC**
Loans and advances to customers	L&R	2,893,838	-	(21,345)	2,872,493	**AC**
Other assets		79,296	-	(1,935)	77,361	
Debt instruments at amortised cost		**N/A**	**698,291**		**696,886**	**AC**
From Financial investments –L&R	**L&R**	-	316,672	(519)	316,153	
From Financial investments - HTM	**HTM**	-	381,619	(886)	380,733	
	L&R	**4,385,117**	**698,291**	**(24,986)**	**5,058,422**	**AC**
Financial investments - L& R		**316,672**	**(316,672)**	**-**	**-**	
To: Debt instruments at amortised cost		-	(316,672)	-	-	
	L&R	**316,672**	**(316,672)**	**-**	**-**	
Financial investments – AFS		**409,003**	**(409,003)**	**-**	**-**	
To: Debt instruments at FVOCI		-	(406,256)	-	-	
To: Equity instruments FVOCI		-	(2,747)	-	-	
	AFS	**409,003**	**(409,003)**	**-**	**-**	
Financial investments – HTM		**381,619**	**(381,619)**	**-**	**-**	
To: Debt instruments at amortised cost		-	(381,619)		-	
	HTM	**N/A**	**(381,619)**	**-**	**-**	
Equity instruments at fair value through OCI		**N/A**	**2,747**	**-**	**-**	**FVOCI**
From: Financial investments – AFS		-	2,747	-	-	
		N/A	**2,747**	**-**	**2,747**	**FVOCI**
Debt instruments at fair value through OCI		**N/A**	**406,256**	**-**	**406,256**	**FVOCI**
From: Financial Investments – AFS		-	406,256	-	-	
		N/A	**406,256**	**-**	**406,256**	**FVOCI**
Off balance sheet financial assets		**-**	**-**	**(5,077)**	**-**	
Deferred tax asset		-	-	8,931	-	
Total financial assets		**5,492,411**	**-**	**(21,132)**	**5,471,279**	

3 TRANSITION DISCLOSURES FROM IAS 39 TO IFRS 9 (CONTINUED)

BANK	IAS 39 measurement		Reclassifiction	Remeasurement		IFRS 9
	Category	Amount		ECL	Amount	Category
Financial assets						
Cash and balances with central Banks	L&R	1,126,272	-	-	1,126,272	AC
Loans and advances to banks	L&R	284,961	-	(301)	284,660	AC
Loans and advances to customers	L&R	2,844,786	-	(21,345)	2,823,441	AC
Other assets		77,034	-	(1,644)	75,390	
Debt instruments at amortised cost		**N/A**	**651,606**		**650,201**	**AC**
From Financial investments –L&R	**L&R**	**-**	315,031	(519)	**314,512**	
From Financial investments - HTM	**HTM**	**-**	336,575	(886)	**335,689**	
	L&R	**4,333,053**	**651,606**	**(24,695)**	**4,959,964**	**AC**
Financial investments - L& R		**315,031**	**(315,031)**	**-**	**-**	
To: Debt instruments at amortised cost		**-**	**(315,031)**	**-**	**-**	
	L&R	**315,031**	**(315,031)**	**-**	**-**	
Financial investments – AFS		**409,003**	**(409,003)**	**-**	**-**	
To: Debt instruments at FVOCI		**-**	(406,256)	**-**	**-**	
To: Equity instruments FVOCI		**-**	(2,747)	**-**	**-**	
	AFS	**409,003**	**(409,003)**	**-**	**-**	
Financial investments – HTM		**336,575**	**(336,575)**	**-**	**-**	
To: Debt instruments at amortised cost		**-**	(336,575)	**-**	**-**	
	HTM	**N/A**	**(336,575)**	**-**	**-**	
Equity instruments at fair value through OCI		**N/A**	**2,747**	**-**	**-**	**FVOCI**
From: Financial investments – AFS		**-**	2,747	**-**	**-**	
		N/A	**2,747**	**-**	**2,747**	**FVOCI**
Debt instruments at fair value through OCI		**N/A**	**406,256**	**-**	**406,256**	**FVOCI**
From: Financial Investments – AFS		**-**	406,256	**-**	**-**	
		N/A	**406,256**	**-**	**406,256**	**FVOCI**
Off balance sheet financial assets		**-**	**-**	(5,077)	**-**	
Deferred tax asset		**-**	**-**	8,931	**-**	
Total financial assets		**5,393,662**	**-**	**(20,841)**	**5,372,821**	

3 TRANSITION DISCLOSURES FROM IAS 39 TO IFRS 9 (CONTINUED)

Retained earnings	Amount in TZS' Million	
	GROUP	**BANK**
Closing balance under IAS 39 (31 December 2017)	**463,424**	**442,494**
Adjustments in relation to adopting IFRS 9		
Loans and advances to banks	**(301)**	**(301)**
Loans and advances to customers	**(21,345)**	**(21,345)**
Other assets	**(1,935)**	**(1,644)**
Financial investments –L&R	**(519)**	**(519)**
From Financial investments - HTM	**(886)**	**(886)**
Off-balance sheet financial assets	**(5,077)**	**(5,077)**
Deferred tax asset	**8,931**	**8,931**
Opening balance under IFRS 9 (1 January 2018)	**442,292**	**421,653**

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9. Further details are disclosed in Note 25.

GROUP	Amount in TZS' Million		
	1 January 2018	**Remeasurement**	**1 January 2018 (re-stated)**
Loans and advances to customers	230,658	21,345	**252,003**
Loans and advances to banks	-	301	**301**
Government securities at amortised costs	-	1,405	**1,405**
Other assets	-	1,935	**1,935**
	230,658	24,986	**255,644**
Financial guarantees	-	4,903	**4,903**
Letters of credit for customers	-	174	**174**
	-	5,077	**5,077**
BANK			
Loans and advances to customers	230,426	21,345	**251,771**
Loans and advances to banks	-	301	**301**
Government securities at amortised costs	-	1,405	**1,405**
Other assets	-	1,644	**1,644**
	230,426	24,695	**255,121**
Financial guarantees	-	4,903	**4,903**
Letters of credit for customers	-	174	**174**
	-	5,077	**5,077**

3 TRANSITION DISCLOSURES FROM IAS 39 TO IFRS 9 (CONTINUED)

Key elements of Classification and measurement

The classification and measurement of financial assets has been changed under IFRS 9 to more closely follow the product characteristics and business intent rather than being primarily influenced by asset class:

- Amortised cost has been used only where products are relatively straight-forward (in this sense meaning the cash-flows represent principal and interest, being the time value of money) and where the business intends to hold the asset to collect those cash-flows.

- For those assets which the Group and Bank intends to sell such assets from time to time (hold to collect and sell) they are measured at fair value through other comprehensive income (similar to available-for-sale under IAS 39).

- For financial assets that are more complex or where the Group and Bank intends to trade them then they are fair valued with movements going to profit and loss.

Forward-looking information: - Forward-looking information has been incorporated into the Group's and Bank impairment methodology calculations which typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.

4 SEGMENT REPORTING

In accordance with IFRS 8, the Group has the following business segments: Treasury, Retail Banking and Microfinance services and Corporate Banking.

Operating segments are reported in a manner consistent with the internal reporting. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

The following segment information has been prepared in accordance with the "management approach" which requires presentation of segments on the basis of the internal reports about components of the entity which are regularly reviewed by the executive committee who are the chief operating decision makers in order to allocate resources to segments and to assess their performance. The agreed allocation basis between segments was not changed during the year.

The following business segments represent the Group's organization structure as reflected in the internal management reporting system. For management purposes, the Group is divided into the following three segments:

i) Corporate Banking

Includes services and products to corporate and high net worth individuals including deposits, letters of credit, guarantee, lending and other products and dealing with financial institutions.

ii) Retail Banking and microfinance

Includes services and products to individuals and small and medium enterprises, including deposits and lending.

iii) Treasury

Includes treasury services, investment management services and asset management activities related to dealing, managing and custody of securities. This segment also includes all other cost centers and profit centers in the head office in areas of technology services and support and currency exchange.

Primary segment information - Business Segments

The following tables presents profit and loss and assets and liability information regarding the Group's and Bank's business segments for the years ended 31 December 2018 and 31 December 2017

4 SEGMENT REPORTING (CONTINUED)

GROUP Year ended 31 December 2018	Corporate Banking TZS' Million	Retail Banking TZS' Million	Treasury TZS' Million	Total TZS' Million
External Operating income				
Interest Income	137,128	281,469	167,691	586,288
Interest Expense	(52,287)	(45,179)	(45,978)	(143,444)
Internal net interest income/ (expense)	40,210	11,553	(51,763)	-
Net interest income	125,051	247,843	69,950	442,844
Loan Impairment charges	(82,431)	(32,892)	-	(115,323)
Provision-Credit cards	(18)	-	-	(18)
Provision-Off balance sheet	(145)	-	-	(145)
Impairment release -Govt Securities	-	-	780	780
Impairment release -Placements	-	-	37	37
Net Interest income after loan	42,457	214,951	70,767	328,175
Fee and Commission income	62,596	110,602	-	173,198
Fee and Commission expense	(6,104)	(13,329)	-	(19,433)
Net Fee and Commission income	56,492	97,273	-	153,765
Foreign exchange Income	18	5	31,303	31,326
Income from security trading	-	-	11,698	11,698
Other operating income	-	3,033	-	3,033
General and Administrative Expense	(44,373)	(109,918)	(21,125)	(175,416)
Depreciation and amortisation	(12,483)	(30,558)	(240)	(43,281)
Employee benefit expenses	(32,531)	(150,230)	(27,422)	(210,183)
Profit Before Tax	9,580	24,556	64,981	99,117
Income Tax Expense	(3,381)	(8,668)	(22,936)	(34,985)
Profit for the year	6,199	15,888	42,045	64,132
Asset and Liability				
Segment assets	1,227,385	1,899,900	1,566,409	4,693,694
Asset Additions	27,750	42,955	35,415	106,120
Unallocated Assets	-	-	-	1,235,573
Total Assets	1,255,135	1,942,855	1,601,824	6,035,387
Segment liabilities	(2,322,435)	(2,374,701)	(430,655)	(5,127,791)
Unallocated liabilities				(133,976)
Total Liabilities	(2,322,435)	(2,374,701)	(430,655)	(5,261,767)

4 SEGMENT REPORTING (CONTINUED)

GROUP				
Year ended 31 December 2017	Corporate Banking TZS' Million	Retail Banking TZS' Million	Treasury TZS' Million	Total TZS' Million
External Operating income				
Interest Income	193,297	233,348	133,699	560,344
Interest Expense	(58,575)	(52,860)	(39,193)	(150,628)
Internal net interest income/ (expense)	16,252	10,284	(26,536)	-
Net interest income	150,974	190,772	67,970	409,716
Loan Impairment charges	(120,754)	(32,620)	-	(153,374)
Net Interest income after loan impairment charges	30,220	158,152	67,970	256,342
Fee and Commission income	56,388	106,907	-	163,295
Fee and Commission expense	(2,880)	(11,117)	-	(13,997)
Net Fee and Commission income	53,508	95,790	-	149,298
Foreign exchange Income	263	166	36,922	37,351
Income from security trading	-	5,561	-	5,561
Other operating income	-	-	4,490	4,490
Other operating expense	(46,744)	(88,630)	(19,945)	(155,319)
Employee benefit expenses	(57,299)	(112,508)	(25,586)	(195,393)
Depreciation and amortisation	(54)	(48,530)	(168)	(48,752)
Profit Before Tax	(20,106)	10,001	63,683	53,578
Income Tax Expense	6,665	(4,562)	(19,469)	(17,366)
Profit for the year	(13,441)	5,439	44,214	36,212
Asset and Liability				
Segment assets	1,669,376	1,224,462	1,369,689	4,263,527
Assets Additions	-	-	-	88,372
Unallocated Assets	-	-	-	1,549,709
Total Assets	1,669,376	1,224,462	1,369,689	5,901,608
Segment liabilities	(2,452,505)	(1,886,772)	(734,601)	(5,073,878)
Unallocated liabilities	-	-	-	(94,270)
Total Liabilities	(2,452,505)	(1,886,772)	(734,601)	(5,168,148)

4 SEGMENT REPORTING (CONTINUED)

BANK Year ended 31 December 2018	Corporate Banking TZS' Million	Retail Banking TZS' Million	Treasury TZS' Million	Total TZS' Million
External Operating income				
Interest income	137,129	268,085	162,217	567,431
Interest expense	(52,288)	(40,363)	(43,153)	(135,804)
Internal net interest income/(expense)	33,215	9,053	(42,268)	-
Net interest income	118,056	236,775	76,796	431,627
Loan Impairment charges	(82,431)	(32,588)	-	(115,019)
Provision-Credit cards	(18)	-	-	(18)
Provision-Off Balance sheet	(145)	-	-	(145)
Impairment release -Govt Securities	-	-	780	780
Impairment release -Placements	-	-	37	37
Net interest income after loan impairment charges	35,462	204,187	77,613	317,262
Fee and commission income	60,714	105,866	-	166,580
Fee and commission expense	(7,622)	(17,726)	-	(25,348)
Net fee and commission income	53,092	88,140	-	141,232
Foreign exchange Income	18	5	30,405	30,428
Income from Security Trading	-	-	11,698	11,698
Other operating income	-	1,178	-	1,178
General and administrative Expense	(41,766)	(99,589)	(19,977)	(161,332)
Employee benefit expenses	(12,296)	(29,319)	(238)	(41,853)
Depreciation and amortisation	(30,829)	(137,974)	(26,019)	(194,822)
Profit before tax	3,681	26,628	73,482	103,791
Income tax expense	(1,214)	(8,775)	(24,214)	(34,203)
Profit for the year	2,467	17,853	49,268	69,588
Asset and liability				
Segment assets	1,246,307	1,815,788	1,529,101	4,591,196
Assets additions	-	-	-	105,101
Unallocated assets	-	-	-	1,214,121
Total assets	1,246,307	1,815,788	1,529,101	5,910,419
Segment liabilities	(2,339,277)	(2,253,727)	(430,656)	(5,023,660)
Unallocated liabilities	-	-	-	(142,290)
Total liabilities	(2,339,277)	(2,253,727)	(430,656)	(5,165,950)

4 SEGMENT REPORTING (CONTINUED)

BANK				
Year ended 31 December 2017	Corporate Banking TZS' Million	Retail Banking TZS' Million	Treasury TZS' Million	Total TZS' Million
External Operating income				
Interest income	172,850	245,969	128,935	547,754
Interest expense	(58,631)	(49,270)	(39,081)	(146,982)
Internal net interest income/ (expense)	17,299	14,997	(32,296)	-
Net interest income	131,518	211,696	57,558	400,772
Loan impairment charges	(120,355)	(31,972)	-	(152,327)
Net interest income after loan impairment charges	11,163	179,724	57,558	248,445
Fee and commission income	57,760	97,068	-	154,828
Fee and commission expense	(2,945)	(30,778)	-	(33,723)
Net fee and commission income	54,815	66,290	-	121,105
Foreign exchange Income	231	201	35,601	36,033
Income from security trading	-	3,300	-	3,300
Other operating income	-	-	4,490	4,490
General and administrative Expense	(47,113)	(76,237)	(19,130)	(159,406)
Employee benefit expenses	(58,359)	(94,112)	(23,840)	(176,311)
Depreciation and amortisation	(55)	(45,412)	(169)	(45,636)
Profit before tax	(39,317)	28,454	54,510	46,947
Income tax expense	13,275	(11,354)	(18,059)	(16,138)
Profit for the year	(26,042)	17,100	36,451	30,809
Asset and liability				
Segment assets	1,720,675	1,124,111	1,342,822	4,187,608
Assets additions	-	-	-	73,786
Unallocated asset	-	-	-	1,544,713
Total assets	1,720,675	1,124,111	1,342,822	5,806,107
Segment liabilities	(2,452,505)	(1,799,005)	(735,558)	(4,987,068)
Unallocated liabilities	-	-	-	(111,004)
Total liabilities	(2,452,505)	(1,799,005)	(735,558)	(5,098,072)

4 SEGMENT REPORTING (CONTINUED)

Geographically, the Group operates in the United Republic of Tanzania and in the Republic of Burundi. The financial performance and financial position of the Group by the geographic segments is as follows:

Year ended 31 December 2018	Tanzania TZS' Million	Burundi TZS' Million	Consolidation TZS' Million	Total TZS' Million
External operating income				
Interest income	567,431	19,800	(943)	586,288
Interest expense	(135,804)	(8,583)	943	(143,444)
Net interest income	431,627	11,217	-	442,844
Loan Impairment charges	(115,019)	(304)	-	(115,323)
Provision-Credit cards	(18)	-	-	(18)
Provision-Off Balance sheet	(145)	-	-	(145)
Impairment release -Govt Securities	780	-	-	780
Impairment release -Placements	37	-	-	37
Net interest income after loan impairment charges	317,262	10,913	-	328,175
Fee and commission income	172,082	1,116	-	173,198
Fee and commission expense	(19,272)	(161)	-	(19,433)
Net Fee and commission income	152,810	955	-	153,765
Foreign exchange Income	30,428	898	-	31,326
Income from security trading	11,698	-	-	11,698
Other operating income	3,033	-	-	3,033
General and administrative expense	(170,766)	(4,650)	-	(175,416)
Employee benefit expenses	(42,336)	(945)	-	(43,281)
Depreciation and amortisation	(205,283)	(4,900)	-	(210,183)
Profit before tax	96,846	2,271	-	99,117
Income tax expense	(34,679)	(306)	-	(34,985)
Profit for the year	62,167	1,965	-	64,132
Asset and liability				
Segment assets	5,834,719	205,833	(111,286)	5,929,267
Assets additions	105,940	180	-	106,120
Total assets	5,940,659	206,013	(111,286)	6,035,387
Segment liabilities	(4,990,617)	(182,275)	(88,875)	(5,261,767)
Total liabilities	(4,990,617)	(182,275)	(88,875)	(5,261,767)

4 SEGMENT REPORTING (CONTINUED)

Year ended 31 December 2017	Tanzania TZS' Million	Burundi TZS' Million	Consolidation TZS' Million	Total TZS' Million
External operating income				
Interest income	547,754	15,063	(2,473)	560,344
Interest expense	(146,982)	(6,119)	2,473	(150,628)
Net interest income	400,772	8,944	-	409,716
Loan impairment charges	(152,327)	(1,047)	-	(153,374)
Net interest income after loan impairment charges	248,445	7,897	-	256,342
Fee and commission income	174,748	3,474	-	178,222
Fee and commission expense	(13,887)	(110)	-	(13,997)
Net Fee and commission income	160,861	3,364	-	164,225
Net foreign exchange Income	36,033	1,318	-	37,351
Other operating income	4,490	-	-	4,490
Income from security trading	4,494	1,067	-	5,561
General and administrative expense	(165,959)	(4,287)	-	(170,246)
Employee benefit expenses	(190,861)	(4,532)	-	(195,393)
Depreciation and amortisation	(47,801)	(951)	-	(48,752)
Profit before tax	49,702	3,876	-	53,578
Income tax expense	(17,036)	(330)	-	(17,366)
Profit for the year	32,666	3,546	-	36,212
Asset and liability				
Segment assets	5,754,339	139,872	(80,975)	5,813,236
Assets additions	78,867	9,505	-	88,372
Total assets	5,833,206	149,377	(80,975)	5,901,608
Segment liabilities	(5,101,428)	(125,284)	58,564	(5,168,148)
Total liabilities	(5,101,428)	(125,284)	58,564	(5,168,148)

4 SEGMENT REPORTING (CONTINUED)

Year ended 31 December 2018	Tanzania TZS'Million	Burundi TZS'Million	Total TZS'Million
Net cash from operating activities	**26,242**	**(42,200)**	**(15,958)**
Net cash used in investing activities	**(105,708)**	**(180)**	**(105,888)**
Net cash used in financing activities	**(297,987)**	**38,230**	**(259,757)**
Net increase in cash and cash equivalents	**(377,453)**	**(4,150)**	**(381,603)**
Cash and cash equivalents at 1 January	**1,045,064**	**23,428**	**1,068,492**
Effect of exchange rate change in cash and cash equivalent	**16,578**	**184**	**16,762**
Cash and cash equivalent at 31 December	**684,189**	**19,462**	**703,651**
Year ended 31 December 2017			
Net cash from operating activities	174,223	26,776	201,099
Net cash used in investing activities	(78,769)	(9,505)	(88,274)
Net cash used in financing activities	224,936	(13,328)	211,608
Net increase in cash and cash equivalents	320,490	3,943	324,433
Cash and cash equivalents at 1 January	706,638	19,946	726,584
Effect of exchange rate change in cash and cash equivalent	17,935	(460)	17,475
Cash and cash equivalent at 31 December	1,045,063	23,429	1,068,492

In computing the above segment information;

- Interest Income, Interest Expense and Loan Impairment charges segmentation computation has been changed from systematic allocation basis using agreed internal allocation basis to specific identification from individual segment;
- Expenses have been specifically identified with individual segment or using agreed internal allocation. Retail (branch) overhead cost has been transferred to Corporate and Treasury due to Retail segment support to corporate and treasury business through branch network whose costs are assumed to be shared at 5 and 10 percent of retail (Administrative and staff overhead) between treasury and corporate segment respectively.
- Assets and liabilities have been either specifically identified with individual segment or allocated to segment on a systematic basis using an agreed internal allocation basis. Cash, Bank Balances, Government Securities and amounts due to other banks have been allocated to Treasury; Loans and advances and Deposits have been allocated to Corporate and Retail Segments.
- Unallocated assets includes, Sundry debtors, bills receivables, Bank card stock, advance payment for capital expenditures, prepayments, receivables from mobile phone companies, tax related accounts and due from related party. Unallocated liabilities includes; bills payables, dividends payable, accrued expenses, deferred income, sundry creditors, credit outstanding, unclaimed customers balances and due to related party.
- Inter-segment transactions have been generally based on transfer pricing measures as determined by the Management.

There were no revenues from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

Currently it is not possible to segregate revenues from external customers for each product and service as the information is not available.

5 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. As part of its governance structure, the Board of Directors has embedded a comprehensive risk management framework for identifying, measuring, controlling (setting risk mitigations) and monitoring of the Group's risks. The policies are integrated in the overall management information systems of the Group and supplemented by a management reporting structure.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered, and emerging best practice.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees / stakeholders understand their roles and obligations. The Board's Credit Committee, Governance, Human Resource, Risk Management Committee, and Audit Committee are responsible for monitoring compliance with the Group's risk management policies and procedures, and review of the adequacy of risk management framework in relation to the risks faced by the Group. These committees are assisted in these functions by various management committees which undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

The most important type of risks are:

- Credit risk
- Liquidity risk
- Market risk

The notes below provide detailed information on each of the above risks and the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

5.1 Credit risk

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

5.1.1 Credit risk measurement

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Group and Bank reflect two components (i) the 'probability of default' by the client or counterparty on its contractual obligations and (ii) current exposures to the counterparty and its likely future development, from which the Group derives the 'exposure at default'. These credit risk measurements, which reflect expected loss (the 'expected credit loss model'), are embedded in the daily operational management and are in line with IFRS 9.

The Group uses reasonable and supportable forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. External and internal information is used to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The key drivers of credit risks and credit losses for each portfolio of financial instruments were identified and documented, and using a statistical analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses.

Group's internal ratings scale

The Group and Bank has its internal credit rating tools tailored in accordance with the Bank of Tanzania (BoT) guidelines. Customers of the Bank are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

Group's rating	Description of the grade	Number of days outstanding
1	Current	0-30
2	Especially Mentioned	31-90
3	Sub-standard	91-180
4	Doubtful	181-360
5	Loss	361-Above

5.1.1.1 Significant increase in credit risk

The Group monitors all financial assets that are subject to assess whether there has been a significant increase in credit risk since initial recognition. When there is a significant increase in credit risk (SICR) since initial recognition is identified, a financial asset is moved from stage 1 to 'Stage 2' but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

The table below summarises the 'three-stage' model for impairment based on changes in credit quality since initial recognition

	Stage 1 (performing loans)	Stage 2 (under performing loans)	Stage 3 (non-performing loans)
Credit risk	Financial instruments with low credit risk at the reporting date or which have not had SICR	Financial instruments which have had a significant increase in credit risk since initial recognition but do not have objective evidence of a credit loss event.	Financial assets that have objective evidence of impairment at the reporting date (essentially same as incurred loss of IAS 39).
Recognition of expected credit losses	12 Month expected credit losses are recognized.	Lifetime expected credit losses are recognised.	Lifetime expected credit losses are recognized.
Recognition of interest	Interest revenue is calculated on the gross carrying amount of the asset.	Interest revenue is calculated on the gross carrying amount of the asset.	Interest revenue is calculated based on the amortized cost net of the loss provision, (net carrying amount).

The Bank considers a debt instrument assets, loan commitments and financial guarantee contracts to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Loans and advances to customers

i) Quantitative criteria

Based on quantitative review for the purpose of the expected credit losses calculations, loans and advances, loan commitments and financial guarantees shall be classified as follows;

1. **0 – 30 days to be classified as Stage 1;** Loans and advances, loan commitments and financial guarantees which are performing acording to contracted terms and conditions with low credit risk at the reporting date with 12-month expected credit losses being recognised.

2. **31 – 90 days to be classified as Stage 2;** Loans and advances, loan commitments and financial guarantees which have had significant increase in credit risk since initial recognition but do not have objective evidence of credit loss event with lifetime expected credit losses being recognised.

3. **91 days or more to be classified as Stage 3;**

   Loans and advances, loan commitments and financial guarantees which have objective evidence of impairment at the reporting date with lifetime expected credit losses being recognized (credit-impaired assets).

ii) Qualitative criteria

For Personal Loans, if the borrower meets one or more of the following criteria:

- Short-term forbearance or restructuring.
- Adverse changes of external data from credit references agencies.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

For Corporate and SME portfolios, if the borrower is on the Watch list and/or the instrument meets one or more of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates.
- Actual or expected forbearance or restructuring.
- Actual or expected significant adverse change in operating results of the borrower.
- Significant change in collateral value which is expected to increase risk of default.
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans.
- Adverse changes of external data from credit references agencies
- Significant adversely changes in political, regulatory and technological environment of the borrowers or in its business activities.

Balances due from other banks

Below are qualitative factors considered as indicators of significant increase in credit risk;

- Significant counterparty management restructuring due to continues bad performance of the company.
- Significant adverse change in the regulatory, economic or technology of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.
- Significant reductions in financial support from a parent company that resulted to significant adverse change of operating results of the counterparty.

Government securities

Below are qualitative factors considered as indicators of significant increase in credit risk;

- The Government has received a low credit rating i.e. "C" by the international rating agencies; and
- The Government has initiated debt restructuring process.

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a Grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a Group are homogeneous. The characteristics used to determine Grouping are product type, Industry, collateral type e.t.c. The appropriateness of Groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

Credit quality and IFRS 9 staging assessment of significant borrowers with credit facilities above TZS 500 million are assessed individually based on both qualitative and quantitative criteria. For borrowers with balances less than TZS 500 million, assessment is limited to quantitative criterias except for any known qualitative criterias.

5.1.1.2 Definition of default and credit-impaired assets

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

Loans and advances to customers

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

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

- the borrower is in long-term forbearance
- the borrower is deceased
- the borrower is insolvent
- the borrower is in breach of financial covenant(s)
- an active market for that financial asset has disappeared because of financial difficulties
- concessions have been made by the lender relating to the borrower's financial difficulty
- it is becoming probable that the borrower will enter Bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

Balances due from other banks

For balances from other banks, below are considered as default when they occur

- When repayment of interest and principal are not done on time as per contractual schedules to the extent of 30 days delay
- When a counterparty is taken under management by Statutory Manager
- When a counterparty licence has been revoked by the Central bank
- When the counterparty is declared bankrupt by responsible bodies like Registration, Insolvency or court.

Government securities

For Government securities, below are considered as default when they occur;

- When repayments of interest and principal are not done on time as per contractual schedules and that such delays considered are not those caused by operational issues
- When the government is downgraded to below rating "C" status by international rating agency such as Moody's, S & P, or Fitch
- When the Government is declared default/ bankrupt by responsible agencies i.e. World Bank, IMF etc.

The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and loss given default (LGD) throughout the Group's expected loss calculations.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.1 Credit risk measurement (continued)

5.1.1.3 Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument.
Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's economics team on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. For unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Group's economics team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators.

This determines whether the whole financial instrument is in stage 1, stage 2, or stage 3 and hence whether 12-month or lifetime ECL should be recorded.

Following this assessment, the Group measures ECL as either a probability weighted 12 month ECL (stage 1), or a probability weighted lifetime ECL (stages 2 and 3). These probability-weighted ECLs are determined by running. Each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs). As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolio to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

5.1.1.4 Economic variable assumptions

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

Domestic GDP	2019	2020	2021
Base	5.20	5.10	5.50
Upside	5.46	5.56	5.78
Downside	4.94	4.85	5.23

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

Domestic GDP	2018	2019	2020
Base	5.5	5.2	5.1
Upside	5.78	5.46	5.56
Downside	5.22	4.94	4.85

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

Migration from stage 3 to stage 2, the bank considers criterial for upgrade of credit accommodation as follows;

- in the case of overdraft facilities, the accounts has satisfactorily performed for aminimun period ot two consecutive quarters; and
- in the case of term loans, the obligor has timely paid four consecutive instalments.

On the other hand, credit exposures may migrate from stage 2 to stage 1 when there is a significant improvement of the credit exposure. The following considerations is being be used in determining whether an exposure shoud shift backward from stage 2 to stage 1;

- Up to date with payments, that is, all outstanding payments on the credit facility are made on time and no payments are in arrears; and
- Improvement of the quantitative factors factors that caused significant increase of the credit risk.

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

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.2 Risk limit control and mitigation policies

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Group and Bank employ a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group and Bank implement guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

In order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans.

Documentary and commercial letters of credit – which are written undertakings on behalf of a customer authorising a third party to draw drafts on a Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group and Bank are potentially exposed to loss in amounts equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group and Bank monitor the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(c) Lending limits (for derivatives and settlement risk)

The Group and Bank maintain strict control limits on net derivative positions (i.e difference between purchases and sales contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group and Bank (i.e assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits have been established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

5.1.3 Impairment and provisioning policies

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

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

Note 2 (k) provides more detail of how the expected credit loss allowance is measured.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

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

Financial instruments whose carrying amounts represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are shown below:-

Group	Amounts are in TZS' Million			
Group Credit exposures	**2018**	**%**	**2017**	**%**
On Balance sheet item:				
Balances with Central Bank	**389,567**	**7**	843,234	15
Loans and advances to banks	**345,698**	**6**	265,142	5
Government securities	**1,238,083**	**21**	1,104,547	18
Corporate Bonds	**3,516**	**0**	-	-
Loans and advances to customers	**3,126,733**	**53**	2,893,838	50
Other assets*	**52,519**	**1**	74,383	1
	5,156,116	**88**	5,181,144	89
Off balance sheet items:				
Guarantees and indemnities	**452,211**	**8**	281,679	5
Letters of credit	**146,779**	**3**	178,882	3
Commitments to extend credit	**97,972**	**1**	172,762	3
	696,962	**12**	633,323	11
	5,853,078	**100**	5,814,467	100

Bank Bank Credit exposures				
On Balance sheet item:				
Balances with Central Bank	**382,268**	**7**	826,356	15
Loans and advances to banks	**362,353**	**6**	284,961	5
Government securities	**1,181,132**	**21**	1,057,862	18
Corporate Bonds	**3,516**	**0**	-	-
Loans and advances to customers	**3,061,544**	**53**	2,844,786	50
Other assets*	**51,329**	**1**	72,320	1
	5,042,142	**88**	5,086,285	89
Off balance sheet items:				
Guarantees and indemnities	**450,337**	**8**	281,436	5
Letters of credit	**146,779**	**3**	178,882	3
Commitments to extend credit	**97,972**	**1**	166,614	3
	695,088	**12**	626,932	11
	5,737,230	**100**	5,713,217	100

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

The Group loans and advances to customers and off balance sheet items comprise of 65% (2017: 61%) of the total credit exposure. The directors are confident in the ability to continue to minimize the credit risk to the Group and Bank.

Loans and advances to banks are to reputable banks operating internationally or in Tanzania and East Africa, and generally no securities held. The list of these banks and their nostro and placement accounts balances are shown below;

List of Loans and advances to banks 2018

			2018	2017
	Name of Bank	**Country**	**Balance TZS' Million**	Balance TZS' Million
1	CitiBank	USA	**123,153**	80,815
2	DZ Bank	Germany	**55,558**	42,724
3	StanChart London	UK	**23,964**	-
4	Lloyds Bank	UK	**14,898**	36,024
5	Stanbic SA	SA	**11,502**	-
6	MCB Mauritius	Mauritius	**11,493**	-
7	TIB Bank	Tanzania	**-**	30,612
8	CommerzBank	Germany	**-**	16,132
9	Others		**121,785**	78,654
			362,353	284,961

While collateral is an important mitigant to credit risk, the Group's underwriting policy ensures that loans are strictly granted on a going concern basis with adequate demonstration of repayment capacity. Other than exposures that are unsecured, all other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery, amongst other.

Collateral repossessed

It is the Group's policy to dispose off repossessed properties on the open market, at fair market value. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy or foreclose repossessed properties for its own business use. As at the year end, the Bank had repossessed collateral with fair value amounting TZS 16.6 billion with intention to sell within a year.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances

Loans and advances are summarised as follows:

GROUP	Stage 1 TZS' Million	Stage 2 TZS' Million	Stage 3 TZS' Million	Total 2018 TZS' Million	Total 2017 TZS' Million
Internal rating grade					
Current	3,027,465	-	-	3,027,465	2,685,999
Especially mentioned	-	63,982	-	63,982	45,063
Sub-standard	-	-	37,291	37,291	154,291
Doubtful	-	-	20,283	20,283	89,287
Loss	-	-	164,357	164,357	149,856
Gross Carrying amount	3,027,465	63,982	221,931	3,313,378	3,124,496
ECL allowance	(59,001)	(6,761)	(120,883)	(186,645)	(230,658)
Net Loans and advances to customers	2,968,464	57,221	101,048	3,126,733	2,893,838

The total impairment provision for loans and advances represents both individually impaired loans and loans assessed on a portfolio basis.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for the Group is, as follows:

Loans and advances to customers at amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	2,624,964	49,555	449,977	3,124,496
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	2,624,964	49,555	449,977	3,124,496
Changes in the gross carrying amount				
– Transfer to stage 1	80,755	(24,684)	(56,071)	-
– Transfer to stage 2	(54,370)	63,992	(9,622)	-
– Transfer to stage 3	(84,392)	(8,626)	93,018	-
New financial assets originated or purchased	911,177	8,960	14,915	935,052
Financial assets that have been derecognized	(430,830)	(21,569)	(121,068)	(573,467)
Write-offs	(19,839)	(3,646)	(149,218)	(172,703)
Gross carrying amount as at 31 December 2018	3,027,465	63,982	221,931	3,313,378
Loss allowance as at 31 December 2018	59,001	6,761	120,883	186,645

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for the Group is, as follows

GROUP				
Loss allowances -Loans and advances to customersat amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Loss allowance as at 31 December 2017	16,354	611	213,693	230,658
Restatement of the prior year	14,355	6,702	288	21,345
Loss allowance as at 1 January 2018	30,709	7,313	213,981	252,003
Changes in the loss allowance				
– Transfer to stage 1	24,524	(4,598)	(19,926)	-
– Transfer to stage 2	(989)	1,668	(679)	-
– Transfer to stage 3	(1,774)	(921)	2,695	-
New financial assets originated or purchased	18,944	2,285	4,603	25,832
Financial assets that have been derecognised	(6,935)	(1,597)	(104,588)	(113,120)
Changes in models/risk parameters	16,146	(1,239)	7,105	22,012
Foreign exchange and other movements	(21,624)	3,850	17,692	(82)
Loss allowance as at 31 December 2018	59,001	6,761	120,883	186,645

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

The movements in provision for impairment losses on loans and advances for the Bank are as follows:

BANK	Stage 1 TZS' Million	Stage 2 TZS' Million	Stage 3 TZS' Million	Total 2018 TZS' Million	Total 2017 TZS' Million
Internal rating grade					
Current	2,963,711	-	-	2,963,711	2,637,236
Especially mentioned	-	62,839	-	62,839	44,681
Sub-standard	-	-	37,163	37,163	154,226
Doubtful	-	-	20,155	20,155	89,236
Loss	-	-	164,101	164,101	149,833
Gross Carrying amount	2,963,711	62,839	221,419	3,247,969	3,075,212
ECL allowance	(58,824)	(6,752)	(120,849)	(186,425)	(230,426)
Net Loans and advances to customers	2,904,887	56,087	100,570	3,061,544	2,844,786

The total impairment provision for loans and advances represents both individually impaired loans and loans assessed on a portfolio basis.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for the Bank is, as follows:

BANK Loans and advances to customers at amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	2,576,224	49,148	449,840	3,075,212
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	2,576,224	49,148	449,840	3,075,212
Changes in the gross carrying amount				
– Transfer to stage 1	80,584	(24,513)	(56,071)	-
– Transfer to stage 2	(53,419)	63,041	(9,622)	-
– Transfer to stage 3	(84,100)	(8,559)	92,659	-
New financial assets originated or purchased	832,067	6,194	107,903	946,164
Financial assets that have been derecognized	(367,806)	(18,826)	(214,072)	(600,704)
Write-offs	(19,839)	(3,646)	(149,218)	(172,703)
Gross carrying amount as at 31 December 2018	2,963,711	62,839	221,419	3,247,969
Loss allowance as at 31 December 2018	58,824	6,752	120,849	186,425

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for the Bank is, as follows:

BANK Loss allowances Loans and advances to customers at amotised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Loss allowance as at 31 December 2017	16,167	600	213,659	230,426
Restatement of the prior year	14,353	6,702	290	21,345
Loss allowance as at 1 January 2018	30,520	7,302	213,949	251,771
Changes in the loss allowance				
– Transfer to stage 1	24,519	(4,592)	(19,927)	-
– Transfer to stage 2	(987)	1,666	(679)	-
– Transfer to stage 3	(1,775)	(919)	2,694	-
New financial assets originated or purchased	19,026	2,284	4,597	25,907
Financial assets that have been derecognised	(6,918)	(1,594)	(104,557)	(113,069)
Changes in models/risk parameters	16,148	(1,240)	7,077	21,985
Foreign exchange and other moments	(21,709)	3,845	17,695	(169)
Loss allowance as at 31 December 2018	58,824	6,752	120,849	186,425

Write-offs

The Group may write-off financial assets that are still subject to enforcement activity while the Bank still seeks to recover amounts it is legally owed in full. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was TZS 107,219 million.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Group focused more on the business with large corporate enterprises or banks with good credit rating or retail customers providing sufficient collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is tested after every three years.

Analysis of the impairment charge to profit or loss during the period is as follows:

GROUP	Gross exposure TZS' Million	Impairment allowance TZS' Million	Carrying amount TZS' Million	Fair Value of collateral held TZS' Million
Corporate	1,357,961	(100,305)	1,257,656	64,128,915
SME	416,241	(7,633)	408,608	759,303
Microfinance	68,054	(13,162)	54,892	13,805
Mortgage	40,604	(235)	40,369	47,166
Personal loans	1,430,518	(65,310)	1,365,208	51,224
Total	3,313,378	(186,645)	3,126,733	65,000,413

BANK				
Corporate	1,350,755	(100,207)	1,250,548	64,115,303
SME	414,214	(7,633)	406,581	756,668
Microfinance	61,085	(13,155)	47,930	13,451
Mortgage	40,601	(234)	40,367	47,166
Personal loans	1,381,314	(65,196)	1,316,118	49,550
Total	3,247,969	(186,425)	3,061,544	64,982,138

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

Analysis of collateral held on Credit-impaired assets (Stage 3) as at year end is, as follows:

GROUP 31 December 2018	Gross exposure TZS' Million	Impairment allowance TZS' Million	Carrying amount TZS' Million	Fair Value of collateral held TZS' Million
Credit-impaired assets				
Corporate	198,410	(88,908)	109,502	5,023
SME	28,311	(3,278)	25,034	34,722
Microfinance	12,490	(11,534)	956	1,262
Mortgage	628	(58)	570	1,591
Personal loans	24,384	(15,108)	9,276	787
Staff loans	3,281	(2,013)	1,268	376
Total	267,504	(120,899)	146,605	43,761

BANK	TZS' Million	TZS' Million	TZS' Million	TZS' Million
Credit-impaired assets				
Corporate	198,410	(88,908)	109,502	5,023
SME	28,031	(3,277)	24,754	34,722
Microfinance	12,490	(11,534)	956	1,262
Mortgage	628	(58)	570	1,591
Personal loans	24,207	(15,058)	9,149	736
Staff loans	3,281	(2,013)	1,268	376
Total	267,047	(120,848)	146,199	43,710

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

Corporate lending

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

GROUP				
Loans and avances to cutomers at amotised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	1,197,757	12,340	355,969	1,566,066
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	1,197,757	12,340	355,969	1,566,066
Changes in the gross carrying amount				
– Transfer to stage 1	44,181	(5,363)	(38,818)	-
– Transfer to stage 2	(34,588)	41,418	(6,830)	-
– Transfer to stage 3	(20,264)	(2,926)	23,190	-
New financial assets originated or purchased	219,228	1,371	5,765	226,364
Financial assets that have been derecognized	(219,824)	(10,439)	(79,279)	(309,542)
Write-offs	(17,678)	(25)	(107,224)	(124,927)
Gross carrying amount as at 31 December 2018	1,168,812	36,376	152,773	1,357,961
Loss allowance as at 31 December 2018	11,464	163	88,678	100,305

Loss allowance as at 31 December 2017	8,578	46	158,526	167,150
Restatement of the prior year	5,437	627	8,559	14,623
Loss allowance as at 1 January 2018	14,015	673	167,085	181,773
Changes in the loss allowance				
– Transfer to stage 1	11,123	(42)	(11,081)	-
– Transfer to stage 2	(771)	771	-	-
– Transfer to stage 3	(22)	(389)	411	-
New financial assets originated or purchased	2,124	5	1,035	3,164
Financial assets that have been derecognised	(5,324)	(242)	(76,604)	(82,170)
Changes in models/risk parameters	562	(273)	(2,838)	(2,549)
Foreign exchange and other movements	(10,243)	(340)	10,670	87
Loss allowance as at 31 December 2018	11,464	163	88,678	100,305

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

SME lending

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to SME lending is, as follows:

GROUP Loans and advances to customers at amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	328,796	11,666	44,212	384,674
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	328,796	11,666	44,212	384,674
Changes in the gross carrying amount				
– Transfer to stage 1	12,199	(3,153)	(9,046)	-
– Transfer to stage 2	(9,511)	11,543	(2,032)	-
– Transfer to stage 3	(14,658)	(2,751)	17,409	-
New financial assets originated or purchased	150,460	2,802	4,495	157,757
Financial assets that have been dereconized	(91,606)	(7,152)	(12,927)	(111,685)
Write-offs	(745)	(49)	(13,711)	(14,505)
Gross carrying amount as at 31 December 2018	374,935	12,906	28,400	416,241
Loss allowance as at 31 December 2018	3,189	917	3,527	7,633

Loss allowance as at 31 December 2017	1,045	391	8,688	10,124
Restatement of the prior year	(129)	(186)	(65)	(380)
Loss allowance as at 1 January 2018	916	205	8,623	9,744
Changes in the loss allowance				
– Transfer to stage 1	3,311	(124)	(3,187)	-
– Transfer to stage 2	(28)	152	(124)	-
– Transfer to stage 3	(83)	(1)	84	-
New financial assets originated or purchased	1,026	342	941	2,309
Financial assets that have been derecognised	(254)	(64)	(2,808)	(3,126)
Changes in models/risk parameters	1,500	434	(3,228)	(1,294)
Foreign exchange and other movements	(3,199)	(27)	3,226	-
Loss allowance as at 31 December 2018	3,189	917	3,527	7,633

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

Microfinance lending

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Microfinance lending is, as follows:

GROUP				
Loans and advances to customers at amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	98,306	3,646	9,626	111,578
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	98,306	3,646	9,626	111,578
Changes in the gross carrying amount	-	-	-	-
– Transfer to stage 1	774	(545)	(229)	-
– Transfer to stage 2	(777)	777	-	-
– Transfer to stage 3	(31,816)	(882)	32,698	-
New financial assets originated or purchased	12,406	804	534	13,744
Financial assets that have been derecognized	(24,302)	(427)	(21,006)	(45,735)
Write-offs	(447)	(1,989)	(9,097)	(11,533)
Gross carrying amount as at 31 December 2018	54,144	1,384	12,526	68,054
Loss allowance as at 31 December 2018	1,354	268	11,540	13,162

Loss allowance as at 31 December 2017	1,184	44	9,497	10,725
Restatement of the prior year	1,223	724	(793)	1,154
Loss allowance as at 1 January 2018	2,407	768	8,704	11,879
Changes in the loss allowance				
– Transfer to stage 1	258	(120)	(138)	-
– Transfer to stage 2	(28)	28	-	-
– Transfer to stage 3	(1,401)	(101)	1,502	-
New financial assets originated or purchased	61	2	-	63
Financial assets that have been derecognised	(547)	(547)	(8,500)	(9,594)
Changes in models/risk parameters	(567)	45	11,336	10,814
Foreign exchange and other movements	1,171	193	(1,364)	-
Loss allowance as at 31 December 2018	1,354	268	11,540	13,162

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

Mortgage lending

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to mortgage lending is, as follows:

GROUP				
Loans and advances to customers at amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	36,056	978	1,595	38,629
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January2018	36,056	978	1,595	38,629
Changes in the gross carrying amount				
– Transfer to stage 1	1,720	(823)	(897)	-
– Transfer to stage 2	(932)	966	(34)	-
– Transfer to stage 3	(189)	(154)	343	-
New financial assets originated or purchased	9,850	-	-	9,850
Financial assets that have been derecognized	(7,455)	(43)	(335)	(7,833)
Write-offs	-	-	(42)	(42)
Gross carrying amount as at 31 December 2018	39,050	924	630	40,604
Loss allowance as at 31 December 2018	153	23	59	235
Loss allowance as at 31 December 2017	199	5	165	369
Restatement of the prior year	(159)	26	96	(37)
Loss allowance as at 1 January 2018	40	31	261	332
Changes in the loss allowance				
– Transfer to stage 1	198	(28)	(170)	-
– Transfer to stage 2	(5)	5	-	-
– Transfer to stage 3	-	(3)	3	-
New financial assets originated or purchased	88	-	-	88
Financial assets that have been derecognised	(21)	-	(36)	(57)
Changes in models/risk parameters	45	(8)	(165)	(128)
Foreign exchange and other movements	(192)	26	166	-
Loss allowance as at 31 December 2018	153	23	59	235

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

Personal lending

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to personal lending is, as follows:

GROUP Loans and advances to customers at amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	964,049	20,925	38,575	1,023,549
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	964,049	20,925	38,575	1,023,549
Changes in the gross carrying amount				
– Transfer to stage 1	21,881	(14,800)	(7,081)	-
– Transfer to stage 2	(8,562)	9,288	(726)	-
– Transfer to stage 3	(17,465)	(1,913)	19,378	-
New financial assets originated or purchased	519,233	3,983	4,121	527,337
Financial assets that have been derecognized	(87,643)	(3,508)	(7,521)	(98,672)
Write-offs	(969)	(1,583)	(19,144)	(21,696)
Gross carrying amount as at 31 December 2018	1,390,524	12,392	27,602	1,430,518
Loss allowance as at 31 December 2018	42,841	5,390	17,079	65,310

Loss allowance as at 31 December 2017	5,348	125	36,817	42,290
Restatement of the prior year	7,983	5,511	(7,509)	5,985
Loss allowance as at 1 January 2018	13,331	5,636	29,308	48,275
Changes in the loss allowance				
– Transfer to stage 1	9,634	(4,284)	(5,350)	-
– Transfer to stage 2	(157)	712	(555)	-
– Transfer to stage 3	(268)	(427)	695	-
New financial assets originated or purchased	15,645	1,936	2,627	20,208
Financial assets that have been derecognised	(789)	(744)	(16,640)	(18,173)
Changes in models/risk parameters	14,606	(1,437)	2,000	15,169
Foreign exchange and other movements	(9,161)	3,998	4,994	(169)
Loss allowance as at 31 December 2018	42,841	5,390	17,079	65,310

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

Corporate lending

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Corporate lending is, as follows:

BANK				
Loans and advances to customers at amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	1,190,226	12,340	355,969	1,558,535
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	1,190,226	12,340	355,969	1,558,535
Changes in the gross carrying amount				
– Transfer to stage 1	44,181	(5,363)	(38,818)	-
– Transfer to stage 2	(34,286)	41,116	(6,830)	-
– Transfer to stage 3	(20,264)	(2,926)	23,190	-
New financial assets originated or purchased	200,930	1,371	75,055	277,356
Financial assets that have been derecognized	(201,321)	(10,319)	(148,569)	(360,209)
Write-offs	(17,678)	(25)	(107,224)	(124,927)
Gross carrying amount as at 31 December 2018	1,161,788	36,194	152,773	1,350,755
Loss allowance as at 31 December 2018	11,366	163	88,678	100,207

Loss allowance as at 31 December 2017	8,570	46	158,526	167,142
Restatement of the prior year	5,437	627	8,559	14,623
Loss allowance as at 1 January 2018	14,007	673	167,085	181,765
Changes in the loss allowance				
– Transfer to stage 1	11,123	(42)	(11,081)	-
– Transfer to stage 2	(771)	771	-	-
– Transfer to stage 3	(22)	(389)	411	-
New financial assets originated or purchased	2,124	4	1,035	3,163
Financial assets that have been derecognised	(5,320)	(242)	(76,604)	(82,166)
Changes in models/risk parameters	556	(273)	(2,838)	(2,555)
Foreign exchange and other movements	(10,331)	(339)	10,670	-
Loss allowance as at 31 December 2018	11,366	163	88,678	100,207

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

SME lending

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to SME lending is, as follows:

BANK Loans and advances to customers at amortise cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	326,480	11,645	44,132	382,257
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	326,480	11,645	44,132	382,257
Changes in the gross carrying amount				
– Transfer to stage 1	12,199	(3,153)	(9,046)	-
– Transfer to stage 2	(9,290)	11,322	(2,032)	-
– Transfer to stage 3	(14,431)	(2,751)	17,182	-
New financial assets originated or purchased	141,232	224	13,857	155,313
Financial assets that have been derecognized	(81,832)	(4,752)	(22,267)	(108,851)
Write-offs	(745)	(49)	(13,711)	(14,505)
Gross carrying amount as at 31 December 2018	373,613	12,486	28,115	414,214
Loss allowance as at 31 December 2018	3,187	919	3,527	7,633

Loss allowance as at 31 December 2017	1,045	391	8,688	10,124
Restatement of the prior year	(130)	(186)	(65)	(381)
Loss allowance as at 1 January 2018	915	205	8,623	9,743
Changes in the loss allowance				
– Transfer to stage 1	3,311	(124)	(3,187)	-
– Transfer to stage 2	(27)	151	(124)	-
– Transfer to stage 3	(84)	(1)	85	-
New financial assets originated or purchased	1,026	344	940	2,310
Financial assets that have been derecognised	(254)	(64)	(2,808)	(3,126)
Changes in models/risk parameters	1,500	434	(3,228)	(1,294)
Foreign exchange and other movements	(3,200)	(26)	3,226	-
Loss allowance as at 31 December 2018	3,187	919	3,527	7,633

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

Microfinance lending

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Microfinance lending is, as follows:

BANK Loans and advances to customers at amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	96,989	3,646	9,626	110,261
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	96,989	3,646	9,626	110,261
Changes in the gross carrying amount	-	-	-	-
– Transfer to stage 1	774	(545)	(229)	-
– Transfer to stage 2	(777)	777	-	-
– Transfer to stage 3	(31,816)	(882)	32,698	-
New financial assets originated or purchased	6,205	803	534	7,542
Financial assets that have been derecognized	(23,698)	(444)	(21,043)	(45,185)
Write-offs	(447)	(1,989)	(9,097)	(11,533)
Gross carrying amount as at 31 December 2018	47,230	1,366	12,489	61,085
Loss allowance as at 31 December 2018	1,354	267	11,534	13,155

Loss allowance as at 31 December 2017	1,184	44	9,497	10,725
Restatement of the prior year	1,223	724	(794)	1,153
Loss allowance as at 1 January 2018	2,407	768	8,703	11,878
Changes in the loss allowance				
– Transfer to stage 1	258	(120)	(138)	-
– Transfer to stage 2	(28)	28	-	-
– Transfer to stage 3	(1,401)	(101)	1,502	-
New financial assets originated or purchased	61	1	-	62
Financial assets that have been derecognised	(547)	(547)	(8,500)	(9,574)
Changes in models/risk parameters	(567)	45	11,331	10,809
Foreign exchange and other movements	1,171	193	(1,364)	-
Loss allowance as at 31 December 2018	1,354	267	11,534	13,155

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

Mortgage lending

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to mortgage lending is, as follows:

BANK Loans and advances to customers at amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	36,056	978	1,595	38,629
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	36,056	978	1,595	38,629
Changes in the gross carrying amount				
– Transfer to stage 1	1,720	(823)	(897)	-
– Transfer to stage 2	(932)	966	(34)	-
– Transfer to stage 3	(189)	(154)	343	-
New financial assets originated or purchased	8,685	-	-	8,685
Financial assets that have been derecognized	(6,293)	(43)	(335)	(6,671)
Write-offs	-	-	(42)	(42)
Gross carrying amount as at 31 December 2018	39,047	924	630	40,601
Loss allowance as at 31 December 2018	153	22	59	234

Loss allowance as at 31 December 2017	199	5	165	369
Restatement of the prior year	(160)	27	96	(37)
Loss allowance as at 1 January 2018	39	32	261	332
Changes in the loss allowance				
– Transfer to stage 1	198	(28)	(170)	-
– Transfer to stage 2	(5)	5	-	-
– Transfer to stage 3	-	(3)	3	-
New financial assets originated or purchased	88	-	-	88
Financial assets that have been derecognised	(21)	-	(36)	(57)
Changes in models/risk parameters	46	(10)	(165)	(129)
Foreign exchange and other movements	(192)	26	166	-
Loss allowance as at 31 December 2018	153	22	59	234

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

Personal lending

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to personal lending is, as follows:

BANK Loans and advances to customers at amortised cost	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	926,473	20,540	38,518	985,531
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	926,473	20,540	38,518	985,531
Changes in the gross carrying amount	-	-	-	-
– Transfer to stage 1	21,710	(14,629)	(7,081)	-
– Transfer to stage 2	(8,134)	8,860	(726)	-
– Transfer to stage 3	(17,400)	(1,846)	19,246	-
New financial assets originated or purchased	475,015	3,795	18,457	497,267
Financial assets that have been derecognized	(54,662)	(3,268)	(21,858)	(79,788)
Write-offs	(969)	(1,583)	(19,144)	(21,696)
Gross carrying amount as at 31 December 2018	1,342,033	11,869	27,412	1,381,314
Loss allowance as at 31 December 2018	42,764	5,381	17,051	65,196

Loss allowance as at 31 December 2017	5,169	114	36,783	42,066
Restatement of the prior year	7,983	5,510	(7,506)	5,987
Loss allowance as at 1 January 2018	13,152	5,624	29,277	48,053
Changes in the loss allowance				
– Transfer to stage 1	9,629	(4,278)	(5,351)	-
– Transfer to stage 2	(156)	711	(555)	-
– Transfer to stage 3	(268)	(425)	693	-
New financial assets originated or purchased	15,727	1,935	2,622	20,284
Financial assets that have been derecognised	(776)	(741)	(16,609)	(18,126)
Changes in models/risk parameters	14,613	(1,436)	1,977	15,154
Foreign exchange and other movements	(9,157)	3,991	4,997	(169)
Loss allowance as at 31 December 2018	42,764	5,381	17,051	65,196

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

d) Restructured Loans

During the year total of TZS 55,696 million (2017: TZS 375,587 million) loans and advances were renegotiated and restructured. There were no loans and advances that were either renegotiated or restructured by the Bank's subsidiaries.

5.1.6 Investment securities

The investment securities held by the Group and Bank comprise of private corporate bonds, and treasury bills and bonds issued by the Governments of Burundi and Tanzania. All these investments were considered to be under Stage 1. These investment securities are held with the Governments or institutions with good financial standing and no history of default. They are not rated.

5.1.7 Concentration of risks of financial assets with credit risk exposure

The following tables break down the Group's and Bank's main credit exposure at their carrying amounts, as categorised by industry sector and geographical sectors as of 31.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

(a) Industry sectors

GROUP	(Amounts in TZS' MIllion)									
	Financial instittions	Manufacturing	Local and central Government	Trading	Transport and communication	Hotel and restaurant	Agriculture	Individuals	Others	Total
Credit exposures as at 31 December 2018										
On Balance sheet items										
Balances with Central Banks	389,567	-	-	-	-	-	-	-	-	389,567
Loans and advances to banks	345,698	-	-	-	-	-	-	-	-	345,698
Government securities	-	-	1,238,083	-	-	-	-	-	-	1,238,083
Corporate Bonds	3,516	-	-	-	-	-	-	-	-	3,516
Loans and advances to customers (Gross)	72,214	208,649	-	360,956	138,373	87,560	364,735	1,482,199	599,414	3,314,100
Credit cards	-	-	-	-	-	-	-	533	-	533
Other assets*	-	-	-	-	46,001	-	-	-	6,518	52,519
	810,995	208,649	1,238,083	360,956	184,374	87,560	364,735	1,482,732	605,932	5,344,016
Off-Balance sheet items										
Guarantees and indemnities	184,411	-	-	10,293	517	-	1,703	15	255,272	452,211
Letters of credit	999	-	-	7,847	562	-	22,904	-	114,467	146,779
Commitment to extend credit	2,088	11,631	-	23,734	4,822	1,514	15,267	2	38,914	97,972
	187,498	11,631	-	41,874	5,901	1,514	39,874	17	408,653	696,962

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

(a) Industry sectors (continued)

Group	(Amounts in TZS' MIllion)									
	Financial instutions	Manufacturing	Local and Central Government	Trading	Transport and communication	Hotel and restaurant	Agriculture	Individuals	Others	Total
Credit exposures as at 31 December 2017										
On Balance sheet items										
Balances with Central Banks	843,234	-	-	-	-	-	-	-	-	843,234
Loans and advances to banks	265,142	-	-	-	-	-	-	-	-	265,142
Government securities	-	-	1,104,547	-	-	-	-	-	-	1,104,547
Corporate Bonds	-	-	-	-	-	-	-		-	-
Loans and advances to customers (Gross)	108,785	135,523	187,229	413,149	51,808	105,675	474,365	1,065,655	582,307	3,124,496
Other assets*	-	-	-	-	46,771	-	-	-	27,612	74,383
	1,217,161	135,523	1,291,776	413,149	98,579	105,675	474,365	1,065,655	609,919	5,411,803
Off-Balance sheet items										
Guarantees and indemnities	4,065	-	-	34,523	3,120	-	596	1,567	237,808	281,679
Letters of credit	2,261	-	112,734	8,942	-	-	41,015	-	13,930	178,882
Commitment to extend credit	1,557	12,834	-	43,473	8,032	1,098	64,738	4,914	36,116	172,762
	7,883	12,834	112,734	86,938	11,152	1,098	106,349	6,481	287,854	633,323

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

(a) Industry sectors (continued)

BANK	(Amounts are in TZS' Million)									
	Financial institutions	Manufacturing	Local and central Government	Trading	Transport and communiction	Hotel and restaurant	Agriculture	Individuals	Others	Total
Credit exposures as at 31 December 2018										
On Balance sheet items										
Balances with Central Banks	382,268	-	-	-	-	-	-	-	-	382,268
Loans and advances to banks	362,353	-	-	-	-	-	-	-	-	362,353
Government securities	-	-	1,181,132	-	-	-	-	-	-	1,181,132
Corporate Bonds	3,516	-	-	-	-	-	-	-	-	3,516
Loans and advances to customers (Gross)	65,587	207,134	58,956	326,890	126,397	85,333	334,951	1,395,531	647,190	3,247,969
Credit cards	-	-	-	-	-	-	-	-	533	533
Other assets*	-	-	-	-	44,928	-	-	-	6,401	51,329
	813,724	207,134	1,240,088	326,890	171,325	85,333	334,951	1,395,531	654,124	5,229,100
Off-Balance sheet items										
Guarantees and indemnities	184,411	-	-	10,293	517	-	1,703	15	253,398	450,337
Letters of credit	999	-	-	7,847	562	-	22,904	-	114,467	146,779
Commitment to extend credit	2,088	11,631	-	23,734	4,822	1,514	15,267	2	38,914	97,972
	187,498	11,631	-	41,874	5,901	1,514	39,874	17	406,779	695,088

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

(a) Industry sectors (continued)

BANK	(Amounts are in TZS' Million)									
	Financial institutions	Manufacturing	Local and central Government	Trading	Transport and communication	Hotel and restaurant	Agriculture	Individuals	Others	Total
Credit exposures as at 31 December 2017										
On Balance sheet items										
Balances with Central Banks	826,356	-	-	-	-	-	-	-	-	826,356
Loans and advances to banks	284,961	-	-	-	-	-	-	-	-	284,961
Government securities	-	-	1,057,862	-	--	--	--	--	-	1,057,862
Corporate Bonds										
Loans and advances to customers (Gross)	122,003	133,024	172,650	409,649	51,356	105,675	472,573	1,027,397	580,885	3,075,212
Other assets*	-	-	-	-	46,771	-	-	-	25,549	72,320
	1,233,320	133,024	1,230,512	409,649	98,127	105,675	472,573	1,027,397	606,434	5,316,711
Off-Balance sheet items										
Guarantees and indemnities	4,065	-	-	34,523	3,120	-	596	1,567	237,565	281,436
Letters of credit	2,261	-	112,734	8,942	-	-	41,015	-	13,930	178,882
Commitment to extend credit	1,557	12,834	-	43,473	8,032	1,098	64,738	4,914	29,968	166,614
	7,883	12,834	112,734	86,938	11,152	1,098	106,349	6,481	281,463	626,932

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

For these tables, the Group and Bank have allocated exposures to regions based on the country of domicile of its counterparties.

(b) Geographical sectors

Group	(Amounts are in TZS' Million)					
	Tanzania	Europe	America	Burundi	Others	Total
Year ended 31 December 2018						
On Balance sheet items						
Balances with Central Banks	382,268	-	-	7,299	-	389,567
Loans and advances to banks	107,011	127,664	107,016	-	4,007	345,698
Government securities	1,185,754	-	-	52,329	-	1,238,083
Corporate Bonds	3,516	-	-	-	-	3,516
Loans and advances to customers (Gross)	3,247,969	-	-	66,131	-	3,314,100
Credit cards	533					533
Other assets *	52,519	-	-	-	-	52,519
	4,979,570	127,664	107,016	125,759	4,007	5,344,016
Off balance sheet items						
Guarantees and indemnities	377,811	8,428	-	1,874	64,098	452,211
Letters of credit	-	23,673	-	-	123,106	146,779
Commitment to extend credit	97,972	-	-	-	-	97,972
	475,783	32,101	-	1,874	187,204	696,962

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

For these tables, the Group and Bank have allocated exposures to regions based on the country of domicile of its counterparties.

(b) Geographical sectors (continued)

Group	(Amounts are in TZS' Million)					
	Tanzania	Europe	America	Burundi	Others	Total
Year ended 31 December 2017						
On Balance sheet items						
Balances with Central Banks	826,356	-		16,878	-	843,234
Loans and advances to banks	80,265	100,836	81,008	-	3,033	265,142
Government securities	1,057,862	-	-	46,685	-	1,104,547
Loans and advances to customers (Gross)	3,060,674	-	-	63,822	-	3,124,496
Other assets *	74,383	-	-	-	-	74,383
	5,099,540	100,836	81,008	127,385	3,033	5,411,802
Off balance sheet items						
Guarantees and indemnities	236,111	5,267	-	243	40,058	281,679
Letters of credit	-	28,851	-	-	150,031	178,882
Commitment to extend credit	166,614	-	-	6,148	-	172,762
	402,725	34,118	-	6,391	190,089	633,323

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

(b) Geographical sectors (continued)

Bank	(Amounts are in TZS' Million)					
	Tanzania	Europe	America	Burundi	Others	Total
Year ended 31 December 2018						
On Balance sheet items						
Balances with Central Bank	382,268	-	-	-	-	382,268
Loans and advances to banks	101,516	117,564	103,357	30,502	9,414	362,353
Government securities	1,181,132	-	-	-	-	1,181,132
Corporate Bonds	3,516	-	-	-	-	3,516
Loans and advances to customers (Gross)	3,195,567	-	-	52,402	-	3,247,969
Credit cards	533					533
Other assets *	51,017	-	-	312	-	51,329
	4,915,549	117,564	103,357	83,216	9,414	5,229,100
Off balance sheet items						
Guarantees and indemnities	377,811	8,428	-	-	64,098	450,337
Letters of credit	-	23,673	-	-	123,106	146,779
Commitment to extend credit	97,972	-	-	-	-	97,972
	475,783	32,101	-	-	187,204	695,088

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

(b) Geographical sectors (continued)

Bank	(Amounts are in TZS' Million)					
	Tanzania	Europe	America	Burundi	Others	Total
Year ended 31 December 2017						
On Balance sheet items						
Balances with Central Bank	826,356	-	-	-	-	826,356
Loans and advances to banks	76,176	100,836	81,009	23,907	3,033	284,961
Government securities	1,057,862	-	-	-	-	1,057,862
Loans and advances to customers (Gross)	3,060,674	-	-	14,538	-	3,075,212
Other assets *	72,102	-	-	218	-	72,320
	5,093,170	100,836	81,009	38,663	3,033	5,316,711
Off balance sheet items						
Guarantees and indemnities	236,111	5,267	-	-	40,058	281,436
Letters of credit	-	28,851	-	-	150,031	178,882
Commitment to extend credit	166,614	-	-	-	-	166,614
	402,725	34,118	-	-	190,089	626,932

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk

The Group and the Bank take on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, 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, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or non-trading portfolios.

The market risks are concentrated in Bank Treasury and monitored by the Risk and Compliance department separately. Regular reports are submitted to the Board of Directors and Management.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 Group's retail and commercial Banking assets and liabilities, and debt instrument at fair value through OCI.

(a) Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Risk and Compliance department is responsible for the development of detailed risk management policies while Treasury is responsible for day-to-day implementation of those policies.

The Bank applies interest rate gap coupled with Earning at Risk and stress testing analysis in measuring exposure to market risk for the purpose of managing and controlling market risk exposures within acceptable limits while optimising the return on investment.

5.2.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. With all other variables held constant, a shift in foreign exchange rate by 4% on foreign denominated assets and liabilities would have resulted in lower or higher profit after tax as follows:

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
USD	**13**	(1,102)	**1,045**	(325)
EURO	**243**	760	**271**	751
GBP	**79**	(22)	**81**	(22)
BIF	**2**	(108)	**2**	-
Others	**72**	162	**71**	162

If the exchange rate for the BIF were to shift by 4%, then the impact on the translation reserve in relation to the translation of CRDB Bank Burundi SA for consolidation purposes would be TZS 1,105 million (2017: TZS 154 million).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk
5.2.1 Foreign exchange risk (continued)

Group

Concentrations of foreign currency risk – on- and off-balance sheet financial instruments. (Amounts are in TZS' Million)

	TZS	USD	EURO	GBP	BIF	Others	Total
As at 31 December 2018							
Assets							
Cash and balances with Central Banks	636,574	58,619	4,815	1,255	-	-	701,263
Loans and advances to banks	24,996	244,427	70,396	4,658	42	1,179	345,698
Loans and advances to customers (Gross)	2,594,074	720,022	3	1	-	-	3,314,100
Government securities	1,238,083	-	-	-	-	-	1,238,083
Corporate Bonds	-	-	-	-	-	-	-
Other assets*	51,348	1,171	-	-	-	-	52,519
	4,545,075	1,024,239	75,214	5,914	42	1,179	5,651,663
Liabilities							
Deposits from customers	3,855,444	754,549	68,701	3,874	-	4,606	4,687,174
Deposits from Banks	27	3,967	-	-	-	-	3,994
Other liabilities**	58,219	3,184	136	8	-	18	61,565
Long term borrowings	159,053	267,608	-	-	-	-	426,661
Subordinated debt	32,400	-	-	-	-	-	32,400
	4,105,143	1,029,308	68,837	3,882	-	4,624	5,211,794
Net on-balance sheet financial position	439,932	(5,069)	6,377	2,032	42	(3,445)	439,558
Off balance sheet commitments	336,893	306,156	43,108	798	-	10,007	696,962

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

** Other liabilities (excludes deferred income, dividend payable and statutory liabilities).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.1 Foreign exchange risk (continued)

Group

Concentrations of foreign currency risk – on- and off-balance sheet financial instruments.

	(Amounts are in TZS' Million)						
As at 31 December 2017	TZS	USD	EURO	GBP	BIF	Others	Total
Assets							
Cash and balances with Central Banks	601,004	539,414	4,983	1,440	-	-	1,146,841
Loans and advances to banks	27,112	131,869	95,185	3,369	15	7,592	265,142
Loans and advances to customers (Gross)	2,367,925	755,560	1,010	-	-	1	3,124,496
Government securities	1,104,547	-	-	-	-	-	1,104,547
Other assets*	73,660	760	1	-	(38)	-	74,383
Total financial assets	4,174,248	1,427,603	101,179	4,809	(23)	7,593	5,715,409
Liabilities							
Deposits from customers	3,272,487	971,780	74,244	5,547	-	1,813	4,325,871
Deposits from Banks	1,012	78,567	107	33	3	-	79,722
Other liabilities**	63,808	2,452	(13)	1	282	1	66,531
Short term borrowings	-	89,733	-	-	-	-	89,733
Long term borrowings	196,513	279,050	-	-	-	-	475,563
Subordinated debt	32,413	57,170	-	-	-	-	89,583
	3,574,750	1,466,972	74,041	5,581	3,845	1,814	5,127,003
Net on-balance sheet financial position	599,498	(39,369)	27,138	(772)	(3,868)	5,779	588,406
Off balance sheet commitments	306,132	278,201	39,172	725	-	9,093	633,323

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).
** Other liabilities (excludes deferred income, dividend payable and statutory liabilities).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.1 Foreign exchange risk (continued)

Bank

Concentrations of currency risk – on- and off-balance sheet financial instruments.

As at 31 December 2018	(Amounts are in TZS' Million)						
	TZS	USD	EURO	GBP	BIF	Others	Total
Assets							
Cash and balances with Central Banks	626,477	58,617	4,814	1,255	-	-	691,163
Loans and advances to banks	21,561	258,980	70,396	4,658	42	6,716	362,353
Loans and advances to customers (Gross)	2,527,943	720,022	3	1	-	-	3,247,969
Government securities	1,181,132	-	-	-	-	-	1,181,132
Corporate Bonds	3,516	-	-	-	-	-	3,516
Credit cards	533	-	-	-	-	-	533
Other assets*	50,157	1,171	-	1	-	-	51,329
Total financial assets	4,411,319	1,038,790	75,213	5,915	42	6,716	5,537,995
Liabilities							
Deposits from customers	3,760,171	745,819	68,310	3,873	-	4,917	4,583,090
Deposits from Banks	27	3,967	-	-	-	-	3,994
Other liabilities**	66,962	3,185	136	8	-	18	70,309
Long term borrowings	159,053	267,608	-	-	-	-	426,661
Subordinated debt	32,400	-	-	-	-	-	32,400
Total financial liabilities	4,018,613	1,020,579	68,446	3,881	-	4,935	5,116,454
Net on-balance sheet financial position	392,706	18,211	6,767	2,034	42	1,781	421,541
Off balance sheet commitments	335,019	306,156	43,108	798	-	10,007	695,088

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).
** Other liabilities (excludes deferred income, dividend payable and statutory liabilities).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.1 Foreign exchange risk (continued)

Bank

Concentrations of currency risk – on- and off-balance sheet financial instruments.

	(Amounts are in TZS' Million).						
As at 31 December 2017	TZS	USD	EURO	GBP	BIF	Others	Total
Assets							
Cash and balances with Central Banks	586,889	533,386	4,589	1,408	-	-	1,126,272
Loans and advances to banks	25,498	153,322	95,167	3,367	15	7,592	284,961
Loans and advances to customers (Gross)	2,304,102	770,098	1,010	-	-	2	3,075,212
Government securities	1,057,862	-	-	-	-	-	1,057,862
Corporate Bonds							
Other assets*	71,559	760	1	-	-	-	72,320
Total financial assets	4,045,910	1,457,566	100,767	4,775	15	7,594	5,616,627
Liabilities							
Deposits from customers	3,196,796	960,001	73,947	5,547	-	1,813	4,238,104
Deposits from Banks	12	80,664	-	-	3	-	80,679
Other liabilities**	81,227	2,452	(13)	1	-	1	83,668
Short term borrowings	-	89,733	-	-	-	-	89,733
Long term borrowings	196,513	279,050	-	-	-	-	475,564
Subordinated debt	32,413	57,170	-	-	-	-	89,583
Total financial liabilities	3,506,961	1,469,170	73,934	5,548	3	1,814	5,057,430
Net on-balance sheet financial position	538,949	(11,604)	26,833	(773)	12	5,780	559,197
Off balance sheet commitments	299,741	278,201	39,172	725	-	9,093	626,932

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).
** Other liabilities (excludes deferred income, dividend payable and statutory liabilities).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.2 Price risk

The Group and the Bank is exposed to equity securities price risk as it currently holds 327,632 shares invested in DSE amounting to TZS 459 million (2017: TZS 367 million), TMRC amounting to TZS 2,280 million (2017: TZS 2,280 million), and Tandahimba amounting to TZS 2,661 million (2017: TZS 100 million). Financial assets exposed to debt securities price risk are classified on the statement of financial position as government securities at fair value through Other Comprehensive Income (OCI). If the market price of debt had increased/decreased by 5% with all other variables held constant, the fair value reserve in debt securities would have increased/decreased as a result of gains or losses on debt securities classified as debt instrument at fair value through OCI by TZS 24,506 million as at 31 December 2018 (2017: TZS 14,219 million) for the Group and Bank.

5.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Group and Bank take on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may produce losses in the event that unexpected movements arise. The Bank's Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is regularly monitored by an independent Risk and Compliance department and reported regularly to ALCO and the Board. The interest rate gap is within internal limits.

With all other variables held constant, if the interest rates prevailing during the year shifted by 500 basis points on all Group's and Bank's interest bearing assets and liabilities, profit before tax would be lower or higher by TZS 19,854 million (2017: TZS 20,486 million) and TZS 21,625 million (2017: TZS 20,039 million) respectively.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.3 Interest rate risk (continued)

Group	(Amounts are in TZS Million)		
	Interest bearing	Non-interest bearing	Total
As at 31 December 2018			
Assets			
Cash and balances with Central Banks	-	701,263	701,263
Government securities	1,238,083	-	1,238,083
Corporate Bonds	3,516	-	3,516
Loans and advances to banks	176,142	169,556	345,698
Loans and advances to customers (Gross)	3,314,100	-	3,314,100
Credit cards	533		533
Other assets	-	52,519	52,519
Total financial assets	4,732,374	923,338	5,655,712
Liabilities			
Deposits from Banks	3,994	-	3,994
Deposits from customers	4,640,488	46,686	4,687,174
Long term borrowings	426,661	-	426,661
Subordinated debt	32,400	-	32,400
Other liabilities	-	61,565	61,565
Total financial liabilities	5,103,543	108,251	5,211,794
Total interest gap	(371,169)		
As at 31 December 2017			
Assets			
Cash and balances with Central Banks	-	1,146,841	1,146,841
Government securities	1,104,547	-	1,104,547
Loans and advances to banks	131,474	133,668	265,142
Loans and advances to customers (Gross)	3,124,496	-	3,124,496
Other assets	-	74,383	74,383
Total financial assets	4,360,517	1,354,892	5,715,409
Liabilities			
Deposits from Banks	79,722	-	79,722
Deposits from customers	4,282,498	43,373	4,325,871
Short term borrowings	89,733	-	89,733
Long term borrowings	475,563	-	475,563
Subordinated debt	89,583	-	89,583
Other liabilities	-	66,531	66,531
Total financial liabilities	5,017,099	109,904	5,127,003
Total interest gap	(656,582)		

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.3 Interest rate risk (continued)

Bank	(Amounts are in TZS Million)		
As at 31 December 2018	Interest bearing	Non-interest bearing	Total
Assets			
Cash and balances with Central Banks	-	691,163	691,163
Government securities	1,181,132	-	1,181,132
Corporate Bonds	3,516	-	3,516
Loans and advances to banks	193,432	167,945	361,377
Loans and advances to customers (Gross)	3,247,969	-	3,247,969
Credit cards	533		533
Other assets	-	51,329	51,329
Total financial assets	4,626,582	910,437	5,537,019
Liabilities			
Deposits from Banks	3,994	-	3,994
Deposits from customers	4,540,133	42,956	4,583,089
Long term borrowings	426,661	-	426,661
Subordinated debt	32,400	-	32,400
Other liabilities	-	70,309	70,309
Total financial liabilities	5,003,188	113,265	5,116,453
Total interest gap	(376,606)		
As at 31 December 2017			
Assets			
Cash and balances with Central Banks	-	1,126,272	1,126,272
Government securities	1,057,862	-	1,057,862
Loans and advances to banks	153,330	131,631	284,961
Loans and advances to customers (Gross)	3,075,212	-	3,075,212
Other assets	-	72,320	72,320
Total financial assets	4,286,404	1,330,223	5,616,627
Liabilities			
Deposits from Banks	80,679	-	80,679
Deposits from customers	4,194,731	43,373	4,238,104
Short term borrowings	89,733	-	89,733
Long term borrowings	475,563	-	475,563
Subordinated debt	89,583	-	89,583
Other liabilities	-	83,668	83,668
Total financial liabilities	4,930,289	127,041	5,057,330
Total interest gap	(636,428)		

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be failure to meet obligations to repay depositors and fulfil commitments to lend.

5.3.1 Liquidity risk management process

The Group's and Bank's liquidity management process, as carried out within the Group and Bank and monitored by the Asset and Liability Committee (ALCO) of the individual banks include:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Group and Bank maintain an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Note 5.3.3).

5.3.2 Funding approach

The Group's and Bank's major source of funding is customer deposits. To this end, the Group and Bank maintain a diversified and stable funding base comprising current/demand, savings and time deposits. The Group places considerable importance on the stability of these deposits, which is achieved through the Group's retail banking activities and by maintaining depositor confidence in the Group's business strategies and financial strength.

The Group borrows from the interbank market through transactions with other banks for short term liquidity requirements. As part of the contingency funding plan, the Group has funding lines with both local and foreign banks for short term funding requirements.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Liquidity risk (continued)

5.3.3 Non-derivative cash flows

The tables below present the cash flows payable by the Group and Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash, as the Group and Bank manage the inherent liquidity risk based on expected undiscounted cash flows.

Group				
	Amounts are in TZS Million			
	Up to 3months	3-12 months	Over 1 year	Total
As at 31 December 2018				
Liabilities				
Deposits from customers	**4,307,867**	**282,289**	**125,864**	**4,716,020**
Deposits from Banks	**3,994**	**-**	**-**	**3,994**
Subordinated debt	**2,400**	**-**	**37,200**	**39,600**
Long term borrowings	**39,307**	**99,473**	**376,379**	**515,159**
Other liabilities**	**61,565**	**-**	**-**	**61,565**
Total financial liabilities (contractual maturity dates)	**4,415,133**	**381,762**	**539,443**	**5,336,338**
Total financial assets (expected maturity dates)	**1,336,015**	**619,258**	**3,522,382**	**5,477,655**
As at 31 December 2017				
Liabilities				
Deposits from customers	3,850,593	343,855	131,423	4,325,871
Deposits from Banks	45,865	33,857	-	79,722
Subordinated debt	59,583	-	30,000	89,583
Short term borrowings	89,733	-	-	89,733
Long term borrowings	79,965	65,876	329,722	475,563
Other liabilities**	66,531	-	-	66,531
Total financial liabilities (contractual maturity dates)	4,192,270	443,588	491,145	5,127,003
Total financial assets (expected maturity dates)	1,924,048	650,641	2,910,061	5,484,751

** Other liabilities (excludes deferred income, dividend payable and statutory liabilities).

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Liquidity risk (continued)

5.3.3 Non-derivative cash flows (continued)

Bank	(Amounts are in TZS Million)			
	Up to 3months	3-12 months	Over 1 year	Total
As at 31 December 2018				
Liabilities				
Deposits from customers	**4,232,116**	**260,451**	**125,736**	**4,716,020**
Deposits from Banks	**3,994**	**-**	**-**	**3,994**
Subordinated debt	**2,400**	**-**	**37,200**	**39,600**
Long term borrowings	**39,318**	**99,473**	**376,379**	**515,159**
Other liabilities**	**70,309**	**-**	**-**	**70,309**
Total financial liabilities (contractual maturity dates)	**4,348,137**	**359,924**	**539,315**	**5,345,082**
Total financial assets (expected maturity dates)	**1,299,983**	**599,553**	**3,459,707**	**5,359,243**
As at 31 December 2017				
Liabilities				
Deposits from customers	3,781,517	325,164	131,423	4,238,104
Deposits from Banks	46,822	33,857	-	80,679
Subordinated debt	59,583	-	30,000	89,583
Short term borrowings	89,733	-	-	89,733
Long term borrowings	79,965	65,876	329,722	475,563
Other liabilities**	83,668	-	-	83,668
Total financial liabilities (contractual maturity dates)	4,141,288	424,897	491,145	5,057,330
Total financial assets (expected maturity dates)	1,896,796	639,619	2,849,785	5,386,200

** Other liabilities (excludes deferred income, dividend payable and statutory liabilities).

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central Bank balances, items in the course of collection and treasury and other eligible bills; Loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

5.3.4 Collateral

The Group has pledged part of its Treasury bills and bonds in order to fulfil the collateral requirements of various short term borrowings from other Banks. The Group also holds Treasury Bills and Bonds amounting TZS 85,750 million as at 31 December 2018 (2017: TZS 133,323 million) in respects of Short term borrowings extended to Banks. The Group has an obligation to return the securities to the counterparties upon settlement of the loans, and it's not permitted to sell or repledge the collateral in the absence of default by the owner of the collateral. There are no other significant terms and conditions associated with the use of collateral.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Liquidity risk (continued)

5.3.5 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Group's and Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees are included below based on the earliest period required to pay.

(c) Operating lease commitments

Where the Group and the Bank, are the lessee, the future minimum lease payments under non-cancellable operating leases, are summarised below.

(d) Capital commitments

These relate to the acquisition of property and equipment.

Summary of off-balance sheet items (Group):

GROUP	(Amounts are in TZS Million)			
	No later than 1 year	1 – 5 years	Over 5 years	Total
As at 31 December 2018				
Outstanding letters of credit	**146,779**	**-**	**-**	**146,779**
Guarantees and indemnities	**330,111**	**121,776**	**324**	**452,211**
Commitments to extend credit	**97,972**	**-**	**-**	**97,972**
Operating lease commitments	**2,643**	**19,913**	**30,424**	**52,820**
Capital commitments	**32,815**	**-**	**-**	**32,815**
As at 31 December 2017				
Outstanding letters of credit	178,882	-	-	178,882
Guarantees and indemnities	177,913	103,706	60	281,679
Commitments to extend credit	172,762	-	-	172,762
Operating lease commitments	286	10,905	53,594	64,785
Capital commitments	6,670	-	-	6,670

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Liquidity risk (continued)

5.3.5 Off-balance sheet items (continued)

Summary of off-balance sheet items (Bank):

BANK	(Amounts are in TZS Million)			
	No later than 1 year	1 – 5 years	Over 5 years	Total
As at 31 December 2018				
Outstanding letters of credit	**146,779**	**-**	**-**	**146,779**
Financial guarantees and indemnities	**328,277**	**121,770**	**290**	**450,337**
Commitments to extend credit	**97,972**	**-**	**-**	**97,972**
Operating lease commitments	**2,643**	**19,913**	**30,424**	**52,820**
Capital commitments	**32,815**	**-**	**-**	**32,815**
As at 31 December 2017				
Outstanding letters of credit	178,882	-	-	178,882
Financial guarantees and indemnities	177,670	103,706	60	281,436
Commitments to extend credit	166,614	-	-	166,614
Operating lease commitments	286	10,905	52,743	63,934
Capital commitments	6,670	-	-	6,670

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value of financial assets and liabilities (continued)

(a) Financial instruments not measured at fair value (continued)

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 Group's and 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.
- 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) orindirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Transfers between the levels of the fair value hierarchy are recognized by the Bank at the end of the reporting period during which the change occurred. There were no transfers between hierarchy levels 1 and 2 during the year.

(a) Financial instruments not measured at fair value

The fair value of financial assets and liabilities not measured at fair value approximates carrying amounts. Where the fair value does not approximate carrying amount, the respective fair values have been computed and disclosed in this note below for both Group and Bank.

(i) Cash and balances with Central banks

The carrying amount of cash and balances with Central banks is a reasonable approximation of its fair value.

(ii) Loans and advances to banks

Loans and advances to banks include interbank placements and items in the course of collection. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(iii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iv) Investment securities

The fair value for government securities at amortised costs and equity instruments at fair value through OCI is based on market prices. Where this information is not available, fair value is estimated using market prices for securities with similar credit, maturity and yield characteristics.

(v) Deposits from banks and due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount is a reasonable approximation of fair value.

(vi) Off-balance sheet financial instruments

The estimated fair values of the off-balance sheet financial instruments are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

(vii) Borrowings

The carrying amount of borrowings is a reasonable approximation of its fair value.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value of financial assets and liabilities (continued)

(a) Financial instruments not measured at fair value (continued)

The table below summarises the carrying amounts and fair values of financial assets and liabilities.

Group	Hierarchy Level	Amortised cost TZS'Million	At fair value through OCI TZS'Million	Total carrying amount TZS'Million	Fair value TZS'Million
31 December 2018					
Financial assets					
Cash and balances with Central banks	2	700,991	-	700,991	700,991
Loans and advances to banks		345,699	-	345,699	345,699
Loans and advances to customers (Gross)	3	3,314,100	-	3,314,100	3,198,303
Government securities	1,2	757,080	481,003	1,238,083	1,238,083
Corporate bonds	2	3,516	-	3,516	-
Other assets	3	52,519	-	52,519	52,519
		5,173,905	481,003	5,654,908	5,535,595
Financial liabilities					
Deposits from banks	2	3,994	-	3,994	3,994
Deposits from customers	3	4,687,174	-	4,687,174	4,687,174
Long term borrowings	3	426,661	-	426,661	426,661
Subordinated debts	3	32,400	-	32,400	32,400
Other liabilities	3	61,565	-	61,565	61,565
		5,211,794	-	5,211,794	5,211,794

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value of financial assets and liabilities (continued)

(a) Financial instruments not measured at fair value (continued)

The table below summarises the carrying amounts and fair values of financial assets and liabilities.

Group	Hierarchy Level	Amortised cost TZS'Million	At fair value through OCI TZS'Million	Total Carrying amount TZS'Million	Fair value TZS'Million
31 December 2017					
Financial assets					
Cash and balances with Central Banks	2	1,146,841	-	1,146,841	1,146,841
Loans and advances to banks		265,142	-	265,142	265,142
Loans and advances to customers (Gross)	3	3,124,496	-	3,124,496	3,085,128
Government securities	1,2	292,035	406,256	698,291	711,216
Other assets	3	74,383	-	74,383	74,383
		4,162,312	406,256	5,309,153	5,282,710
Financial liabilities					
Deposits from Banks	2	79,722	-	79,722	
Deposits from customers	3	4,325,871	-	4,325,871	
Short term borrowings	3	89,733	-	89,733	
Long term borrowings	3	475,563	-	475,563	
Subordinated debts	3	89,583	-	89,583	
Other liabilities	3	66,531	-	66,531	
		5,127,003	-	5,127,003	

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value of financial assets and liabilities (continued)

(a) Financial instruments not measured at fair value (continued)

The table below summarises the carrying amounts and fair values of financial assets and liabilities

Bank	Hierarchy Level	Amortised cost TZS'Million	At fair value through OCI TZS'Million	Total carrying amount TZS'Million	Fair value TZS'Million
31 December 2018					
Financial assets					
Cash and balances with Central Banks	2	691,163	-	691,163	691,163
Loans and advances to banks		362,353	-	362,353	362,353
Loans and advances to customers (Gross)	3	3,247,969	-	3,247,969	3,132,172
Government securities	1,2	700,129	481,003	1,181,132	1,181,132
Corporate bonds	2	3,516	-	3,516	-
Other assets	3	51,329	-	51,329	51,329
		5,056,459	481,003	5,537,462	5,418,149
Financial liabilities					
Deposits from Banks	2	3,994	-	3,994	3,994
Deposits from customers	3	4,583,090	-	4,583,090	4,583,090
Long term borrowings	3	426,661	-	426,661	426,661
Subordinated debts	3	32,400	-	32,400	32,400
Other liabilities	3	70,309	-	70,309	70,309
		5,116,454	-	5,116,454	5,116,454

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value of financial assets and liabilities (continued)

(a) Financial instruments not measured at fair value (continued)

The table below summarises the carrying amounts and fair values of financial assets and liabilities.

Bank	Hierarchy Level	Amortised cost TZS'Million	At fair value through OCI TZS'Million	Total carrying amount TZS'Million	Fair value TZS'Million
31 December 2017					
Financial assets					
Cash and balances with Central Banks	2	1,126,272	-	1,126,272	-
Loans and advances to banks		284,961	-	284,961	-
Loans and advances to customers (Gross)	3	3,075,212	-	3,075,212	3,035,844
Government securities	1,2	651,606	406,256	1,057,862	667,194
Other assets	3	72,320	-	72,320	72,320
		5,210,371	406,256	5,616,627	3,775,378
Financial liabilities					
Deposits from Banks	2	80,679	-	80,679	80,679
Deposits from customers	3	4,238,104	-	4,238,104	4,238,104
Short term borrowings	3	89,733	-	89,733	89,733
Long term borrowings	3	475,563	-	475,563	475,563
Subordinated debts	3	89,583	-	89,583	89,583
Other liabilities	3	83,668	-	83,668	83,668
		5,057,330	-	5,057,330	5,057,330

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value of financial assets and liabilities (continued)

(b) Fair value of financial assets and liabilities that are measured at fair value on recurring basis

Group and Bank

The following table represents the Group's and Bank's financial assets that are measured at fair value at 31 December 2018. Motor vehicles that are measured at fair value are disclosed under Note 30B.

Group and Bank	TZS Million			
	Level 1	Level 2	Level 3	Total
31 December 2018				
Debt instrument at fair value through OCI:				
- Treasury Bonds	**-**	**481,003**	**-**	**481,003**
- Equity Investments	**459**	**3,893**	**2,661**	**7,013**
Total assets	**459**	**484,896**	**2,661**	**488,016**
31 December 2017				
Debt instrument at fair value through OCI:				
- Treasury Bonds	-	406,256	-	406,256
- Equity Investments	367	-	2,380	2,747
Total assets	367	406,256	2,380	409,003

Reconciliation of Level 3 - Equity Investments	2018 TZS' Million	2017 TZS' Million
At 1 January	**2,380**	2,280
Purchases	**281**	100
At 31 December	**2,661**	2,380

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

During the year, there were no intra level transfers and there was sufficient information available to measure the fair value of financial instruments based on observable market inputs.

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The quoted market price used for financial assets held by the Group is the current bid price of debt securities from the most current Bank of Tanzania auction results. Instruments included in Level 1 comprise primarily equity investments.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer/Bank of Tanzania quotes for similar instruments;
- Quoted prices for identical or similar assets or liabilities in markets that are not active.

Financial instruments in level 3

Investment securities are fair valued based on observable market information, including market prices for debt and equity securities. Where observable market inputs are unavailable, the Group uses valuation techniques to arrive to the fair value, including the use of transaction prices obtained at recent arm's length transactions and discounted cash flow analysis, based on market conditions and risks at the reporting date.

5.5 Capital management

The Bank's objectives for managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the Central Bank i.e. Bank of Tanzania;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania, for supervisory purposes. The required information is filed with the Central Bank on a quarterly basis.

The Central Bank requires the Banking Group to:

(a) Hold the minimum level of core capital of TZS15 billion;

(b) Maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 12.5%; and

(c) Maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's regulatory capital as managed by its Finance department is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Intangible assets and prepaid expenses are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, revaluation reserve and loan portfolio general provision

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2018 and 31 December 2017. During those two periods, the Group and Bank complied with all of the externally imposed capital requirements to which they are subject.

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Capital management (continued)

	GROUP		BANK	
	2018	2017	2018	2017
	TZS' Million	TZS' Million	TZS' Million	TZS' Million
Tier 1 capital				
Share capital	65,296	65,296	65,296	65,296
Share Premium	158,314	158,314	158,314	158,314
Retained earnings	489,227	463,424	474,991	442,494
Excess impairment –IFRS 9*	17,538	-	17,538	-
Prepaid expenses	(18,717)	(16,373)	(15,623)	(15,278)
Deferred tax asset	(86,515)	(75,627)	(85,087)	(74,214)
Intangible assets	(42,571)	(37,737)	(41,536)	(36,616)
Total qualifying Tier 1 capital	582,572	557,297	573,893	539,996
Tier 2 capital				
General Banking reserve	31,020	27,217	30,201	26,796
Subordinated debt	16,500	75,701	16,500	75,701
Revaluation reserve	25,015	15,622	24,604	15,135
Total qualifying Tier 2 capital	72,535	118,540	71,305	117,632
Total regulatory capital	655,107	675,837	645,198	657,628
Risk-weighted assets				
On-balance sheet	3,350,091	3,189,252	3,305,480	3,148,235
Off-balance sheet	291,736	397,949	288,909	396,514
Market risk	27,434	19,136	27,434	19,136
Operational risk	414,867	367,038	378,805	352,729
Total risk-weighted assets	4,084,128	3,973,375	4,000,628	3,916,614

	Required ratio %	Group's ratio 2018 %	Group's Ratio 2017 %	Bank's Ratio 2018 %	Bank's ratio 2017 %
Tier 1 capital	12.5	14.3%	14.0%	14.3%	13.8%
Tier 1 + Tier 2 capital (Total capital)	14.5	16.0%	17.0%	16.1%	16.8%

*Bank of Tanzania's guidance on implementation of IFRS 9 allowed Banks and financial institutions, for the purpose of computing Core Capital on first adoption of IFRS 9, to spread the excess impairment equally over three years from 2018. The remaining excess impairment on adoption amounting to TZS 17,538 million will be amortised in the retained earnings in the remaining two years.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's and Bank's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next period. All estimates and assumptions required are in conformity with IFRS are best estimates undertaken in accordance with the relevant standard.

a) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. Changes in valuation assumptions could affect the reported fair value of the financial instruments. The impact on change in assumptions on the fair value is disclosed under Note 5.2.2.

b) Incorporation of forward-looking information

The evolving economic environment is a key determinant of the ability of a Bank's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions banks hold against potential future credit risk losses should depend not just on the health of the economy today, but should also take account of changes to the economic environment in the future. To capture the effect of changes to the economic environment in the future, the computation of probability of default (PD), loss given default (LGD) and so expected credit loss incorporates forward-looking information; assumptions on the path of economic variables and asset prices that are likely to have an effect on the repayment ability of the Group's clients. Such variables include Inflation, GDP Growth, oil prices fluctuation, average electricity generation, natural gas, population, total household spending, total food sales, total public debt, Government spending in priority sector, unemployment rate, exchange rate movement. Details on assumptions used are provided under Note 5.1.1.

c) Cure rate

Cure rate is a percentage of credit exposure accounts which were in default category, but as at assessment date have moved to a better category. Cure rate shall be factored in at the LGD level when assessing recovery rate. The rate reduces the percentage of loss given default and is computed at the overall credit portfolio level. Consideration of movement of accounts is done annually. Qualitative criteria applied when checking whether the account has cured or not are those in line with Bank of Tanzania guideline on IFRS 9 Implementation. Defaulted accounts which are assessed whether they have cured shall exclude accounts which have restructured or which have been charged off during the period.

(ii) Critical judgements in applying the Group's and Bank's accounting policies

a) Business model assessment

The business model reflects how the Bank manages its assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the asset or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a Group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

b) Significant increase of credit risk

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors (as per note 4), the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. Financial assets that are 30 or less days past due are considered to be have low credit risk.

c) Establishing Groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are Grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that Group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

The table below shows a representative summary of the economic variables and asset prices that the Group considers to be among the most important determinants of the Group's expected credit loss.

Macroeconomic variable	Average	Maximum	Minimum
Average Commodity price	2.49	2.55	2.45
CPI	185.58	205.68	166.52
GDP Growth Rate	5.20	5.69	4.67
Inflation Rate %	4.79	5.06	4.52
Lending Rate %	15.59	15.76	15.50
Money supply %	10.87	11.64	9.38
Unemployment %	4.58	4.70	4.50

d) Provisions for legal liabilities

The Group has provided for the liabilities arising out of contractual obligations. The closing balance of provisions on litigations amounted to TZS 4,041 million (2017: TZS 3,231 million). Professional expert advice is taken on establishing litigation provisions. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgements than other types of provisions. When cases are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists as a result of a past event, estimating the probability of outflows and making estimates of the amount of any outflows that may arise. As matters progress through various stages of the cases, Management together with legal advisers evaluate on an ongoing basis whether provisions should be recognized, and the estimated amounts of any such provisions, revising previous judgements and estimates as appropriate.

e) Deferred tax assets

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning and strategies. The deferred tax asset recognized on the Group's statement of financial position in year 2018 amounted to TZS 86,515 million (2017: TZS 75,627 million) and TZS 85,087 million (2017: TZS 74,214 million) for the Bank. The judgments take into consideration the effect of both positive and negative evidence, including historical financial performance, projections of future taxable income, and future reversals of existing taxable temporary differences.

f) Property, equipment and intangible assets

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

The Group reviews the estimated useful lives of property, equipment and useful lives at the end of each reporting period. Applicable useful rates are provided under Note 2(t).

7 INTEREST AND SIMILAR INCOME

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Loans and advances to customers				
- Term loans	**353,070**	333,455	**340,524**	326,371
- Overdrafts	**65,466**	93,190	**64,628**	92,448
- Credit cards	**62**	-	**62**	-
Placements and balances with other Banks	**5,137**	8,070	**6,060**	9,462
Discount earned and interest on Government securities				
-Treasury bills	**12,346**	41,099	**12,111**	40,870
-Treasury bonds	**149,985**	84,530	**143,824**	78,603
Private bonds	**222**	-	**222**	-
	586,288	560,344	**567,431**	547,754
Interest income on non-performing loans during non-performing period	**-**	3,664	**-**	3,664

8 INTEREST EXPENSE

Deposits from customers				
– current accounts	**11,502**	16,047	**10,511**	15,392
– savings accounts	**24,776**	28,428	**24,336**	28,195
– fixed deposits	**61,188**	56,046	**57,804**	53,401
Short-term Borrowing	**2,298**	934	**2,298**	934
Long-term borrowing	**32,774**	28,202	**32,774**	28,202
Inter-Bank borrowing	**4,250**	14,616	**1,425**	14,503
Subordinated debt	**6,656**	6,355	**6,656**	6,355
	143,444	150,628	**135,804**	146,982

9 NET FEE AND COMMISSION INCOME

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
(a) Fee and Commission Income				
Service charge on customer accounts	**43,505**	43,344	**42,906**	42,766
Loan application fees	**20,040**	15,799	**19,702**	15,222
ATM withdrawal charges	**12,610**	12,339	**12,427**	11,992
VISA and master card fees	**7,029**	6,078	**6,946**	6,029
Commission on letters of credit	**4,192**	3,161	**4,156**	3,135
Fee on issue of Bank cards	**12,996**	11,544	**12,843**	11,448
Fee on local transfers and drafts	**4,086**	5,429	**3,880**	5,326
Point of sale fees	**6,597**	6,415	**6,541**	6,122
Fee on international telegraphic transfers	**3,534**	4,825	**3,505**	2,743
Commission on guarantees and indemnities	**3,020**	2,873	**2,993**	2,847
Commission on mobile phone services	**32,702**	28,877	**32,407**	28,253
Salary processing fees	**3,379**	5,591	**3,349**	5,543
Bills discounted	**1,201**	778	**1,191**	772
Penalties *	**709**	1,995	**703**	1,978
Insurance Commission	**4,430**	3,605	**728**	408
Sale of Cheque books	**989**	762	**920**	692
Statement Charges	**1,222**	1,221	**1,212**	1,211
Custodianship Commission	**337**	542	**334**	538
Agency Banking	**4,377**	2,776	**4,298**	2,731
Commission from TRA collections	**1,923**	1,349	**1,907**	1,336
Other fees and commissions	**4,320**	3,991	**3,632**	3,737
	173,198	163,295	**166,580**	154,828

*Penalties are charged on customer accounts that are below the minimum required balance, significant cash withdrawal without prior notice and closing Bank accounts less than one year old.

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
(b) Fee and Commission Expense				
Loan commission/Government borrowers	**5,165**	3,942	**5,165**	3,942
Commission paid Agency Banking	**9,747**	6,333	**9,021**	6,333
Bank loan processing commission	**1,307**	1,142	**1,307**	1,142
Commission paid Nostro transactions	**3,214**	2,580	**3,214**	2,391
Commission payable to MFSC (subsidiary)	**-**	-	**6,641**	19,915
	19,433	13,997	**25,348**	33,723

10 FOREIGN EXCHANGE INCOME

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Foreign Exchange Income	**31,326**	37,351	**30,428**	36,033

11 INCOME FROM SECURITY TRADING

Income from Security Trading	**11,698**	4,490	**11,698**	4,490

12 OTHER OPERATING INCOME

Rental income	**149**	86	**149**	615
FSDT Assets grant income	**1,223**	2,630	**1,223**	2,083
UNCDF grant income	**-**	1,068	**-**	-
Mastercard grant income	**1,706**	-	**-**	-
DANIDA grant income	**-**	617	**-**	617
Other grant (MIVARF)	**691**	1,612	**691**	465
Rudi Grant	**-**	-	**-**	-
(Loss)/Profit on disposal of fixed assets	**(736)**	(452)	**(885)**	(480)
	3,033	5,561	**1,178**	3,300

13 OTHER OPERATING EXPENSES

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Directors' fees	**1,231**	1,048	**801**	680
Auditors' fees	**914**	786	**802**	637
Provision for impairment of other assets	**8,277**	3,544	**8,073**	3,314
Hired services costs	**18,622**	19,711	**17,865**	17,358
Insurance costs	**7,682**	8,029	**7,445**	7,758
Software license	**14,105**	10,876	**13,892**	10,803
Marketing costs	**14,834**	10,287	**10,054**	9,137
Travelling expenses	**11,851**	11,990	**10,775**	10,542
Rent	**16,343**	15,249	**15,832**	14,697
Training	**4,958**	6,598	**4,573**	6,374
Information system maintenance	**3,685**	3,818	**3,651**	3,815
Printer tonner and computer sheets	**1,052**	1,351	**1,031**	1,317
Printing and stationery	**4,084**	4,040	**3,881**	3,716
VSAT-Communication costs	**3,529**	5,551	**3,414**	5,380
Legal fees	**5,245**	3,656	**5,182**	3,632
Visa card expenses	**12,663**	9,601	**11,933**	9,158
Tembo cards costs	**2,092**	1,464	**2,073**	1,466
Telephone and fax	**2,314**	2,288	**2,061**	1,996
Motor vehicles repairs and maintenance	**2,201**	1,521	**1,889**	1,246
Fuel costs	**3,346**	3,360	**2,930**	2,819
Postage	**1,730**	1,429	**1,698**	1,390
Electricity	**4,160**	4,063	**3,899**	3,735
Board meetings expenses	**3,089**	1,964	**2,044**	1,476
Shareholders meeting expense	**1,314**	1,233	**1,302**	1,235
Maintenance - Office Equipment	**1,360**	1,387	**1,283**	1,226
Offsite expenses	**2,556**	2,842	**2,529**	2,845
Customer service expenses	**757**	715	**750**	716
Deposit Insurance Fund	**5,968**	5,854	**5,914**	5,816
Subscriptions	**657**	680	**596**	625
Consultancy Fees	**2,828**	2,877	**2,191**	2,471
Service Levy/Taxes	**3,746**	1,619	**3,699**	1,615
Internet fees and SimBanking expenses	**2,256**	1,071	**1,959**	1,007
Consumables	**1,302**	1,163	**1,224**	1,069
Other expenses	**4,665**	3,654	**4,087**	3,412
	175,416	155,319	**161,332**	144,479

14 DEPRECIATION AND AMORTISATION

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Depreciation of property and equipment	**30,996**	36,607	**30,260**	34,194
Amortization of intangible assets	**8,664**	8,472	**8,381**	8,217
Amortization of prepaid lease	**316**	322	**316**	322
Depreciation of Motor vehicles	**3,305**	3,351	**2,896**	2,903
	43,281	48,752	**41,853**	45,636

15 EMPLOYEE BENEFIT EXPENSES

Salaries and wages	**141,620**	131,097	**130,132**	118,409
Bonus	**1,008**	5,854	**1,008**	5,668
Social security contributions	**17,206**	16,047	**16,107**	14,602
Gratuity	**13,226**	12,536	**12,271**	11,159
Leave allowance	**7,020**	6,605	**6,534**	5,971
Medical expenses	**5,953**	5,946	**5,616**	5,542
Staff Welfare	**9,061**	2,609	**8,775**	2,405
Skills & Develepment Levy	**7,236**	6,748	**6,882**	6,207
Group Personal Accident	**1,309**	1,343	**1,259**	1,278
Staff Transfers	**1,104**	959	**1,014**	937
Staff award	**2,386**	2,008	**2,344**	1,880
Other staff costs	**3,054**	3,641	**2,880**	2,253
	210,183	195,393	**194,822**	176,311

16 INCOME TAX

(a) Income tax expense				
Current income tax – current year	**38,204**	55,372	**37,325**	54,045
Current income tax – prior years	**2,077**	1,389	**2,159**	1,396
Deferred tax – current year	**(3,890)**	(38,749)	**(3,875)**	(38,637)
Deferred tax – prior years	**(1,406)**	(646)	**(1,406)**	(666)
	34,985	17,366	**34,203**	16,138
(b) Income tax recoverable				
At 1 January	**12,646**	15,010	**9,688**	12,870
Payments made during the year	**43,703**	53,556	**42,937**	51,790
Charge to profit or loss	**(40,281)**	(56,761)	**(39,484)**	(55,441)
Withholding tax utilised	**774**	841	**774**	469
Closing balance	**16,842**	12,646	**13,915**	9,688

16 INCOME TAX (CONTINUED)

(c) Reconciliation of accounting profit to tax charge

The tax on the Group and Bank profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Profit before income tax	**99,117**	53,578	**103,791**	46,947
Tax calculated at the statutory income tax rate at 30%	**29,735**	16,073	**31,137**	14,084
Tax effect of:				
Depreciation on non-qualifying assets	**789**	784	**765**	730
Expenses not deductible for tax purposes	**1,902**	681	**1,548**	671
Under provisions of current tax in previous years	**2,077**	1,389	**2,159**	1,396
(Over)/under provision of deferred tax in previous years	**(1,406)**	(646)	**(1,406)**	(666)
Other/Unrecognised deferred tax	**1,888**	(915)	**-**	(77)
Income tax expense	**34,985**	17,366	**34,203**	16,138
Effective tax rate	**35%**	32%	**33%**	34%

There is no change in tax rate from the previous year and no amount of temporary differences associated with investments in subsidiaries which can be found in the statement of financial position mainly because of inexistence of temporary difference and the fact that it is unlikely that the difference will be reversed in future.

17 EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit attributed to the shareholders of the Group by the weighted average number of ordinary shares outstanding as at close of the year.

	GROUP		BANK	
	2018	**2017**	**2018**	**2017**
Profit for the year (TZS'Million)	**64,132**	36,212	**69,588**	30,809
Weighted average number of shares ('Million)	**2,612**	2,612	**2,612**	2,612
Basic and diluted earnings per share (TZS)	**24.55**	13.86	**26.64**	11.80

There were no potentially dilutive ordinary shares outstanding as at 31 December 2018 (2017: Nil). Diluted earnings per share is the same as basic earnings per share.

18 DISTRIBUTION MADE AND PROPOSED

Amount in TZS Million	2018	2017
Cash dividends on ordinary shares declared:		
Dividend declared 2017 TZS 5 per share (2016:TZS 10 per share)	**13,059**	26,118
Proposed dividends on ordinary shares:		
Cash dividend for 2018:TZS 8 per share (2017:TZS 5 per share)	**20,896**	13,059
Non-cash distribution		
There was no non-cash distribution during the year (2017:NIL)		

The Directors propose payment of a dividend of TZS 8 per share, amounting to TZS 20.9 billion out of 2018 profit to be ratified at the Annual General Meeting to be held in May 2019. In 2018, dividend of TZS 5 per share, amounting to TZS 13.1 billion was approved by shareholders and paid.

Proposed dividend on ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability as at 31 December.

19 CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Cash in hand	**311,424**	303,607	**308,895**	299,916
Clearing accounts with Central Banks	**50,459**	498,727	**45,686**	484,375
Statutory Minimum Reserves (SMR) *	**339,108**	344,507	**336,582**	341,981
	700,991	1,146,841	**691,163**	1,126,272

*In accordance with Section 44 of the Bank of Tanzania Act, 2006 and Sections 4 and 71 of the Banking and Financial Institutions Act, 2006; the Bank is required to maintain Statutory Minimum Reserves (SMR) on its total deposit liabilities and funds borrowed from the general public. In 2018, the SMR deposit was required to be at least 8% of customers' total deposits and borrowings from the general public and 40% of government's deposits.

The required reserve ratio determined by the Bank of the Republic of Burundi is set at 3% of the total deposit liabilities.

Effective from 20th June 2017, the Bank of Tanzania unified the Statutory Minimum Reserves (SMR) account with the Clearing accounts so as to increase flexibility in liquidity management by Banks and promote sustainability and short-term interest rates.

Cash in hand and balances with Central Banks are non-interest bearing assets.

20 GOVERNMENT SECURITIES

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Treasury bills	**111,601**	316,672	**106,132**	315,031
Treasury bonds	**646,104**	381,619	**594,622**	336,575
Treasury bonds - ECL	**(625)**	-	**(625)**	-
Government securities at amortised cost	**757,080**	698,291	**700,129**	651,606
Government securities at FVOCI	**481,003**	406,256	**481,003**	406,256
	1,238,083	1,104,547	**1,181,132**	1,057,862

Treasury bills and bonds are debt securities issued by the Government. As at 31 December 2018, treasury bonds amounting to TZS 54,500 million (2017: TZS 163,909 million) had been pledged as collateral for various short term borrowings from other Banks.

The maturity analysis of Government securities is as follows;

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Maturing within 3 months				
Treasury bills	**5,469**	1,016	**-**	-
Treasury bonds	**1,792**	-	**409**	-
Maturing after 3 months but within 12 months				
Treasury bills	**106,132**	315,656	**106,132**	315,031
Treasury bonds	**68,071**	-	**47,925**	-
Maturing after 12 months				
Treasury bonds	**1,056,619**	787,875	**1,026,666**	742,831
	1,238,083	1,104,547	**1,181,132**	1,057,862
Current	**181,464**	316,672	**154,466**	315,031
Non-Curent	**1,056,619**	787,875	**1,026,666**	742,831
	1,238,083	1,104,547	**1,181,132**	1,057,862

20 GOVERNMENT SECURITIES (CONTINUED)

An analysis of changes in the gross carrying amount in relation to government securities is, as follows:

GROUP	Amortised Cost	FVOCI	Total
At start of year	698,291	406,256	**1,104,547**
Additions	397,713	186,135	**583,848**
Matured/Sold	(338,299)	(111,388)	**(449,687)**
At end of year	**757,705**	**481,003**	**1,238,709**
ECL Allowance	(625)	-	**(625)**
Net Government Securities	**757,080**	**481,003**	**1,238,083**

BANK	Amortised Cost	FVOCI	Total
At start of year	651,606	406,256	**1,057,862**
Additions	397,713	186,135	**583,848**
Matured/Sold	(348,565)	(111,388)	**(459,953)**
At end of year	**700,754**	**481,003**	**1,181,757**
ECL Allowance	(625)	-	**(625)**
Net Government Securities	**700,129**	**481,003**	**1,181,132**

GROUP Government securities at amortised cost	Stage 1 12-month ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	698,291	**698,291**
Restatement of the prior year	-	**-**
Gross carrying amount as at 1 January 2018	698,291	**698,291**
Changes in the gross carrying amount		
New financial assets originated or purchased	397,713	**397,713**
Financial assets that have been derecognized	(338,299)	**(338,299)**
Gross carrying amount as at 31 December 2018	757,705	**757,705**
Loss allowance as at 31 December 2018	625	**625**

20 GOVERNMENT SECURITIES (CONTINUED)

BANK Government securities at amortised cost	Stage 1 12-month ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	651,606	**651,606**
Restatement of the prior year	-	**-**
Gross carrying amount as at 1 January 2018	651,606	**651,606**
Changes in the gross carrying amount		
New financial assets originated or purchased	397,713	**397,713**
Financial assets that have been derecognized	(348,565)	**(348,565)**
Gross carrying amount as at 31 December 2018	700,754	**700,754**
Loss allowance as at 31 December 2018	625	**625**

GROUP AND BANK Government securities at FVOCI	Stage 1 12-month ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	406,256	**406,256**
Restatement of the prior year	-	**-**
Gross carrying amount as at 1 January 2018	406,256	**406,256**
Changes in the gross carrying amount		
New financial assets originated or purchased	186,135	**186,135**
Financial assets that have been derecognized	(111,388)	**(111,388)**
Gross carrying amount as at 31 December 2018	481,003	**481,003**

Analysis of movement in the ECL allowances during the period are as follows;

GROUP	Stage 1 TZS' Million	Total 2018 TZS' Million	Total 2017 TZS' Million
At start of year	**1,405**	**1,405**	-
Release to profit or loss	**(780)**	**(780)**	-
At end of year	**625**	**625**	-

21 CORPORATE BONDS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Carrying value	**3,516**	-	**3,516**	-
	3,516	-	**3,516**	-

On 28 May 2018, the Bank purchased a 5-year corporate bond valued at TZS 3.5 billion issued by Tanzania Mortgage Refinance Company (TMRC) at an annual interest rate of 11.8 percent.

22 NON CURRENT ASSETS HELD FOR SALE

	GROUP		BANK	
	2018 TZS' Million	2017 TZS'Million	**2018 TZS' Million**	2017 TZS' Million
Land and Equipment				
Carrying value	**16,600**	16,600	**16,600**	16,600
	16,600	16,600	**16,600**	16,600

On 28 February 2017 the High court of Tanzania issued a consent judgment whereby CRDB Bank Plc was permitted to sell a property located at Kihonda – Morogoro which was pledged as a collateral for a loan that was given to one of its customers, as a full and final settlement of the loan. The carrying value is based on the price offered by a counterparty for which the transaction has significantly progressed. There are several interested parties and the sale is expected to be completed before the end of December 2019. There is no impairment or reversal recorded against the non current assets held for sale.

23 LOANS AND ADVANCES TO BANKS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Cheques and items for clearing	**20,887**	12,224	**17,899**	10,839
Nostro accounts balances	**96,452**	121,443	**93,657**	120,792
Placements with other Banks	**228,623**	131,475	**251,061**	153,330
ECL Allowances	**(264)**	-	**(264)**	-
	345,698	265,142	**362,353**	284,961
Maturity analysis				
Redeemable on demand				
-Cheques and items for clearing	**20,887**	12,224	**17,899**	10,839
-Nostro accounts balances	**96,452**	121,443	**93,657**	120,792
Placements with other Banks				
- Maturing within 3 months	**228,623**	131,475	**228,780**	131,615
- Maturing after 3 months but within 12 months	**-**	-	**11,790**	-
-Maturity after 1 year	**-**	-	**10,491**	21,715
ECL Allowances	**(264)**	-	**(264)**	-
	345,698	265,142	**362,353**	284,961

The maturity analysis is based on the remaining periods to contractual maturity from year end.

An analysis of changes in the gross carrying amount in relation to Placement with other banks is, as follows:

	GROUP	BANK
Placement with other banks	**Total 2018 TZS' Million**	**Total 2018 TZS' Million**
At start of year	**131,479**	**153,330**
Additions	**6,617,444**	**6,617,444**
Derecognised	**(6,520,300)**	**(6,519,713)**
At end of year	**228,623**	**251,061**
ECL Allowances	**(264)**	**(264)**
	228,359	**250,796**

23 LOANS AND ADVANCES TO BANKS (CONTINUED)

An analysis of changes in the gross carrying amount in relation to placement with other banks is, as follows:

GROUP Placement with other banks	Stage 1 12-month ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	131,479	131,479
Restatement of the prior year	-	-
Gross carrying amount as at 1 January 2018	131,479	131,479
Changes in the gross carrying amount		
New financial assets originated or purchased	6,617,444	6,617,444
Financial assets that have been derecognized	(6,520,300)	(6,520,300)
Gross carrying amount as at 31 December 2018	228,623	228,623
Loss allowance as at 31 December 2018	264	264

BANK Placement with other banks	Stage 1 12-month ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	153,330	153,330
Restatement of the prior year	-	-
Gross carrying amount as at 1 January 2018	153,330	153,330
Changes in the gross carrying amount		
New financial assets originated or purchased	6,617,444	6,617,444
Financial assets that have been derecognized	(6,519,713)	(6,519,713)
Gross carrying amount as at 31 December 2018	251,061	251,061
Loss allowance as at 31 December 2018	264	264

Analysis of movement in the ECL allowances during the period are as follows;

GROUP AND BANK	Stage 1 TZS' Million	Total 2018 TZS' Million	Total 2017 TZS' Million
At start of year	301	301	-
Release to profit or loss	(37)	(37)	-
At end of year	264	264	-

24 LOANS AND ADVANCES TO CUSTOMERS

GROUP	Stage 1 TZS' Million	Stage 2 TZS' Million	Stage 3 TZS' Million	Total 2018 TZS' Million	Total 2017 TZS' Million
Term loans	**2,480,608**	**58,235**	**152,163**	**2,691,006**	2,266,510
Overdrafts	**430,076**	**4,925**	**66,487**	**501,488**	597,998
Staff loans	**116,781**	**822**	**3,281**	**120,884**	259,988
Gross loans and advances to customers	**3,027,465**	**63,982**	**221,931**	**3,313,378**	3,124,496
Less:					
Provision for impairment	**(59,001)**	**(6,761)**	**(120,883)**	**(186,645)**	(230,658)
Net loans and advances to customers	**2,968,464**	**57,221**	**101,048**	**3,126,733**	2,893,838

BANK	Stage 1 TZS' Million	Stage 2 TZS' Million	Stage 3 TZS' Million	Total 2018 TZS' Million	Total 2017 TZS' Million
Term loans	**2,416,918**	**57,092**	**151,651**	**2,625,661**	2,223,917
Overdrafts	**432,056**	**4,925**	**66,487**	**503,468**	594,229
Staff loans	**114,737**	**822**	**3,281**	**118,840**	171,623
Gross loans and advances to customers	**2,963,711**	**62,839**	**221,419**	**3,247,969**	3,075,212
Less:					
Provision for impairment	**(58,824)**	**(6,752)**	**(120,849)**	**(186,425)**	(230,426)
Net loans and advances to customers	**2,904,887**	**56,087**	**100,570**	**3,061,544**	2,844,786

Maturity analysis

The maturity analysis is based on the remaining periods to contractual maturity from year end.

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
- Maturing within 3 months	**238,182**	259,897	**226,834**	257,805
- Maturing after 3 months but within 12 months	**426,704**	505,347	**415,355**	501,756
- Maturity after 1 year	**2,461,847**	2,128,594	**2,419,355**	2,085,225
Net loans and advances to customers	**3,126,733**	2,893,838	**3,061,544**	2,844,786

24 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Analysis by geographical location

The Bank categorises loans and advances to customers into 6 regions of loan origination for the purpose of regulatory reporting to the Bank of Tanzania. The gross loans and advances below has not taken into account interest in suspense.

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Dar es Salaam zone	1,222,726	1,232,478	1,222,726	1,232,478
Mbeya zone	501,981	441,258	501,981	441,258
Lake zone	613,405	610,013	613,405	610,013
Zanzibar zone	323,719	291,112	323,719	291,112
Arusha zone	586,138	500,351	586,138	500,351
Burundi	65,409	49,284	-	-
Gross loans and advances to customers	3,313,378	3,124,496	3,247,969	3,075,212

The composition of the zones is as follows:

Zone	Component regions
Dar es Salaam zone	All Dar es Salaam branches
Lake zone	Kagera, Kigoma, Mara, Mwanza, Simiyu, Geita, Shinyanga,Tabora and Singida
Mbeya zone	Mbeya, Sumbawanga Njombe, Katavi, Rukwa, Ruvuma and Mbeya
Zanzibar zone	Coast, Unguja, Lindi, Morogoro and Mtwara
Arusha zone	Arusha, Kilimanjaro, Manyara,Tanga and Dodoma
Burundi zone	Bunjumbura

Analysis of ECL allowances by industry;

	GROUP		BANK	
	2018 TZS' Million	2018 TZS' Million	2018 TZS' Million	2018 TZS' Million
Agriculture	37,010	45,791	37,010	45,745
Financial Intermediaries	13,147	16,266	13,147	16,250
Hotels and restaurants	1,583	1,959	1,583	1,957
Personal (Private)	65,450	80,723	65,243	80,642
Trade	19,234	23,782	19,221	23,758
Transport and Communication	3,129	3,871	3,129	3,868
Mining and quarrying	29,844	36,925	29,844	36,888
Electricity	13,038	16,132	13,038	16,115
Building and Construction	1,844	2,282	1,844	2,279
Others	2,366	2,927	2,366	2,924
	186,645	230,658	186,425	230,426

24 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Analysis of movement in the ECL;

GROUP	Stage 1 TZS' Million	Stage 2 TZS' Million	Stage 3 TZS' Million	Total 2018 TZS' Million	Total 2017 TZS' Million
At 1 January 2018	16,355	611	213,692	**230,658**	135,383
Increase in ECL adoption of IFRS 9	14,354	6,702	289	**21,345**	-
At 1 January 2018 (restated)	30,709	7,313	213,981	**252,003**	135,383
Charge for the period	48,132	3,094	56,439	**107,665**	137,696
Write-offs	(19,840)	(3,646)	(149,537)	**(173,023)**	(42,421)
	59,001	**6,761**	**120,883**	**186,645**	230,658

Impairment charge to profit or loss is broken down as follows;

Impairment charges for credit losses	48,132	3,094	56,439	**107,665**	137,696
Loan terms modification	-	-	13,601	**13,601**	31,171
Amount recovered during the year	-	-	(5,943)	**(5,943)**	(15,493)
Charge to profit or loss	**48,132**	**3,094**	**64,097**	**115,323**	153,374

BANK	Stage 1 TZS' Million	Stage 2 TZS' Million	Stage 3 TZS' Million	Total 2018 TZS' Million	Total 2017 TZS' Million
At 1 January 2018	16,165	600	213,661	**230,426**	134,063
Increase in ECL adoption of IFRS 9	14,354	6,702	289	**21,345**	-
At 1 January 2018 (restated)	30,519	7,302	213,950	**251,771**	134,063
Charge for the period	48,145	3,096	56,118	**107,359**	136,649
Write-offs	(19,840)	(3,646)	(149,219)	**(172,705)**	(40,286)
	58,824	**6,752**	**120,849**	**186,425**	230,426

Impairment charge to profit or loss broken down as follows;

Impairment charges for credit losses	48,145	3,096	56,118	**107,359**	136,649
Loan terms modification	-	-	13,601	**13,601**	31,171
Amount recovered during the year	-	-	(5,941)	**(5,941)**	(15,493)
Charge to profit or loss	**48,145**	**3,096**	**63,778**	**115,019**	152,327

25 OFF BALANCE SHEET FINANCIAL ASSETS

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to off balance sheet items is, as follows:

GROUP

Financial guarantees and Letters of credit	Stage 1 12-month ECL TZS' Million	Stage 2 Lifetime ECL TZS' Million	Stage 3 Lifetime ECL TZS' Million	Total TZS' Million
Gross carrying amount as at 31 December 2017	460,561	-	-	460,561
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	460,561	-	-	460,561
Changes in the gross carrying amount	138,429	-	-	138,429
Gross carrying amount as at 31 December 2018	598,990	-	-	598,990
Loss allowance as at 31 December 2018	5,222	-	-	5,222

Loss allowances - Financial guarantees and Letters of credit				
Loss allowance as at 31 December 2017	-	-	-	-
Restatement of the prior year	5,077	-	-	5,077
Loss allowance as at 1 January 2018	5,077	-	-	5,077
Changes in the loss allowance	145	-	-	145
Loss allowance as at 31 December 2018	5,222	-	-	5,222

BANK

Financial guarantees and Letters of credit				
Gross carrying amount as at 31 December 2017	460,318	-	-	460,318
Restatement of the prior year	-	-	-	-
Gross carrying amount as at 1 January 2018	460,318	-	-	460,318
Changes in the gross carrying amount	136,798	-	-	136,798
Gross carrying amount as at 31 December 2018	597,116	-	-	597,116
Loss allowance as at 31 December 2018	5,222	-	-	5,222

Loss allowances - Financial guarantees and Letters of credit				
Loss allowance as at 31 December 2017	-	-	-	-
Restatement of the prior year	5,077	-	-	5,077
Loss allowance as at 1 January 2018	5,077	-	-	5,077
Changes in the loss allowance	145	-	-	145
Loss allowance as at 31 December 2018	5,222	-	-	5,222

26 CREDIT CARDS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Carrying amount	551	-	551	-
ECL allowance	(18)	-	(18)	-
Net Credit cards	533	-	533	-

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to credit cards is, as follows:

GROUP AND BANK		
Loans and advances to customers at amortised cost	Stage 1 12-month ECL	Total
Gross carrying amount as at 31 December 2017	-	-
Restatement of the prior year	-	-
Gross carrying amount as at 1 January 2018	-	-
Changes in the gross carrying amount	551	551
Gross carrying amount as at 31 December 2018	551	551
Loss allowance as at 31 December 2018	18	18

Loss allowances Loans and advances to customers at amortised cost		
Loss allowance as at 31 December 2017	-	-
Restatement of the prior year	-	-
Loss allowance as at 1 January 2018	-	-
Changes in the loss allowance	18	18
Loss allowance as at 31 December 2018	18	18

27 EQUITY INVESTMENTS AT FVOCI

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Investment in Tanzania Mortgage Refinance Company (TMRC)	3,893	2,280	3,893	2,280
Investment in Dar es Salaam Stock Exchange (DSE)	459	367	459	367
Investment in Tandahimba Community Bank (TACOBA)	2,661	100	2,661	100
	7,013	2,747	7,013	2,747

Tanzania Mortgage Refinance Company (TMRC) is a private sector institution owned by Banks with the sole purpose of supporting Banks to do mortgage lending by refinancing Banks' mortgage portfolios. The percentage shareholding of the Bank in TMRC as at 31 December 2018 was 17.14% (2017: 17.14%).

Dar es Salaam Stock Exchange (DSE) is a stock exchange located in Dar es Salaam, incorporated in September 1996 and trading started in April 1998. The activities of the exchange are monitored and supervised by the Capital Market and Securities Authority (CMSA). The percentage shareholding of the Bank in DSE as at 31 December was 1.6%.

TACOBA is the community Bank limited by shares operating in Tandahimba district council, Mtwara region since 2008. The Bank has more than 5,800 customers as at 31 December 2018, mainly being savings and time deposits.

The percentage shareholding of the Bank in TACOBA as at 31 December 2018 was 7.7%.

28 OTHER ASSETS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Advance payment for capital expenditure	5,559	7,411	4,688	7,411
Prepaid expenses	88,283	16,371	85,191	15,278
Bank card stock	2,984	3,901	2,984	3,901
Due from a related party (Note 46)	-	-	312	218
Receivable from mobile phone companies *	43,216	46,771	43,216	46,771
Bills receivable *	46	46	46	46
Other receivables *	22,690	32,479	20,515	29,999
Less: Provision for impairment	(13,433)	(4,913)	(12,760)	(4,714)
	149,345	102,066	144,192	98,910

*Receivables under the scope of IFRS 9.

28 OTHER ASSETS (CONTINUED)

Provision for impairment is made for assets whose recoverability is considered doubtful.
All other assets are current.

Maturity analysis	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Maturing after one month but within 3 months	**46,245**	94,655	**46,245**	91,499
Maturing after 3 months but within 12 months	**97,541**	7,411	**93,259**	7,411
Maturing after 1 year	**5,559**	-	**4,688**	-
	149,345	102,066	**144,192**	98,910

Movement in provision for impairment on other assets is as shown below:

At 1 January 2018	**4,913**	3,522	**4,714**	3,507
Adjustment of opening balance as per IFRS 9	**1,929**	-	**1,644**	-
At 1 January 2018 (restated)	**6,842**	3,522	**6,358**	3,507
Increase during the year	**8,277**	3,544	**8,073**	3,314
Write-offs	**(1,686)**	(2,153)	**(1,671)**	(3,994)
At 31 December	**13,433**	4,913	**12,760**	4,714

Historical loss rate used for the ECL Simplified Approach:

The Bank has used a simplified approach to estimate the ECL for receivables in scope of IFRS 9. The simplified approach used requires the bank to derive the loss rate after considering the payments received in respect to at least prior 12 months receivables. That being the case; ECL for the period as at 31 December 2018 is based on the payments that the bank has received in the year 2018 in respect to 31 December 2017 receivables. ECL for Day 1 adjustment i.e. 1 January 2018 is based on the payments that the bank has received in the year 2017 in respect to 31 December 2016 receivables.

29 INVESTMENT IN SUBSIDIARIES

	Country of Incorporation	Interest Held %	BANK	
			2018 TZS' Million	2017 TZS' Million
CRDB Microfinance Service Company Limited	Tanzania	100%	**728**	728
CRDB Insurance broker	Tanzania	100%	**100**	100
CRDB Bank Burundi S.A	Burundi	100%	**21,583**	21,583
			22,411	22,411

All subsidiaries are unlisted and have the same year end as the Bank. The investment in the subsidiaries includes the cost of shares and other initial payments made for the subsidiaries.

The CRDB Insurance Broker Ltd was incorporated in the United Republic of Tanzania on 12th April 2016 under the Companies Act No.12 of 2002 as a private company limited by shares and it is wholly owned by CRDB Bank Plc.

30A PROPERTY AND EQUIPMENT

GROUP Amounts are in TZS'Million	Land & buildings	Leasehold improvement	Office equipment	Computer equipment	Smartcard equipment	Security equipment	Mobile branch	Work in progress	Total
Year 2018									
Cost									
At 1 January	70,372	82,601	76,674	47,032	38,054	5,737	10,274	52,040	382,784
Additions	2,501	7,508	7,724	2,660	8,505	634	30	62,563	92,125
Reclassification/Reversal	541	4,997	(1,173)	1,870	1,061	213	-	(7,462)	47
Released on revaluation	-	-	171	41	-	-	-	-	212
Disposals	(2)	(3,170)	(109)	-	-	(4)	-	-	(3,285)
At 31 December	73,412	91,936	83,287	51,603	47,620	6,580	10,304	107,141	471,883
Depreciation									
At 1 January	(11,037)	(47,924)	(46,557)	(27,406)	(18,916)	(3,267)	(7,693)	-	(162,800)
Reclassification/Reversal	(8,631)	8,631	2,459	(1,665)	(883)	(70)	-	-	(159)
Charge for the year	(1,773)	(7,499)	(8,422)	(7,113)	(4,349)	(1,054)	(787)	-	(30,996)
Disposal	-	2,298	98	-	-	4	-	-	2,400
At 31 December	(21,441)	(44,494)	(52,422)	(36,184)	(24,148)	(4,386)	(8,480)	-	(191,555)
Net book value	51,971	47,442	30,865	15,419	23,472	2,194	1,824	107,141	280,328

Work in progress relates to the Bank's buildings under construction.

30A PROPERTY AND EQUIPMENT (CONTINUED)

GROUP Amounts are in TZS'Million	Land & buildings	Leasehold improvement	Office equipment	Computer equipment	Smartcard equipment	Security equipment	Mobile branch	Work in progress	Total
Year 2017									
Cost									
At 1 January	53,903	72,742	76,041	43,990	34,516	5,824	10,245	28,423	325,684
Additions	11,513	9,637	10,816	7,278	5,520	1,116	29	29,855	75,764
Reclassification/Reversal	4,956	781	23	49	(7)	-	-	(6,238)	(436)
Disposals	-	(559)	(10,206)	(4,285)	(1,975)	(1,203)	-	-	(18,228)
At 31 December	70,372	82,601	76,674	47,032	38,054	5,737	10,274	52,040	382,784
Depreciation									
At 1 January	(10,072)	(36,506)	(46,163)	(24,938)	(17,040)	(3,565)	(6,757)	-	(145,041)
Reclassification/Reversal	542	594	1	(1)	-	(13)	-	-	1,123
Charge for the year	(1,507)	(12,012)	(10,789)	(6,706)	(3,767)	(890)	(936)	-	(36,607)
Disposal	-	-	10,394	4,239	1,891	1,201	-	-	17,725
At 31 December	(11,037)	(47,924)	(46,557)	(27,406)	(18,916)	(3,267)	(7,693)	-	(162,800)
Net book value	59,335	34,677	30,117	19,626	19,138	2,470	2,581	52,040	219,984

Work in progress relates to the Bank's buildings under construction.

30A PROPERTY AND EQUIPMENT (CONTINUED)

BANK Amounts are in TZS'Million	Land & buildings	Leasehold improvement	Office equipment	Computer equipment	Smart card equipment	Security equipment	Mobile branch	Work in progress	Total
Year 2018									
Cost									
At 1 January	61,392	78,431	73,873	46,448	37,847	5,736	10,274	51,976	365,977
Additions	2,501	7,508	7,669	2,610	8,505	634	30	61,834	91,291
Reclassification/Reversal	542	4,909	(1,002)	1,907	1,061	213	-	(7,472)	158
Disposals	-	(3,168)	(109)	-	-	(4)	-	-	(3,281)
At 31 December	64,435	87,680	80,431	50,965	47,413	6,579	10,304	106,338	454,145
Depreciation									
At 1 January	(10,918)	(45,146)	(44,344)	(26,998)	(18,794)	(3,267)	(7,694)	-	(157,161)
Charge for the year	(1,546)	(7,285)	(8,192)	(7,065)	(4,329)	(1,056)	(787)	-	(30,260)
Reclassification/Reversal	-	6	2,405	(1,662)	(883)	(70)	-	-	(203)
Disposals	-	2,297	97	-	-	4	-	-	2,398
At 31 December	(12,464)	(50,128)	(50,034)	(35,725)	(24,006)	(4,389)	(8,481)	-	(185,227)
Net book value	51,971	37,552	30,397	15,240	23,407	2,190	1,823	106,338	268,918

Work in progress relates to the Bank's buildings under construction.

30A PROPERTY AND EQUIPMENT (CONTINUED)

BANK Amounts are in TZS'Million	Land & buildings	Leasehold improvement	Office equipment	Computer equipment	Smart card equipment	Security equipment	Mobile branch	Work in progress	Total
Year 2017									
Cost									
At 1 January	53,904	59,217	70,675	43,427	34,308	5,823	10,245	28,334	305,933
Additions	2,539	5,553	9,615	7,252	5,520	1,116	29	29,880	61,504
Transfer from MFCL to Parent	-	12,867	3,781	-	-	-	-	-	16,648
Reclassification/Reversal	4,949	794	8	55	-	-	-	(6,238)	(432)
Disposals	-	-	(10,206)	(4,286)	(1,981)	(1,203)	-	-	(17,676)
At 31 December	61,392	78,431	73,873	46,448	37,847	5,736	10,274	51,976	365,977
Depreciation									
At 1 January	(10,070)	(34,157)	(44,166)	(24,571)	(16,938)	(3,566)	(6,758)	-	(140,226)
Charge for the year	(1,395)	(10,413)	(10,146)	(6,666)	(3,747)	(890)	(936)	-	(34,193)
Reclassification/Reversal	547	(576)	1	(1)	-	(12)	-	-	(41)
Disposals	-	-	9,967	4,240	1,891	1,201	-	-	17,299
At 31 December	(10,918)	(45,146)	(44,344)	(26,998)	(18,794)	(3,267)	(7,694)	-	(157,161)
Net book value	50,474	33,285	29,529	19,450	19,053	2,469	2,580	51,976	208,816

Work in progress relates to the Bank's buildings under construction.

30B MOTOR VEHICLES

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Cost				
At 1 January	**22,924**	22,874	**19,939**	19,839
Additions	**417**	437	**417**	385
Disposals	**(813)**	(387)	**(527)**	(285)
At 31 December	**22,528**	22,924	**19,829**	19,939
Depreciation				
At 1 January	**(9,843)**	(6,734)	**(8,467)**	(5,748)
Charge for the year	**(3,305)**	(3,351)	**(2,896)**	(2,903)
Disposals	**667**	242	**399**	184
At 31 December	**(12,481)**	(9,843)	**(10,964)**	(8,467)
Net book value	**10,047**	13,081	**8,865**	11,472

The Group's motor vehicles were revalued on 31 December 2012 by independent valuers, Mechmaster (T) Limited and Toyota Tanzania Limited, registered vehicle dealers to determine the fair value of the motor vehicles. The valuation, which conforms to International Valuation Standards,was determined by reference to market transactions on arm's length terms. None of the property and equipment is pledged as security for liabilities.

There were no capitalized borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2018 (2017 – Nil).

If motor vehicles were stated on the historical cost basis, the amounts would be as follows:

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Cost	**23,780**	24,176	**21,315**	21,425
Accumulated Depreciation	**(17,831)**	(15,193)	**(15,432)**	(12,935)
Net book value	**5,949**	8,983	**5,883**	8,490

Included in property and equipment are assets with a gross value of TZS 73,229 million (2017: TZS 47,262 million) which were fully depreciated but still in use. The notional depreciation charge on these assets would have been TZS 12,456 million (2017: TZS 9,452 million).

None of the property and equipment is pledged as security for liabilities as at 31 December 2018 (2017: NIL).

There were no idle assets as at 31 December 2018 (2017: NIL).

31 PREPAID OPERATING LEASE

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Cost prepaid				
At 1 January	**11,766**	11,885	**11,766**	11,885
Additions	**121**	231	**121**	231
Transfer	**15**	41	**15**	41
Adjustment	**-**	(391)	**-**	(391)
At 31 December	**11,902**	11,766	**11,902**	11,766
Amortization				
At 1 January	**(1,014)**	(721)	**(1,014)**	(721)
Charge for the year	**(316)**	(322)	**(316)**	(322)
Adjustment	**-**	29	**-**	29
At 31 December	**(1,330)**	(1,014)	**(1,330)**	(1,014)
Net book value				
At 31 December	**10,572**	10,752	**10,572**	10,752

Prepaid operating lease relates to advance payments made for the right of occupancy of various portions of leasehold land where the Bank has its business premises.

32 INTANGIBLES ASSETS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS'Million	2017 TZS' Million
Intangible assets in use	**42,571**	37,737	**41,536**	36,616
Total	**42,571**	37,737	**41,536**	36,616

INTANGIBLE ASSETS IN USE				
Cost				
At 1 January	**72,522**	64,194	**68,845**	60,717
Capitalization	**-**	-	**-**	-
Additions	**13,459**	11,940	**13,269**	11,666
Disposals / Retirement	**(3,793)**	(3,612)	**(3,767)**	(3,538)
At 31 December	**82,188**	72,522	**78,347**	68,845
Amortization				
At 1 January	**(34,785)**	(29,048)	**(32,229)**	(26,739)
Charge for the year	**(8,664)**	(8,472)	**(8,381)**	(8,217)
Adjustment	**-**	2,727	**-**	2,727
Disposals/ Retirement	**3,832**	8	**3,799**	-
At 31 December	**(39,617)**	(34,785)	**(36,811)**	(32,229)
Net book value At 31 December	**42,571**	37,737	**41,536**	36,616

Intangible assets relate to computer software used by the Group. Fully depreciated intangible assets with gross value TZS 13,581 million (2017: TZS 10,899 million) are still in use. The notional depreciation charge would have been TZS 2,716 million (2017: TZS 2,180 million). Some fully depreciated software's are; internet Banking suit, financial crimes software, Net recovery system.

32 INTANGIBLE ASSETS (CONTINUED)

No intangible asset was pledged as security for liabilities as at 31 December 2018. There also no restrictions other than those outlined in the software license.

As at 31 December 2018, there were no significant intangible assets controlled by the entity which have not been recognized as assets.

33 DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The movement on the deferred income tax account is as follows:

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
At 1 January	**75,627**	42,351	**74,214**	41,027
Credit to profit and loss	**3,890**	38,749	**3,875**	38,637
Charge to other comprehensive income	**(3,339)**	(6,285)	**(3,339)**	(6,285)
Credit to Retained earnings	**8,931**	-	**8,931**	-
Under provision in prior year	**1,406**	646	**1,406**	666
Opening balance adjustment	**-**	166	**-**	169
At 31 December	**86,515**	75,627	**85,087**	74,214

Deferred income tax asset/(liability) is attributed to the following items:

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Accelerated capital allowance	**(7,434)**	(5,127)	**(7,468)**	(5,067)
Provisions	**94,642**	87,039	**93,248**	85,566
Unrealised gain/(loss) on debt instrument at fair value through OCI	**(9,624)**	(6,285)	**(9,624)**	(6,285)
ECL day 1 adjustment - IAS 39 to IFSR 9 transition	**8,931**		**8,931**	
	86,515	75,627	**85,087**	74,214
Current deferred tax asset	**8,208**	7,610	**7,491**	6,923
Non-current deferred tax asset	**78,307**	68,017	**77,596**	67,291
	86,515	75,627	**85,087**	74,214

34 DEPOSITS FROM CUSTOMERS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Current and demand accounts	**2,092,131**	1,933,924	**2,051,072**	1,895,488
Savings accounts	**1,743,081**	1,594,030	**1,727,018**	1,582,361
Term deposits	**851,962**	797,917	**805,000**	760,255
	4,687,174	4,325,871	**4,583,090**	4,238,104
Current deposits	**4,579,301**	4,194,448	**4,475,345**	4,106,681
Non-current deposits	**107,873**	131,423	**107,745**	131,423
	4,687,174	4,325,871	**4,583,090**	4,238,104

Savings accounts, term deposits and some current and demand deposits are interest bearing accounts. These interest bearing customer deposit accounts carry variable interest rates.

Maturity analysis	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Repayable on demand	**4,078,162**	3,617,578	**4,015,353**	3,563,914
Maturing within 3 months	**229,432**	233,015	**210,123**	217,603
After 3 months but within 1 year	**271,707**	343,855	**249,869**	325,164
Maturing after 1 year	**107,873**	131,423	**107,745**	131,423
	4,687,174	4,325,871	**4,583,090**	4,238,104

35 DEPOSITS FROM BANKS

Deposits from Banks	**3,994**	79,722	**3,994**	80,679

All deposits from Banks are current

.

36 OTHER LIABILITIES

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Bills payable	**1,200**	1,431	**761**	948
Dividend payable	**7,860**	7,813	**7,860**	7,813
Accrued expenses	**31,038**	27,357	**30,373**	26,773
Due to related parties (Note 46)	**-**	-	**12,164**	19,879
Deferred income	**14,041**	10,041	**13,628**	9,638
Outstanding credits	**8,876**	6,124	**8,749**	5,389
Unclaimed customer balances	**2,674**	4,795	**2,068**	4,788
Other payables	**31,831**	33,478	**30,247**	32,545
At 31 December	**97,520**	91,039	**105,850**	107,773

- Bills payable represents Bankers cheques issued to customers that have not yet been presented for payment.
- Dividend payable represents uncollected dividends by the Bank's shareholders.
- Outstanding credits represent suspended customer balances while their Bank accounts are in the process of being opened.
- Other liabilities are expected to be settled within no more than 12 months after the reporting date.

37 PROVISIONS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Provision for litigation				
At 1 January	**3,231**	1,715	**3,231**	1,715
Additional provisions	**1,404**	2,074	**1,404**	2,074
Amount paid in the year	**(594)**	(558)	**(594)**	(558)
At 31 December	**4,041**	3,231	**4,041**	3,231

As at year end, there were several pending legal cases where the Bank was a defendant. Provision has been made for legal cases where professional advice indicates that it is probable that loss will arise. The directors have considered it probable that the unfavourable outcome of these cases to the Bank could result into an estimated loss of TZS 4,041 million (2017:TZS 3,231 million). For cases whose outcomes are uncertain, contingent liabilities have been considered as disclosed in Note 44. According to the nature of such disputes the outcome and timing of settlement of these cases is uncertain.

38 GRANTS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
At 1 January	13,406	27,013	13,406	16,868
Grant amount received	715	1,010	-	-
Grant amount receivable	1,054			
Grant amount utilised	(5,248)	(5,927)	(3,543)	(3,165)
Grant amount claimed	-	(4,649)	-	(4,649)
Transfer from MFSCL to parent	-	-	-	8,405
Reclassification to Borrowing	-	(4,337)	-	(4,337)
Foreign exchange difference	50	296	51	284
At 31 December	9,977	13,406	9,914	13,406

38.1 FSDT GRANTS

At 1 January	7,095	17,164	7,095	14,181
Reclassification to Borrowing	-	(4,337)	-	(4,337)
Transfer from MFSCL to parent	-	-	-	2,436
Grant amount receivable	-	-	-	-
Grant amount claimed	-	(3,311)	-	(3,311)
Grant amount utilised	(1,223)	(2,630)	(1,223)	(2,083)
Foreign exchange difference	31	209	31	209
At 31 December	5,903	7,095	5,903	7,095

FSDT GRANT I

On 26 May 2008, CRDB Bank Plc signed a four year funding agreement with Financial Sector Deepening Trust of Tanzania (FSDT) amounting to USD 3,806,500 as a grant for strengthening of the Bank's microfinance partner institutions and increase outreach.

FSDT GRANT II

The conditions of the grant are subject to the achievement of performance targets relating to the number of constructed service centres, purchase of mobile branches as well as target number of clients and borrowers served among other conditions.

38 GRANTS (CONTINUED)

38.2 DANIDA WOMEN GRANT	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
At 1 January	**807**	2,688	**807**	2,688
Grant amount utilised	**(827)**	(617)	**(827)**	(617)
Grant amount claimed	**-**	(1,338)	**-**	(1,338)
Foreign exchange difference	**20**	74	**20**	74
At 31 December	**-**	807	**-**	807

On 10 December 2011, CRDB Bank Plc signed funding agreement with DANIDA amounting to DKK 8,850,000 of which DKK 5,000,000 being guarantee and DKK 3,850,000 as a grant for operation on project named "Women Access to Finance Initiative" aimed at enabling women to contribute to economic growth through SME loans.

38.3 MASTERCARD GRANT	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
At 1 January	**-**	-	**-**	-
Grant amount received	**715**	-	**-**	-
Grant amount receivable	**1,054**			
Grant amount utilised	**(1,706)**	-	**-**	-
Foreign exchange difference	**-**	-	**-**	-
At 31 December	**63**	-	**-**	-

On 1 September 2017, CRDB MFSCL signed a two-year funding agreement with the MasterCard Foundation Fund for Rural Prosperity (FRP) amounting to USD 970,810 as a grant aimed at scaling up of existing or new financial solutions to rural and agricultural markets through SIMAccount project. As at 31 December 2018 the amount receivable as per the agreed activities was USD 428,833.

38 GRANTS (CONTINUED)

38.4 UNCDF GRANT	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
At 1 January	**-**	45	**-**	-
Grant amount received	**-**	1,010	**-**	-
Grant amount utilised	**-**	(1,068)	**-**	-
Foreign exchange difference	**-**	13	**-**	-
At 31 December	**-**	-	**-**	-

38.5 MIVARF ASSET GRANT	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
At 1 January	**5,504**	7,116	**5,504**	-
Grant amount utilised	**(691)**	(1,612)	**(691)**	(465)
Transfer from MFSCL to parent	**-**	-	**-**	5,969
Reversal	**(802)**	-	**(802)**	-
At 31 December	**4,011**	5,504	**4,011**	5,504

On 2 January 2016, CRDB MFSCL signed a six year funding agreement with Marketing Infrastructure, Value Addition and Rural Finance Support Programme (MIVARF) amounting to USD 4,000,008 as a grant for improving/ strengthening and developing access to financial services on a sustainable basis to rural micro and small scale entrepreneurship activities that will lead to increased productivities in rural areas.

39 BORROWINGS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
At 1 January	**654,879**	382,269	**654,879**	382,269
Loan received during the year	**-**	352,861	**-**	352,861
Transfer from grant	**-**	4,337	**-**	4,337
Interest charge for the year	**41,729**	35,491	**41,729**	35,491
Interest paid in the year	**(42,265)**	(30,964)	**(42,265)**	(30,964)
Principal repayment during the year	**(205,196)**	(81,380)	**(205,196)**	(81,380)
Foreign exchange difference	**9,914**	(3,398)	**9,914**	(3,398)
At 31 December	**459,061**	654,879	**459,061**	654,879

39.1 IFC SHORT TERM BORROWING	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
At 1 January	**89,733**	-	**89,733**	-
Loan received during the year	**-**	89,780	**-**	89,780
Principal repayment during the year	**(91,940)**	-	**(91,940)**	-
Interest charge for the year	**2,298**	934	**2,298**	934
Interest paid in the year	**(2,431)**	(803)	**(2,431)**	(803)
Foreign exchange difference	**2,340**	(178)	**2,340**	(178)
At 31 December	**-**	89,733	**-**	89,733

39.2 SUBORDINATED DEBT	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
At 1 January	**89,583**	87,961	**89,583**	87,961
Principal repayment during the year	**(57,463)**	-	**(57,463)**	
Interest charge for the year	**6,656**	6,355	**6,656**	6,355
Interest paid in the year	**(6,669)**	(6,313)	**(6,669)**	(6,313)
Foreign exchange difference	**293**	1,580	**293**	1,580
At 31 December	**32,400**	89,583	**32,400**	89,583
Non-current	**30,000**	30,000	**30,000**	30,000
Current	**2,400**	59,583	**2,400**	59,583
	32,400	89,583	**32,400**	89,583

39 BORROWINGS (CONTINUED)

The Bank received subordinated loans from DANIDA Investment Fund (DIF) and Deutsche Investitions- und Entwicklungsgesellschaft mbh a subsidiary of KFW (DEG) in 2015. These facilities are coming with the five years grace period to qualify for the subordination to capital as per regulatory requirement. In July 2018, subordinated loans from KFW (DEG) was fully paid. Subordinated loan from DANIDA Investment Fund (DIF loans is still under grace period with annual and quarterly interest rates payments.

39.3 LONG TERM BORROWING

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
IFC long term borrowing	56,102	72,922	56,102	72,922
TMRC borrowing	27,085	27,105	27,085	27,105
AfDB borrowing	211,506	206,128	211,506	206,128
TIB borrowing	4,263	5,410	4,263	5,410
EIB borrowing	125,730	159,956	125,730	159,956
FSDT borrowing	1,975	4,042	1,975	4,042
	426,661	475,563	426,661	475,563
Non-current	370,559	329,722	370,559	329,722
Current	56,102	145,841	56,102	145,841
	426,661	475,563	426,661	475,563

39.3.1 IFC LONG TERM BORROWING

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
At 1 January	72,922	138,672	72,922	138,672
Interest charge for the year	3,745	5,142	3,745	5,142
Interest paid in the year	(4,080)	(5,217)	(4,080)	(5,217)
Principal repayment during the year	(18,388)	(69,442)	(18,388)	(69,442)
Foreign Exchange difference	1,903	3,767	1,903	3,767
At 31 December	56,102	72,922	56,102	72,922

39 BORROWINGS (CONTINUED)

39.3.1 IFC LONG TERM BORROWING (continued)

The Bank secured a Senior debt facility from International Financial Corporation (IFC) amounting to USD 75 million in 2014 composing of the Long term portion of USD 40 million for SME support, a short term portion of USD 25 million for Agri-business support and a trade line of USD 10 million. The SME facility part of USD 40 million, which was disbursed in two equal tranches, the first tranche disbursed in June 2014 and the second tranche in May 2015. The short term facility for agriculture financing of USD 25 million received by the Bank in June 2014 was rolled over for three consecutive years, before it was further enhanced to USD 40 million post impressive performance and a market need.

The facility has a rolling over option depending on the utilization and business need. The Line of Credit (LC) of up to USD 10 million, which was made available in June 2014 also still available to the Bank to meet her trade business activities. The interest is paid on quarterly and semi-annually based on the original tenor of the facility. The long term debt is based on the semi-annual basis while the short term debt is based on quarterly basis.

The Bank has enjoyed the rate-rebate from IFC Long Term SME- facility for her impressive contribution on the support of Women SME's in the country, in addition to the Technical assistance secured from IFC in Agricultural Ware-Housing Finance. There is no collateral pledged to secure these loans.

39.3.2 AFDB LONG TERM BORROWING	GROUP		BANK	
	2018 TZS'Million	2017 TZS'Million	**2018 TZS'Million**	2017 TZS'Million
At 1 January	**206,128**	-	**206,128**	-
Loan received during the year	**-**	210,172	**-**	210,172
Interest charge for the year	**11,144**	7,557	**11,144**	7,557
Interest paid in the year	**(11,144)**	(3,034)	**(11,144)**	(3,034)
Foreign exchange difference	**5,378**	(8,567)	**5,378**	(8,567)
At 31 December	**211,506**	206,128	**211,506**	206,128

In April 2017 the Bank received the first disbursement of USD 90 Million Long term loan facility from African Development Bank (AfDB), which is part of USD 120 Million facility signed with Bank in November 2016. The facility is for the period of up to 8 years with two years grace period. The fund is provided for financing infrastructure projects and also utilise at least 25% of the proceeds on lending activities to Small and Medium-sized Enterprises (SME) in key economic sectors of the Tanzanian economy including agriculture, construction, transport and services. The Bank has been performing well by meeting all her obligations with the lender, inclusive of timely interest settlement.

39 BORROWINGS (CONTINUED)

39.3.3 EIB LONG TERM BORROWING	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
At 1 January	**159,956**	132,030	**159,956**	132,030
Loan received during the year	**-**	38,572	**-**	38,572
Interest charge for the year	**14,612**	12,678	**14,612**	12,678
Interest paid in the year	**(14,612)**	(12,769)	**(14,612)**	(12,769)
Principal repayment during the year	**(34,226)**	(10,555)	**(34,226)**	(10,555)
At 31 December	**125,730**	159,956	**125,730**	159,956

The Bank entered into a facility agreement with European Investment Bank (EIB) for a credit line of about Euro 55 Million (To be availed in TZS) in 2015. The disbursement happened into two tranches Euro 40.2 Million (TZS 97.5 Billion) and Euro14.8 Million (TZS 38 Billion) received on August 2016 and December 2017 respectively. These funds were earmarked for Mid-caps and SMEs in the country.

The facility is for the period of up to 8 years with the one year grace period. There is no collateral pledged to secure these loans. In addition to the 2015 signed facility, the Bank had another facility of EUR 20 million (equivalent to TZS 42.22 billion) signed in 2014 to support Microfinance business.

39.3.4 TMRC LONG TERM BORROWING	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
At 1 January	**27,105**	17,022	**27,105**	17,022
Loan received during the year	**-**	10,000	**-**	10,000
Interest charge for the year	**2,800**	2,320	**2,800**	2,320
Interest paid in the year	**(2,820)**	(2,237)	**(2,820)**	(2,237)
At 31 December	**27,085**	27,105	**27,085**	27,105

39.3.5 FSDT LONG TERM BORROWING	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
At 1 January	**4,042**	-	**4,042**	-
Transfer from grant	**-**	4,337	**-**	4,337
Interest charge for the year	**120**	41	**120**	41
Interest paid during the year	**(134)**	(28)	**(134)**	(28)
Principal repayment during the year	**(2,053)**	(308)	**(2,053)**	(308)
At 31 December	**1,975**	4,042	**1,975**	4,042

39 BORROWINGS (CONTINUED)

39.3.5 FSDT LONG TERM BORROWING (continued)

On 27 August 2012, The Bank received loan facility of USD 2.8 million from the Financial Sector Deepening Trust (FSDT).The loan is for a period of seven (7) years with a four (4) year grace period from the drawdown date in the payment of the principal and interest rate. The loan is to be utilized to increase services outreach through a blend of retail microfinance and wholesale methodologies and build sustainable partnerships with service delivery partners in furthering services to more remote rural areas.

39.3.6 TIB LONG TERM BORROWING	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
At 1 January	**5,410**	6,584	**5,410**	6,584
Interest charge for the year	**354**	464	**354**	464
Interest paid in the year	**(375)**	(563)	**(375)**	(563)
Principal repayment during the year	**(1,126)**	(1,075)	**(1,126)**	(1,075)
At 31 December	**4,263**	5,410	**4,263**	5,410

On 27 May 2013 the Bank received a refinancing loan of approximately TZS 2,694 million from TIB Investment Bank for loan issued to Andoya Hydro power. The loan is for 10 years at interest rate of 8.37% maturing on 27 May 2023. On 15 August 2013 the Bank received a refinancing loan of TZS 4,804 million from TIB Investment Bank for loan issued to Mwenga Hydro power. The loan is for 10 years with initial interest rate of 6.48% maturing on 15 August 2021. The interest rate was revised from 15 August 2014 to 8.62%. On 15 March 2017, the Bank received a refinancing loan of TZS 374 million from TIB Investment Bank for loan issued to Darakuta. The loan is for 9 years with initial interest rate of 8.62% which is to be revised after every six months. On 15 March 2017 the Bank received additional instalment of TZS 399.5 million in favour of Andoya Hydro power. There is no collateral pledged to secure these loans.The Bank complied with all terms and conditions of each of the agreements during the year and there were no any defaults on either principal or interest of loan payable.

39 BORROWINGS (CONTINUED)

Net Debt Reconciliation

The analysis and movement of the net bebt is, as follows:

	GROUP		BANK	
	2018 TZS'Million	2017 TZS'Million	**2018 TZS'Million**	2017 TZS'Million
Cash and Cash equivalents	**703,651**	1,068,492	**690,723**	1,047,537
Borrowings repayable within one year	**(56,102)**	(145,841)	**(56,102)**	(145,841)
Borrowings repayable after one year	**(370,559)**	(329,722)	**(370,559)**	(329,722)
Net debt	**276,990**	592,929	**264,062**	571,974
Cash and Cash equivalents	**703,651**	1,068,492	**690,723**	1,047,537
Gross debt - fixed interest rate	**(370,559)**	(402,641)	**(370,559)**	(402,641)
Gross debt - variable interest rate	**(56,102)**	(72,922)	**(56,102)**	(72,922)
Net debt	**276,990**	592,9324	**264,062**	571,974

GROUP	Assets	Liabilities from financing activities		
Amount in TZS'Million	Cash and Cash equivalents	Borrowing due within 1 year	Borrowing due after 1 year	Total
At 1 January 2018	1,068,492	(145,841)	(329,722)	592,929
Cashflows	(364,841)	89,739	(40,837)	(315,939)
Net debt	**703,651**	**(56,102)**	**(370,559)**	**276,990**
BANK				
At January 2018	1,047,537	(145,841)	(329,722)	571,974
Cashflows	(356,814)	89,739	(40,837)	(307,912)
Net debt	**690,723**	**(56,102)**	**(370,559)**	**264,062**

40 SHARE CAPITAL

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Authorized 4,000,000,000 ordinary shares of TZS 25 each	**100,000**	100,000	**100,000**	100,000
Issued and fully paid 2,611,838,584 (2017: 2,611,838,584) ordinary shares of TZS 25 each	**65,296**	65,296	**65,296**	65,296

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at Annual General Meetings of the Company. For the time being, there is no any restriction which has been attached to the ordinary shares of the company.

41 RESERVES

Share premium

Share premium represents the surplus of market price over the nominal value of the shares issued, comprising the rights issue and Initial Public offering (IPO).

Retained earnings

Retained earnings consist of profits generated by a company that was not distributed to shareholders as dividend but reinvested in business.

Regulatory Banking risk reserve

General Banking risk reserve represents the surplus of loan provision computed as per the Bank of Tanzania regulations over the impairment of loans and advances determined for IFRS purposes. This is a non-distributable reserve.

General Banking reserve

This represents one percent general provision on unclassified loans following an amendment of the Banking and Financial Institutions (Management of risk assets) regulation in 2014. The reserve is not available for distribution to the shareholders.

Translation reserve

Translation reserve represents exchange differences arising from translation of the financial performance and position of a subsidiary company that has a functional currency different from the Group's presentation currency. This is a non-distributable reserve.

Legal provision reserve

This represents five percent of net profit which is set aside in compliance with the Burundi company law for CRDB Bank Burundi SA.

41 RESERVES (CONTINUED)

Revaluation Reserve

Revaluation reserve is made up of periodic adjustment arising from the fair valuation of motor vehicles, net of related deferred taxation and fair valuation of debt instrument at fair value through OCI financial assets and liabilities. The reserve is not available for distribution to the shareholders.

GROUP	2018			2017		
	Motor vehcles TZS' Million	Debt instrument at fair value through OCI TZS' Million	Total TZS' Million	Motor vehicles TZS' Million	Debt instrument at fair value through OCI TZS' Million	Total TZS' Million
At 1 January	958	14,664	15,622	1,307	(3,338)	(2,031)
Increase during the year	-	7,967	7,967	-	15,628	15,628
Release to retained earnings (net of deferred tax)	(279)	-	(279)	(349)	-	(349)
Other movements	-	1,705	1,705	-	2,374	2,374
At 31 December	679	24,336	25,015	958	14,664	15,622
BANK						
At 1 January	470	14,665	15,135	776	(963)	(187)
Increase during the year	-	7,967	7,967	-	15,628	15,628
Release to retained earnings (net of deferred tax)	(203)	-	(203)	(306)	-	(306)
Other movements	-	1,705	1,705	-	-	-
At 31 December	267	24,337	24,604	470	14,665	15,135

42 ANALYSIS OF CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Cash in hand (Note 19)	311,424	303,607	308,895	299,916
Balances with Central Banks (Note 19)	50,459	498,727	45,686	484,375
Loans and advances to banks (Note 23)	341,768	265,142	336,142	263,246
Government securities (Note 20)	-	1,016	-	-
	703,651	1,068,492	690,723	1,047,537

43 FINANCIAL INSTRUMENTS BY CATEGORY (All amounts in TZS' Millions)

GROUP	Amortised cost	Debt instrument at fair value through OCI	Total
At 31 December 2018			
Financial assets			
Cash and balances with Central Banks	**700,991**	**-**	**700,991**
Loans and advances to banks	**345,698**	**-**	**345,698**
Loans and advances to customers	**3,126,733**	**-**	**3,126,733**
Government securities	**757,080**	**481,003**	**1,238,083**
Corporate bonds	**3,516**	**-**	**3,516**
Credit cards	**533**	**-**	**533**
Equity investment at FVOCI	**-**	**7,013**	**7,013**
Other assets	**52,519**	**-**	**52,519**
	4,987,070	**488,016**	**5,475,086**
At 31 December 2017			
Financial assets			
Cash and balances with Central Banks	1,146,841	-	1,146,841
Loans and advances to banks	265,142	-	265,142
Loans and advances to customers	2,893,838	-	2,893,838
Government securities	698,291	406,256	1,104,547
Corporate bonds	-	-	-
Equity investment	-	2,747	2,747
Other assets*	74,383	-	74,383
	5,078,495	409,003	5,487,498

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

	2018	2017
Financial liabilities at amortised cost		
Deposits from banks	**3,994**	79,722
Deposits customers	**4,687,174**	4,325,871
Other liabilities	**61,565**	66,531
Subordinated debt	**32,400**	89,583
Short term borrowings	**-**	89,733
Long term borrowings	**426,661**	475,563
	5,211,794	5,127,003

43 FINANCIAL INSTRUMENTS BY CATEGORY (All amounts in TZS' Millions)

BANK	Financial Assets at Amotised cost	Debt instrument at fair value through OCI	Total
At 31 December 2018			
Financial assets			
Cash and balances with Central Banks	**691,163**	**-**	**691,163**
Loans and advances to banks	**362,353**	**-**	**362,353**
Loans and advances to customers	**3,061,544**	**-**	**3,061,544**
Government securities	**700,129**	**481,003**	**1,181,132**
Corporate bonds	**3,516**	**-**	**3,516**
Credit cards	**533**	**-**	**533**
Equity investment	**-**	**7,013**	**7,013**
Other assets	**51,329**	**-**	**51,329**
	4,870,567	**488,016**	**5,358,583**
At 31 December 2017			
Financial assets			
Cash and balances with Central Banks	1,126,272	-	1,126,272
Loans and advances to banks	284,961	-	284,961
Loans and advances to customers	2,844,786	-	2,844,786
Government securities	651,606	406,256	1,057,862
Corporate bonds	-	-	-
Equity investment	-	2,747	2,747
Other assets*	72,320	-	72,320
	4,979,945	409,003	5,388,948

*Other assets (excludes prepayments, stock and advanced payment for capital expenditure as they are not financial assets).

	2018	2017
Financial liabilities at amortised cost		
Deposits from banks	**3,994**	80,679
Deposits customers	**4,583,090**	4,238,104
Other liabilities	**70,309**	83,668
Subordinated debt	**32,400**	89,583
Short term borrowings	**-**	89,733
Long term borrowings	**426,661**	475,563
	5,116,454	5,057,330

44 CONTINGENT LIABILITY

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Guarantees and indemnities	**452,211**	281,679	**450,337**	281,436
Letters of credit	**146,779**	178,882	**146,779**	178,882
	598,990	460,561	**597,116**	460,318

Letters of credit are commitments by the Bank to make payments to third parties, on production of agreed documents on behalf of customers and are reimbursed by the customers.

Guarantees and indemnities are generally issued by the Bank, on behalf of customers, to guarantee performance by customers to third parties. The Bank will only be required to meet these obligations in the event of default by the customer.

The Group and Bank is, in the normal course of business involved in a number of court cases and tax disputes with the revenue authorities. The Group has taken appropriate legal measures to defend its position. Appropriate provisions have been made by the Group for the liabilities arising as disclosed in Note 37. Contingent liabilities arise for cases for which the outcome cannot be reliably determined as at the date of signing these financial statements.

45 COMMITMENTS

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Commitments to extend credit	**97,972**	172,762	**97,972**	166,614
Capital commitments				
Authorised and contracted for	**32,815**	6,670	**32,815**	6,670
Authorised and not yet contracted for	**3,200**	2,530	**3,200**	2,530
	36,015	9,200	**36,015**	9,200

Capital commitments authorised and contracted for are in respect of;

Construction/refurbishment cost for branches/service centres; LAPF Mwanza, Mkwawa, Chakechake Pemba, Mwanjelwa, Tarakea, Mwaloni, Ruangwa, Mlimani City, Mlandizi, Rlocation of Chato br., Kibaha, Mbezi luis, Zanzibar, Mwananyamala, Kahama, Nachingwea, Oysterbay, Mkuranga, Arusha, Mbinga, Tanga, Songea, Mbalizi, Mbeya, UDOM, Kibondo service centre, Bariadi, Mkwajuni, Kibamba, and New HQ building.

Capital commitments authorised and not yet contracted for; Mabwepande archiving solution project and Bank academy at Kiromo.

45 COMMITMENTS (CONTINUED)

The future minimum lease payments of the Group (lessee) under operating leases are as follows:

	GROUP		BANK	
	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Less than 1 year	**2,643**	286	**2,643**	286
More than 1 year but less than 5 years	**19,913**	10,905	**19,913**	10,905
More than 5 years	**30,424**	53,594	**30,424**	52,743
Total	**52,980**	64,785	**52,980**	63,934

The Group leases various branch premises and offices under non-cancellable operating lease agreements. The lease terms are between 1 and 7 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. No arrangements have been entered into for contingent rental payments, and also no restrictions have been imposed by these lease arrangements.

Group as a lessor

	2018 TZS' Million	2017 TZS' Million	2018 TZS' Million	2017 TZS' Million
Rent received in the year	**149**	86	**149**	615

Rental income commitments

The Group sublets unutilized office space to earn rental income. The leases cover a period of one year with an option to renew after expiry. As at 31 December 2018 there was no unexpired lease for existing contracts (2017: Nil).

46 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

In the normal course of business, a number of Banking transactions are entered into with related parties' i.e. key management staff, Directors, their associates and companies associated with Directors. These include loans and deposits. Loans and advances to customers as at 31 December include loans and advances to Directors, other key management personnel and companies associated with Directors.

The volume of related party transactions for the year and the outstanding amounts at the year-end is as follows:

	Companies associated with Directors		Directors and other key management personnel	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Loans and advances to related parties				
At 1 January	**200**	450	**5,202**	4,897
Net movement during the year	**(41)**	(250)	**59**	305
At 31 December	**159**	200	**5,261**	5,202
Interest earned	**24**	19	**254**	299

	Companies associated with Directors		Directors and other key management personnel	
	2018 TZS' Million	2017 TZS' Million	**2018 TZS' Million**	2017 TZS' Million
Deposits from related parties				
At 1 January	**15**	140	**3,182**	3,515
Net movement during the year	**(6)**	(125)	**(2,590)**	(333)
At 31 December	**9**	15	**592**	3,182
Interest paid	**-**	1	**32**	34

46 RELATED PARTY TRANSACTIONS (CONTINUED)

Balances outstanding with related companies were as follows;

	GROUP		BANK	
	2018 TZS'Million	2017 TZS'Million	2018 TZS'Million	2017 TZS' Million
Due from related parties				
CRDB Burundi S.A	-	-	312	218
Due to related parties				
CRDB Microfinance Company Services	-	-	10,458	19,363
Due to related parties				
CRDB Insurance Broker	-	-	2,482	536
Loan advanced to subsidiary				
CRDB Burundi S.A	-	-	52,402	14,538
Nostro to subsidiary				
CRDB Burundi S.A	-	-	410	2,052
Placement to subsidiary				
CRDB Burundi S.A	-	-	22,281	21,855
Borrowing from subsidiary				
CRDB Burundi S.A	-	-	-	-

Interest received and paid from and to related parties respectively were as follows;

	GROUP		BANK	
	2018 TZS'Million	2017 TZS'Million	2018 TZS' Million	2017 TZS' Million
Interest Income received from subsidiary				
CRDB Burundi S.A	-	-	13	2,473
Transactions with related companies were as follows				
Payments made on behalf of subsidiaries				
CRDB Microfinance Company Services Ltd	-	-	937	3,368
CRDB Insurance Broker Company Ltd	-	-	13	4

46 RELATED PARTY TRANSACTIONS (CONTINUED)

	GROUP		BANK	
	2018 TZS'Million	2017 TZS'Million	**2018 TZS'Million**	2017 TZS' Million
Rent paid to the parent				
CRDB Burundi S.A	**-**	-	**-**	-
CRDB Microfinance Company Services Ltd	**-**	-	**112**	509
CRDB Insurance Broker Company Ltd	**-**	-	**19**	20
	-	-	**131**	529
Commission payable for loans and deposit mobilisation				
CRDB Microfinance Company Services Ltd	**-**	-	**10,300**	19,915

Purchase/ sale of properties on behalf of subsidiaries

In the year ending 31 December 2018, the company did not sale or purchase properties to/from any related party (2017: NIL).

Transfer of research and development

In the year ending 31 December 2018, the company did not transfer any cost of research and development to/from any related party (2017: NIL).

Guarantee

In the year ending 31 December 2018, there was no guarantee given or received to/from any related party (2017: NIL).

Compensation of Key Management Personnel

Non-executive director's remuneration has been disclosed under section 8.16 of the Director's Report whereas remuneration for key management personnel has been disclosed under section 8.18. Key management personnel comprise Board of Directors, Managing Director, Deputy Managing Directors, and heads of departments who are reporting directly to the Managing Director and Deputy Managing Directors.

The remuneration of key management personnel during the year was as follows:

	2018 TZS' Million	2017 TZS' Million
Short term employee benefits (salary)	**6,392**	6,629
Post-employment benefits (gratuity)	**1,057**	1,885
	7,449	8,514

46 RELATED PARTY TRANSACTIONS (CONTINUED)

The above compensation is a total salary package including all employment benefits and pension.

There were neither termination benefits nor share based payment benefits made during the year (2017: Nil).

During the year ended 31 December 2018, there were no pension contributions paid on behalf of Directors to defined contribution schemes. There were no accruing benefits for Directors under a defined benefit scheme (2017: Nil). The amounts disclosed above are the amounts recognised as an expense during the reporting period related to key management personnel. Generally, the non-executive directors do not receive pension entitlements from the Group.

During the financial year; loans made to Key Management Personnel and other related parties of CRDB Group were TZS 59 million. Such loans are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans may be secured or unsecured depending on the nature of lending product advanced. As at 31 December 2018, the total loan balances outstanding were TZS 5,420 million (2017: TZS 5,401 million).

Interests in subsidiaries

Currently there are no restrictions of a parent or its subsidiaries to transfer cash or other assets to or from other entities within a Group. Also there are no protective rights of the subsidiaries which can significantly restrict the parent from accessing or using the assets and settling the liabilities of the Group.

47 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There were no events after the statement of financial position date which require adjustment and/or disclosures in the financial statements, except for the change of three (3) members of the Board of Directors made by the Bank of Tanzania in February, 2019.

Disclaimer

Caution Regarding Forward-looking Statements

CRDB Bank Plc has made various forward-looking statements with respect to its financial position, business strategy, plans and objectives of management. Such forward-looking statements are identified by use of the forward-looking words or phrases such as 'expects', 'estimates', 'anticipates', 'believes', 'intends', 'plans' or words or phrases of similar nature.

By their nature, forward-looking statements require the Bank to make assumptions which are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this report not to place undue reliance on our forward-looking statements as a number of factors could cause future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to interest rate and currency value fluctuations, industry and worldwide economic and political conditions, regulatory and statutory developments, the effects of competition in the geographic and business areas in which we operate, management actions and technological changes.

We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to CRDB Bank Plc investors and other stakeholders should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. The Bank does not undertake to update any forward-looking statement that may be made, from time to time, by the Bank or on its behalf.

Non-IFRS information

This report contains certain non-IFRS financial measures which has not been reviewed or reported on by the Group's auditors. The Group's management believes these measures provide valuable additional information in understanding the performance of the Group or the Group's businesses because they provide measures used by the Group to assess performance. However, this additional information presented is not uniformly defined by all companies, including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Additionally, although these measures are important in the management of the business, they should not be viewed in isolation or as replacements for or alternatives to, but rather as complementary to, the comparable IFRS measures.