

EXIM BANK (TANZANIA) LIMITED
ANNUAL REPORT AND CONSOLIDATED AND
SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

EXIM BANK (TANZANIA) LIMITED

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EXIM BANK (TANZANIA) LIMITED

CORPORATE INFORMATION

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	Exim Tower Plot 1404/05, Ghana Avenue P.O. Box 1431 Dar es Salaam, Tanzania	
PRINCIPAL BANKERS	Bank of Tanzania P.O. Box 2939 Dar es Salaam, Tanzania	Deutsche Bank AG, Global Transaction Banking - Trade Finance Financial Institutions, Taunusanlage 12, 60325, Frankfurt Am Main, Germany
	Deutsche Bank Trust Company Americas Church Street Station P.O. Box 318 New York, United States of America	Nedbank 3 rd Floor Block H 135 Rivonia Road Sandown, Sandton 2196 P.O. Box 1144 Johannesburg 2000 South Africa
	Deutsche Bank AG London, EC2P2AT United Kingdom	Axis Bank Limited Corporate Office, Axis House Pandurang Budhkar Mag, Worli Mumbai-400025, India
	Citibank New York 111, Wall Street New York 10043 United States of America	
SOLICITORS	M/S Lloyd Advocates P.O. Box. 75111 Dar es Salaam, Tanzania	HM Noble Attorneys P.O. Box 1274 Mtwara, Tanzania
	Galati Law Chambers Advocates 3 rd Floor, Exim Bank Building Kenyatta Road P.O. Box 11317 Mwanza, Tanzania	Mawalla Advocates Plot No. 175/20, Mawalla Heritage Park Mawalla Road P.O. Box 6101 Arusha, Tanzania
	Mnyele, Msengezi & Company Advocates P.O. Box 2479 Dar es Salaam, Tanzania	AKO Law in Association with Clyde & CO. LLP Plot No. 30, House No. 7 Ursino Street, Regent Estate P.O. Box 71748, Dar es Salaam, Tanzania
	M.A. Ismail & Company Advocates 2 nd Floor, Reliance House, Upanga United Nation Road P.O. Box 1553 Dar es Salaam, Tanzania	ABD Attorneys P.O. Box 7974 Dar es Salaam, Tanzania
	Amicus Attorneys P.O. Box 7219 Dar es Salaam, Tanzania	Locus Attorneys P.O. Box 4110 Dar es Salaam, Tanzania
	Kesaria & Company P.O. Box 729 Dar es Salaam, Tanzania	

EXIM BANK (TANZANIA) LIMITED

CORPORATE INFORMATION (CONTINUED)

BANK SECRETARY	M/S ATZ Law Chambers, Tanzania P.O. Box 79651 Dar es Salaam, Tanzania.
AUDITORS	Deloitte & Touché Certified Public Accountants (Tanzania) 3rd Floor, Aris House Plot No. 152, Haile Selassie Road Oysterbay P.O. Box 1559 Dar es Salaam, Tanzania

EXIM BANK (TANZANIA) LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2019

1. INTRODUCTION

The Directors submit their report together with the audited consolidated and separate financial statements for the year ended 31 December 2019, which reflect the state of affairs of Exim Bank (Tanzania) Limited (the "Company" or "Bank") and its subsidiaries, Exim Bank Djibouti S.A, Exim Bank Uganda Limited, Exim Bank Comoro S.A and Core Securities Limited (collectively referred as the "the Group").

2. INCORPORATION

The Company was incorporated in Tanzania under the Companies Act, 2002 as a private company limited by shares.

3. VISION

To be the bank of choice

4. OUR MISSION

The Bank is committed to remaining an innovative Tanzanian bank offering services of international standards

5. PRINCIPAL ACTIVITIES

Except for Core Securities Limited, the Group is engaged in the banking business, that is, accepting deposits for lending and investments and other commercial banking services. The Bank is licensed under the Tanzania Banking and Financial Institutions Act, 2006 and the subsidiaries are licensed under the respective laws of Uganda, Comoros and Djibouti.

Core Security Limited is a licensed dealing member of the Dar es Salaam Stock Exchange (DSE) and its main activities including dealing in securities and secondary activities includes advisory services.

6. DIRECTORS

The following are the Directors who served the Bank since 1 January 2019 up to the date of this report.

No.	Name	Position	Age	Nationality	Qualifications
1	Mr. Said Ally Mwema	Chairman ¹ (Retired in May 2019)	66	Tanzanian	Bachelor of Law
2	Ambassador Juma Mwapachu	Acting Chairman	77	Tanzanian	Bachelor of Law and Post Graduate Diploma in International Law
3	Mr. Yogesh Manek	Director	64	Tanzanian	Bachelor of Arts
4	Mr. Hanif Jaffer	Director	56	Tanzanian	Certified Public Accountant (CPA-T)
5	Mr. Shaffin Jamal	Director	48	Tanzanian	Masters in Business Administration
6	Mr. Kalpesh Mehta	Director (Appointed in May 2019)	49	Tanzanian	FCA, Bachelor of Arts (Econ) Hons
7	Mr. Thomas Wescott	Director	67	American	Bachelor of Arts, Government and Economics
8	Mr. Sherazam Mazari	Director	66	Singapore	Bachelor of Business Administration - Finance

¹Tenure as Chairman of the Board ended on May 2019 and Ambassador Juma Mwapachu was appointed as acting Chairman.

7. COMPANY SECRETARY

The Company Secretary who served during the year and to the date of this report was M/s ATZ Law Chambers, Tanzania.

8. CORPORATE GOVERNANCE

The Board of Directors (the "Board") currently comprises seven members after the retirement of one of the Board members. No Director held an executive position in the Bank during the year. The Board takes overall responsibility for the Bank, including that of identifying key risk areas, consideration and monitoring of credit and investment decisions, review of policies, consideration of important financial matters, and generally reviewing the performance of management business plans and budgets.

The Board is also responsible for ensuring that a comprehensive system of internal controls, policies and procedures is operative, and that there is compliance with sound corporate governance principles.

The Board is required to meet at least four times a year. During the year, the Board met four times. The Board delegates the day-to-day management of the business to the executive management team comprising the Chief Executive Officer, assisted by the senior management staff. The management team is invited to attend the Board sub-committee and Board meetings depending on the agenda items. Management remains responsible for the effective control of the Bank's operational activities and acts as a medium of communication and coordination among various business and operational units of the Bank.

The Bank and its subsidiaries are committed to the principles of effective corporate governance. In this regard, the Directors also recognize the importance of integrity, transparency and accountability. The Board has the following sub-committees to ensure a high standard of corporate governance.

(i) Board Credit Committee (BCC)

	Name	Position
1	Ambassador Juma Mwapachu	Chairman
2	Mr. Shaffin Jamal	Member
3	Mr. Sherazam Mazari	Member

(ii) Board Risk Management Committee (BRMC)

	Name	Position
1	Mr. Thomas Wescott	Chairman
2	Mr. Hanif Jaffer	Member
3	Mr. Kalpesh Mehta	Member

(iii) Board Audit Committee (BAC)

	Name	Position
1	Mr. Kalpesh Mehta	Chairman
2	Mr. Hanif Jaffer	Member
3	Mr. Thomas Wescott	Member

(iv) Board Executive Committee (EXCOM)*

	Name	Position
1	Mr. Yogesh Manek	Chairman
2	Mr. Shaffin Jamal	Member
3	Mr. Hanif Jaffer	Member
4	Ambassador Juma Mwapachu	Member
5	Mr. Sherazam Mazari	Member

**This is an executive committee of the Board and is in no way connected to the day-to-day management of the Bank's operations.*

EXIM BANK (TANZANIA) LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

8. CORPORATE GOVERNANCE (CONTINUED)

The Directors' attendance of meetings and remuneration for the year ended 31 December 2019 is indicated below:

Attendance at Board and Board Committee meetings						
Name of Director	Board	Credit Committee	Risk Management Committee	Audit Committee	Executive committee	Directors' fees & expenses (TZS Million)
Mr. Said Mwema	1	-	-	-	-	19
Mr. Yogesh Manek	4	-	-	-	4	30
Mr. Shaffin Jamal	4	6	-	-	4	78
Mr. Hanif Jaffer	4	-	4	4	4	31
Ambassador Juma Mwapachu	4	6	-	-	4	43
Mr. Thomas Wescott	4	-	4	4	-	151
Mr. Kalpesh Mehta	3	-	1	1	-	19
Mr. Sherazam Mazari	4	5	3	2	4	74
Mr Azim Virjee	-	-	-	-	-	1
Number of meetings held	4	6	4	4	4	
Total directors' fees & expenses						446

9. ACCOUNTING POLICIES

The accounting policies of the Group, disclosed in Note 3 to the consolidated and separate financial statements, have been approved by the Board. The accounting policies for financial instruments form a significant part of the policies and are disclosed under Note 3 to the consolidated and separate financial statements. There have been no changes in accounting policies in the current year except as disclosed in Note 2 to the consolidated and separate financial statements.

10. MANAGEMENT TEAM

The management of the Bank is under the Chief Executive Officer (CEO), assisted by the following:

- i. Chief Finance Officer;
- ii. Chief Operations Officer;
- iii. Head of Corporate & Institutional Banking;
- iv. Head of Retail Banking;
- v. Head of Treasury;
- vi. Head of Alternative Channels;
- vii. Head of Risk & Compliance;
- viii. Head of Credit;
- ix. Head of Special Assets (Credit Recoveries);
- x. Head of Marketing & Communications;
- xi. Head of Human Resources; and
- xii. Head of Subsidiaries;

The Chief Internal Auditor (CIA) reports directly to the Board through the Board Audit Committee. However, the CIA also reports to the CEO for administrative purposes.

EXIM BANK (TANZANIA) LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

11. CAPITAL STRUCTURE

The Bank's capital structure for the year under review was as shown below:

Authorized

20,000,000 ordinary shares of TZS 1,000 each (31 December 2018: 20,000,000 ordinary shares of TZS 1,000 each).

Issued and fully paid

12,900,000 ordinary shares of TZS 1,000 each (31 December 2018: 12,900,000 ordinary shares of TZS 1,000 each).

Details of the capital management, regulatory capital and capital structure are disclosed under Note 6.5 to the consolidated and separate financial statements.

12. SHAREHOLDERS OF THE COMPANY

The total number of shareholders during the year was 5 (2018: 5 shareholders). The shares of the Bank are held as follows:

	Name of the Shareholder	% of shareholding	31 December 2019 Number of Ordinary Shares	31 December 2018 Number of Ordinary Shares
1	Mr. Yogesh Manek	20%	2,580,000	2,580,000
2	Mr. Shaffin Jamal	20%	2,580,000	2,580,000
3	Mr. Hanif Jaffer	20%	2,580,000	2,580,000
4	Mr. Azim Virjee	20%	2,580,000	2,580,000
5	Mr. Azim Kassam	20%	2,580,000	2,580,000
	Total	100%	12,900,000	12,900,000

The Directors holding shares are listed below:

	Name	Nationality	Number of Ordinary Shares
1	Mr. Yogesh Manek	Tanzanian	2,580,000
2	Mr. Shaffin Jamal	Tanzanian	2,580,000
3	Mr. Hanif Jaffer	Tanzanian	2,580,000

13. DIRECTORS' REMUNERATION

The remuneration for the Directors is reviewed to ensure that levels of emoluments and compensation are appropriate after considering industry benchmarks and international practices. Information on aggregate amounts of the emoluments and fees paid to Directors are disclosed in Note 11 and 37 to the consolidated and separate financial statements.

14. FUTURE DEVELOPMENT PLANS

The Group will improve profitability by leveraging its investments in customer facing technology to enhance customer experience and introduce new innovative products. The Group's investment in technology will help improve operations and enhance productivity.

Under the plan, branch and alternative channels expansion strategy shall be implemented to increase outreach while taking measures to further strengthen the risk management framework.

The medium-term strategy of the Group is to position itself as a leading "Retail Payment Bank", 'to be the best business bank with the Best Cash' and 'An Integrated Group Treasury (IGT) amongst the Top 5'.

EXIM BANK (TANZANIA) LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

15. PERFORMANCE FOR THE YEAR

The Group recorded a loss before tax of TZS 8.4 billion (2018: profit of TZS 4.7 billion) during the year. The Bank recorded a loss before tax of TZS 14.5 billion (2018: profit of TZS 5 billion) during the year. The loss before tax was mainly due to increase in expected credit losses from non-performing assets.

The total assets of the Group increased to TZS 1.8 billion (2018: TZS 1.6 billion) while those of the Bank increased to TZS 1.3 billion (2018: TZS 1.2 billion). The increase in total assets was mainly driven by the organic growth in deposits and an acquisition of UBL Bank (Tanzania) Limited assets and liabilities.

The details of the above financial results and position are reflected in the audited consolidated and separate financial statements.

16. CASH FLOW PROJECTION

Future cash flows of the Group will mostly be generated from deposits. The Group will continue to implement different strategies to mobilize deposits from various business segments and sectors by providing pre-eminent transactions and payment solutions.

17. LIQUIDITY

The Group places strong emphasis on management of liquidity risk and there is a regular periodical cash flow projection process handled by the Management Liquidity Committee to ensure the Group holds sufficient liquid assets to enable it to continue with normal operations. The Board Risk Management Committee (BRMC) and Management Assets and Liabilities Committee (ALCO) also monitor the Group's exposure to liquidity risk by ensuring that limits are set based on realistic assumptions. The committees track compliance on quarterly and monthly basis, respectively.

The Group's main sources of liquidity are deposits, shareholders' funds and borrowings.

18. DIVIDEND

The Directors do not propose payment of a dividend for 2019 (2018: Nil).

19. RESOURCES

Employees with appropriate skills and experience in running the business are a key resource available to the Group and they assist in pursuing the Group's business objectives. The Group continues to encourage open and honest communication in decision-making. Employment issues as well as financial and economic factors affecting the Group's performance are regularly shared with the employees.

20. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks that may significantly affect the Group's strategies and development are mainly operational and financial as described below:

Operational risks

Being an important player in the industry, the Group is naturally exposed to the intrinsic operational risks that may arise from inadequate or failed internal processes, people, systems or external events including fraudulent transactions in the banking industry. The Group's operational risk policies and framework have however embedded adequate measures to mitigate the risks to the extent possible.

Financial risks

Financial risks include credit, liquidity and market risks. The Group's overall risk management policies are set out by the Board and implemented by management. These policies involve identification, evaluation and mitigation of such risks. Further details on the financial risks facing the Group are provided in Note 6 to the consolidated and separate financial statements.

EXIM BANK (TANZANIA) LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

21. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance with such measures by some staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Group's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year and is of the opinion that these met the acceptable criteria. The Board carries out risk and internal control assessment through the Risk Management Committee.

22. KEY PERFORMANCE INDICATORS

The following key performance indicators (KPIs) are effective in measuring the delivery of the Group's and Bank's strategy and managing the business.

Performance indicator	Definition and calculation method	Group		Bank	
		2019	2018	2019	2018
Return on equity	Net profit/Average total equity for past two years	-9%	-9%	-12%	-11%
Return on assets	Profit Before Tax/Average total assets for past two years	0%	0%	-1%	0%
Cost to income ratio	(Operating expenses excluding Provisions)/ (Net interest income + Non-interest income)	83%	81%	85%	74%
Gross loans to total deposits	Total gross loans/Total deposits	69%	77%	78%	79%
Non-performing loans to gross loans	Gross Non-performing loans/Total Gross Loans	11%	11%	19%	12%
Earning assets to total assets	Total Earning assets/Total assets	82%	82%	85%	86%
Growth on total assets	{Trend (Current year total assets-previous year total assets)/Previous year total assets}	14%	-2%	11%	-7%
Growth on loans and advances to customers	Trend (Current year loans and advances to customers -previous year loans and advances to customers)/Previous year loans and advances to customers}	0%	1%	5%	1%
Growth on customer deposits	{Trend (Current year customer deposits -previous year customer deposits)/Previous year customer deposits}	10%	-2%	8%	-7%
Growth on total shareholders' funds	{Trend (Current year total shareholders' funds -previous year total shareholders' funds)/Previous year total shareholders' funds}	-5%	-28%	-11%	-25%
Capacity adequacy:					
Tier I Capital	Core Capital/Risk weighted average assets including off-balance sheet items	6.41%	10.5%	7.87%	13%
Tier I + Tier II Capital	Total Capital/Risk weighted average assets including off-balance sheet items	8.54%	12.3%	9.87%	15%

23. SOLVENCY

The Board confirms that applicable accounting standards have been followed and that the statements of affairs of the Group and the Bank as at 31 December 2019 set out in the consolidated and separate statements of financial position have been prepared on a going concern basis. The Directors consider the Group and the Bank to be solvent within the meaning ascribed by the Companies Act, 2002.

24. GENDER PARITY

The Group is proud to be an Equal Opportunity Employer with 1,001 employees, out of which 454 were female and 547 were male (2018: 957 employees, out of which 481 were female and 476 were male).

25. RELATED PARTY TRANSACTIONS

The related party transactions and balances are disclosed in Note 37 to the consolidated and separate financial statements.

26. RELATIONSHIP WITH STAKEHOLDERS

The Group continued to maintain a good relationship with the stakeholders including the regulators.

27. WELFARE OF EMPLOYEES

Relationship between management and employees

There were continued good relations between employees and management during the year. There were no unresolved complaints received by management from the employees during the year.

The Group is an Equal Opportunity Employer. It provides equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind.

Training facilities

The Group boasts of a state-of-the-art in-house Exim Academy operational since 2008. The Academy has pride in being ISO Certified consecutively for the last three years.

For the year 2019, the Group spent TZS 238 million (2018: TZS 330 million) in employees' learning and development. Training programs have been and are continually developed to ensure employees are adequately trained at all levels. All employees undergo annual training to upgrade soft/banking skills and enhanced development.

Medical assistance

Our employees are provided with medical insurance through a defined contribution plan. Currently, these services are provided by Strategies Insurance (Tanzania) Limited and National Health Insurance Fund. There is also a separate group life assurance cover for all staff.

Health and safety

The Group has a separate administration and security department which ensures that a culture of safety always prevails. A safe working environment is ensured for all employees and contractors by providing adequate and proper training and supervision as necessary.

Financial assistance to staff

Loans and advances under various schemes are available to all confirmed employees depending on the assessment and discretion of management as to the need and circumstances as per the Group's Human Resources (HR) policy approved by the Board. This is to assist in promoting the welfare of employees.

27. WELFARE OF EMPLOYEES (CONTINUED)

Persons with disabilities

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

Employee benefit plan

The Bank and all its employees contribute to the statutory social security funds in Tanzania that is NSSF which is defined contribution scheme. Employees contribute 10% and the Bank also contributes 10% to the schemes. The subsidiaries comply with the social security laws and regulations applicable in the respective countries.

28. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. Donations made to various charitable organizations during the year as part of Corporate Social Responsibility (CSR) on health, education and environments to support endeavors amounted to TZS 101 million (2018: TZS 220 million)

29. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Group remains committed to the communities that it operates in and made contributions under the education, environment and health pillars which it continues to focus on.

The Bank launched a division called Exim Cares, with the primary mission of creating platforms and initiatives in which Eximites (Exim Staff) and associated partners can transform lives through their actions. This transcends the traditional approach of CSR which is mostly through donations. Exim Cares is the Bank's social responsibility arm that addresses important social issues and builds on the commitment of Exim at work today, for tomorrow approach which aims at working for a better tomorrow for the communities that support and surround the Bank.

Health

Securing tomorrow's blood bank today, was a specific initiative to generate awareness and invite staff, customers and the general public to help save lives through donating blood. In 2019, the initiative added 7 branches across the country for more inclusion and to garner more support. In addition to Dar es Salaam, Mwanza, Arusha, Mbeya, Mtwara, Tanga and Kilimanjaro were added. As a result, the drive managed to contribute 500 units of blood to the National Blood Transfusion Services (NBTS). The Bank was invited to the national commemoration day in Mwanza to receive an appreciation award as the only independent institution to have supported the blood donation drive to this magnitude.

Following the tragic fuel tank accident in Morogoro which led to more than 70 deaths and many more casualties, we joined hands with NBTS (National Blood transfusion Service – DAMU SALAMA) to conduct a special Blood Donation Drive at Mbagala Bus Stand, Dar es Salaam, for 3 days and we collected 150 units of blood, which was directed to all casualties from the incident, who were admitted at Muhimbili National Hospital for further treatment.

Education

As part of the Bank's plan to support the education sector in the country, we invested TZS 14 million to donate 12,000 reusable sanitary pads to under privileged young girls at various schools in Shinyanga, Iringa and Tabora Regions. The move was part of our initiatives under Exim Cares. We have started this initiative in a bid to help zero stigma toward menstrual health in schools.

Environment

The Bank continued with its go-green initiatives aimed at creating awareness to the community at large towards environmental conservation that is, construct and maintaining gardens in Tanzania that is, Ohio Garden, Clock Tower Garden and Kariakoo Garden in Tanzania Mainland.

29. CORPORATE SOCIAL RESPONSIBILITY (CSR) (CONTINUED)

Charity events

The Bank sponsored various charitable events in sports; including golf, cricket, basketball and football through community based or charitable organizations like Rotary tournaments Tanga and Gymkhanna Golf Tournament Arusha. All funds raised from these events were directed towards helping the medical needs of the less fortunate.

For the second time the Bank was the main sponsor of the East African Police Chiefs Organization Cooperation games commonly known as EAPCCO games. The Bank understands the importance of such games in strengthening regional initiatives. The games involved Uganda, Kenya, Tanzania, Burundi, Sudan, South Sudan, Rwanda, Djibouti, Eritrea, Seychelles, Somalia and Comoros

30. AUDITORS

Deloitte & Touche were appointed auditors in 2019 and, having expressed their willingness, continue in office in accordance with section 170 (2) of the Companies Act, 2002.

Approved by the Board of Directors and signed on its behalf by:



Ambassador Juma Mwapachu
Acting Chairman/Director

14th May 2020

EXIM BANK (TANZANIA) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, 2002 requires the Directors to prepare consolidated and separate financial statements for each financial year which give a true and fair view of the state of the financial affairs of the Group and the Bank as at the end of the financial year and of its financial results for the year then ended. It also requires the Directors to ensure the Group and the Bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Bank. They are also responsible for safeguarding the assets of the Group and the Bank.

The Directors are responsible for the preparation of the consolidated and separate financial statements that give true and fair view in accordance with the International Financial Reporting Standards, and in manner required by the Companies Act, 2002, the Banking and Financial Institutions Act, 2006, and for such internal controls as Directors determine are necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

The Directors accept responsibility for the annual consolidated and separate financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006. The Directors are of the opinion that the consolidated and separate financial statements give a true and fair view of the state of the financial affairs of the Group and the Bank and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the consolidated and separate financial statements, as well as adequate systems of internal financial control.

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



Ambassador Juma Mwapachu
Acting Chairman



Director

14th May 2020

EXIM BANK (TANZANIA) LIMITED

DECLARATION BY THE HEAD OF FINANCE

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

It is the duty of a professional accountant, to assist the Directors to discharge the responsibility of preparing consolidated and separate financial statements of the Group and the Bank showing a true and fair view of the Group's and the Bank's financial position and performance in accordance with applicable accounting standards and statutory requirements. Full legal responsibility for the preparation of the consolidated and separate financial statements rests with the Directors as stated under the Statement of Directors' Responsibilities on an earlier page.

I, Joseph Mrawa, being the Senior Finance Manager of Exim Bank (Tanzania) Limited hereby acknowledge my responsibility of ensuring that the consolidated and separate financial statements for the year ended 31 December 2019 have been prepared in accordance with applicable accounting standards and statutory requirements.

I thus confirm that the consolidated and separate financial statements comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.



Joseph Mrawa

Senior Finance Manager

NBAA Membership No.: ACPA 3851

13/05/

2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EXIM BANK (TANZANIA) LIMITED

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Exim Bank (Tanzania) Limited ("the Bank") and its subsidiaries (together, "the Group"), set out on pages 18 to 140, which comprise of the consolidated and separate statement of financial position as at 31 December 2019, and the consolidated and separate statement of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Bank as at 31 December 2019 and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of Companies Act, 2002 and the Banking and Financial Institutions Act, 2006.

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 National Board of Accountant and Auditors (NBAA) Code of Ethics, which is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants, together with other 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.

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

Key audit matters

A key audit matter is a matter that, in our professional judgement, was 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. Our audit opinion has been expressed in the first section of this report and, therefore, we do not provide separate opinion on this key audit matter.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Impairment of loans IFRS 9 – Financial instruments which became effective on 1 January 2018, introduced impairment based on expected credit loss model rather than the incurred loss model previously applied under IAS 39. At 31 December 2019 the Group and Bank had a total gross loans of TZS 1,032 billion and TZS 767 billion with expected credit loss of TZS 78.5 billion and TZS 57.8 billion respectively. Key judgements and estimates in respect of the measurement of expected credit loss (ECL) include: Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard;	In evaluating the impairment against loans and advances, we assessed the judgements and assumptions used by the Directors and our procedures included the following: - We reviewed the appropriateness & compliance of the ECL model to the standard regarding the methods used to determine historical default rates, macroeconomic variables and adjustments, expected cash flows, credit conversion factors and effective interest rates; - We reviewed the appropriateness of the definition of default, cure definition and significant increase in credit risk (SICR) of the model. - We performed a review of the approach used to segment portfolio into similar risk characteristics.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matter (Continued)	How Our Audit Addressed the Key Audit Matter (Continued)
- Accounting interpretations and modelling assumptions used to build the ECL model; - Completeness and accuracy of data used to calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple economic scenarios; - Compliance of the model to the standard in computation matrices used in the ECL model for calculation of Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (AD); and - Accuracy and adequacy of the financial statement disclosures.	- We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Group's portfolio, risk profile, credit risk management practices and the macroeconomic environment. - We challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9; We tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage. - With the support of our IFRS 9 experts, we tested the assumptions, inputs and formulas used in a sample of ECL models. This included assessing the appropriateness of model design and formulas used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of models. - To verify data quality, we tested the data used in the ECL calculation by reconciling to source systems. - We further assessed the base case and alternative economic scenarios, including challenging probability weights and comparing to other scenarios from a variety of external sources. - We assessed whether forecasted macroeconomic variables were appropriate, such as GDP, interest rates and interbank lending rates. - With the support of our IFRS 9 experts we challenged the correlation and impact of the macroeconomic factors to the ECL including how non-linearity was captured. - We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards including the transaction disclosures. We found that the assumptions and judgements applied in determining impairment against loans and advances were appropriate and that the amount raised was reasonable and adequate.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

The Directors are responsible for the other information, included in the Report of the Directors. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 and for such internal controls as Directors determine are 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 the Bank or to cease operations, or have no realistic alternative but to do so. Those charged with governance 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism 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. 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 the Bank to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

- 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 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 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.

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2002 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 purposes 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 of account; and
- the Group's and the Bank's statement of financial position (balance sheet) and statement of profit or loss and other comprehensive income (profit and loss account) is in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is F.J. Kibiki.

Deloitte & Touche

Certified Public Accountants (Tanzania)

Signed by: F.J. Kibiki
NBAA Registration No. ACPA 3214
Dar es Salaam

14 May 2020

EXIM BANK (TANZANIA) LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Group		Bank	
		2019 TZS 'M'	2018 TZS 'M'	2019 TZS 'M'	2018 TZS 'M'
Interest and similar income	7	130,794	132,770	102,552	108,595
Interest expense and similar charges	8(a)	<u>(36,527)</u>	<u>(31,255)</u>	<u>(33,600)</u>	<u>(29,735)</u>
Net interest income		<u>94,267</u>	<u>101,515</u>	<u>68,952</u>	<u>78,860</u>
Expected credit loss	8(b)	<u>(39,994)</u>	<u>(21,050)</u>	<u>(30,352)</u>	<u>(16,443)</u>
Net interest income after loan expected credit loss charge		<u>54,273</u>	<u>80,465</u>	<u>38,600</u>	<u>62,417</u>
Fee and commission income	9(a)	35,817	34,977	20,384	23,849
Fee and commission expense	9(b)	<u>(174)</u>	<u>(133)</u>	<u>(161)</u>	<u>(85)</u>
Net fee and commission income	9(c)	<u>35,643</u>	<u>34,844</u>	<u>20,223</u>	<u>23,764</u>
Foreign exchange income		13,807	12,257	8,599	6,572
Other income	10(a)	7,577	3,392	5,459	6,828
Other expenses	10(b)	(517)	(2,638)	(1,846)	(8,318)
Operating expenses	11	<u>(119,161)</u>	<u>(123,599)</u>	<u>(85,561)</u>	<u>(86,227)</u>
(Loss)/profit before income tax		(8,378)	4,721	(14,526)	5,036
Income tax expense	13(a)	<u>(6,615)</u>	<u>(20,500)</u>	<u>(3,243)</u>	<u>(19,031)</u>
Loss for the year		<u>(14,993)</u>	<u>(15,779)</u>	<u>(17,769)</u>	<u>(13,995)</u>
Other comprehensive income					
Items that may subsequently be reclassified to profit or loss					
Gain on equity investments at FVOCI	20(a)	877	88	892	85
Deferred tax charge	13(c)	<u>(263)</u>	<u>(33)</u>	<u>(268)</u>	<u>(33)</u>
		614	55	624	52
Items that may not subsequently be reclassified to profit or loss					
Exchange differences on translation of foreign operations	34(d)	<u>3,195</u>	<u>(617)</u>	-	-
		3,195	(617)	-	-
Other comprehensive income/(loss) for the year, net of tax		<u>3,809</u>	<u>(562)</u>	<u>624</u>	<u>52</u>
Total comprehensive loss for the year, net of tax		<u><u>(11,184)</u></u>	<u><u>(16,341)</u></u>	<u><u>(17,145)</u></u>	<u><u>(13,943)</u></u>

EXIM BANK (TANZANIA) LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

	Notes	Group		Bank	
		2019 TZS 'M'	2018 TZS 'M'	2019 TZS 'M'	2018 TZS 'M'
Loss for the year attributable to:					
Owners of the parent		(13,814)	(12,380)	(17,769)	(13,995)
Non-controlling interests	26	<u>(1,179)</u>	<u>(3,399)</u>	<u>-</u>	<u>-</u>
		<u><u>(14,993)</u></u>	<u><u>(15,779)</u></u>	<u><u>(17,769)</u></u>	<u><u>(13,995)</u></u>
Total comprehensive income for the year attributable to:					
Owners of the parent		(10,002)	(12,942)	(17,145)	(13,943)
Non-controlling interests	26	<u>(1,182)</u>	<u>(3,399)</u>	<u>-</u>	<u>-</u>
		<u><u>(11,184)</u></u>	<u><u>(16,341)</u></u>	<u><u>(17,145)</u></u>	<u><u>(13,943)</u></u>
Basic and diluted loss per share	14	<u><u>TZS/share (1,071)</u></u>	<u><u>TZS/share (960)</u></u>		

EXIM BANK (TANZANIA) LIMITED

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

Assets	Notes	Group		Bank	
		2019	2018	2019	2018
		TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
Cash and balances with Central Banks	16	178,644	179,235	92,076	101,157
Loans and advances to banks	17	233,278	130,935	144,800	94,438
Derivative financial assets	38	-	61	-	61
Debt instruments at amortised cost					
Loans and advances to customers	18	953,374	877,073	708,745	659,870
Government securities	19	240,923	227,251	237,149	220,110
Other government securities					
FVTPL: held-for-trading	19	3,904	7,528	3,884	-
Investment securities					
Equity investments: FVOCI	20(a)	2,529	1,722	2,172	1,280
Bonds: Debt instruments at amortized cost	20(b)	30,583	30,817	7,797	7,648
Other assets	21	13,031	15,119	9,706	12,975
Investment in subsidiaries	26	-	-	34,081	31,874
Intangible assets	22	13,636	17,390	9,163	12,341
Assets held for sale	23	16,907	16,797	15,949	15,728
Property and equipment	24	32,787	30,292	23,496	24,355
Right of use	25	34,991	-	27,431	-
Goodwill	26(c)	559	961	-	-
Deferred tax asset	13(c)	30,758	29,183	29,102	28,038
Total assets		1,785,904	1,564,364	1,345,551	1,209,875
Liabilities					
Deposits due to banks	28	98,993	77,296	273,720	255,814
Deposits due to customers	29	1,298,177	1,175,831	721,308	670,049
Current income tax payable	13(b)	5,612	3,729	3,597	3,711
Term borrowings	31	5,989	1,007	5,989	1,007
Subordinated debts and senior loans	32	138,231	99,390	138,231	99,390
Other provisions		4,804	3,310	3,641	2,518
Lease liability	27(a)	35,303	-	27,606	-
Other liabilities	30	40,666	37,352	29,375	18,157
Total liabilities		1,627,775	1,397,915	1,203,467	1,050,646
Equity					
Share capital	33	12,900	12,900	12,900	12,900
Regulatory and other reserves	34	44,416	13,903	37,996	10,877
Retained earnings		88,880	129,395	91,188	135,452
Equity attributable to owners of the parent		146,196	156,198	142,084	159,229
Non-controlling interest	39	11,933	10,252	-	-
Total Equity		158,129	166,450	142,084	159,229
Total liabilities and equity		1,785,904	1,564,365	1,345,551	1,209,875

The financial statements on pages 18 to 140 were approved and authorized for issue by the Board of Directors on 14th May 2020 and were signed on its behalf by:

AMBASADOR JUMA MWAPACHU
Name

ACTING CHAIRMAN
Title

Signature

YOGESH MANEK
Name

DIRECTOR
Title

Signature

EXIM BANK (TANZANIA) LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Notes	Issued capital TZS 'M'	Regulatory and other reserves TZS 'M'	Retained earnings TZS 'M'	Total controlling interest TZS 'M'	Non - controlling interest TZS 'M'	Total equity TZS 'M'
At 1 January 2018		12,900	52,905	152,685	218,490	12,965	231,455
Impact of initial application of IFRS 9	3(ad)	-	(119)	(47,668)	(47,787)	(828)	(48,615)
Transfer from Regulatory reserve on initial application of IFRS 9	34(b)	-	(23,437)	23,594	157	(157)	-
At 1 January 2018 – Restated		12,900	29,349	128,611	170,860	11,980	182,840
Additional investment by NCI	39	-	-	-	-	(49)	(49)
Loss for the year		-	-	(12,380)	(12,380)	(3,399)	(15,779)
Other comprehensive income, net of tax		-	(562)	-	(562)	-	(562)
Total comprehensive income		-	(562)	(12,380)	(12,942)	(3,448)	(16,390)
Transfer to retained earnings/NCI from regulatory reserve		-	(14,036)	12,703	(1,333)	1,333	-
Transfer to general provision		-	(848)	461	(387)	387	-
At 31 December 2018		<u>12,900</u>	<u>13,903</u>	<u>129,395</u>	<u>156,198</u>	<u>10,252</u>	<u>166,450</u>
At 1 January 2019		12,900	13,903	129,395	156,198	10,252	166,450
Additional investment by NCI		-	-	-	-	2,863	2,863
Loss for the year		-	-	(13,814)	(13,814)	(1,179)	(14,993)
Other comprehensive loss, net of tax		-	3,812	-	3,812	(3)	3,809
Total comprehensive income/(loss)		-	3,812	(13,814)	(10,002)	1,681	(8,3221)
Transfer (from) regulatory reserve to retained earnings	34(c)	-	(6,196)	6,196	-	-	-
Transfer (from) retained earnings to other reserves	34(b)	-	32,897	(32,897)	-	-	-
At 31 December 2019		<u>12,900</u>	<u>44,416</u>	<u>88,880</u>	<u>146,196</u>	<u>11,933</u>	<u>158,129</u>

EXIM BANK (TANZANIA) LIMITED

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER (CONTINUED)

Bank	Notes	Issued capital TZS 'M'	Regulatory and other reserves TZS 'M'	Retained earnings TZS 'M'	Total equity TZS 'M'
At 1 January 2018		12,900	41,903	158,809	213,612
Impact of initial application of IFRS 9	2(e)	-	(119)	(40,321)	(40,440)
Transfer from Regulatory reserve on initial application of IFRS 9	34(b)	-	(23,705)	23,705	-
At 1 January 2018 - Restated		12,900	18,079	142,193	173,172
Loss for the year		-	-	(13,995)	(13,995)
Other comprehensive income, net of tax		-	52	-	52
Total comprehensive income		-	52	(13,995)	(13,943)
Transfer to retained earnings		-	(7,293)	7,293	-
Transfer to general provision		-	39	(39)	-
At 31 December 2018		<u>12,900</u>	<u>10,877</u>	<u>135,452</u>	<u>159,229</u>
At 1 January 2019		12,900	10,877	135,452	159,229
Loss for the year		-	-	(17,769)	(17,796)
Other comprehensive income, net of tax		-	624	-	624
Total comprehensive income		-	624	(17,769)	(17,145)
Transfer from retained earnings	34(c)	-	(6,402)	6,402	-
Transfer to regulatory reserves	34(b)	-	32,897	(32,897)	-
At 31 December 2019		<u>12,900</u>	<u>37,996</u>	<u>91,188</u>	<u>142,084</u>

EXIM BANK (TANZANIA) LIMITED

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

	Notes	Group		Bank	
		2019	2018	2019	2018
		TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
Cash flows from operating activities					
Interest receipts		135,437	128,355	113,107	102,256
Interest payments		(34,717)	(40,317)	(31,145)	(33,586)
Net fee and commission receipts		35,643	34,844	20,223	23,764
Other income received		21,384	15,649	14,030	13,379
Payments to employees and suppliers		(78,546)	(90,038)	(62,017)	(57,926)
Dividends received		-	21	-	21
Tax paid during the year relating to previous year	13(b)	(4,617)	(4,694)	(4,617)	(4,694)
Income tax paid	13(b)	(1,953)	(4,934)	(114)	(2,495)
Cash generated from operating activities before changes in operating assets and liabilities		72,631	38,886	49,467	40,719
Changes in operating assets and liabilities:					
Increase in loans and advances to customers		(115,092)	(46,216)	(67,322)	(37,250)
Decrease in derivative assets		61	61	61	61
(Increase)/decrease in Government securities due after 90 days		(27,599)	36,353	(36,090)	47,601
Increase/decrease in Government securities -FVTPL		3,588	-	(3,920)	-
Decrease/(increase) in investment securities: Bonds		235	(29,185)	(148)	456
Increase/(decrease) in other assets		(639)	5,565	(761)	1,126
Increase/decrease in equity investments		70	-	-	-
Increase/(decrease) in non-current assets held-for-sale		(110)	1,484	(221)	466
Increase in deposits due to banks		21,697	38,283	17,906	51,342
Increase/(decrease) in customer deposits		118,836	(18,742)	48,804	(51,037)
Increase in other provisions		1,494	2,801	1,123	2,518
Increase/(decrease) in other liabilities		3,879	(2,463)	3,518	(9,063)
Net cash generated from operating activities		79,051	26,827	12,417	46,939
Cash flows from investing activities					
Purchase of property and equipment	24	(8,976)	(5,919)	(3,847)	(2,768)
Purchase of intangible assets	22	(2,232)	(3,522)	(1,504)	(1,708)
Proceeds from sale of assets		-	86	7	-
Dividends received		21	-	21	-
Payments on acquisition of UBL	41	(3,300)	-	(3,300)	-
Investment in subsidiaries		-	(765)	(4,053)	(765)
Net cash used in investing activities		(14,487)	(10,120)	(12,676)	(5,241)

EXIM BANK (TANZANIA) LIMITED

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

	Notes	Group		Bank	
		2019	2018	2019	2018
		TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
Cash flows from financing activities					
Additional investment by NCI	39	2,863	-	-	-
Repayment of term borrowings - interest	31	(82)	(132)	(82)	(132)
Proceeds from term borrowings	31	4,983	-	4,983	-
Proceeds from senior loans and subordinated debts	32	57,176	-	57,176	23,000
Payment of senior loans and subordinated debts - principal	32	(19,036)	23,000	(19,036)	(30,716)
Payment of senior loans and subordinated debts - interest	32	(7,814)	(30,716)	(7,814)	-
Payment of lease liability	27	(12,570)	-	(7,059)	-
Net cash generated from/(used in) financing activities		<u>25,520</u>	<u>(7,848)</u>	<u>28,168</u>	<u>(7,848)</u>
Cash and cash equivalent at 1 January		268,050	257,029	198,768	163,635
Net cash flows from operating activities		79,051	26,827	12,417	46,939
Net cash flows used in investing activities		(14,487)	(10,120)	(12,676)	(5,241)
Net cash flows from/(used in) financing activities		25,520	(7,848)	28,168	(7,848)
Decrease/(increase) in cash reserve requirement		29,794	(4,800)	9,708	(4,640)
Net foreign exchange differences on foreign balances		<u>(2,798)</u>	<u>6,962</u>	<u>(1,786)</u>	<u>5,923</u>
Cash and cash equivalents at 31 December	36	<u>385,130</u>	<u>268,050</u>	<u>234,599</u>	<u>198,768</u>

EXIM BANK (TANZANIA) LIMITED

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

1. GENERAL INFORMATION

Exim Bank (Tanzania) Limited (the "Bank" or the "Company") and its subsidiaries, Exim Bank Djibouti S.A, Exim Bank Uganda Limited, Exim Bank Comoro S.A and Core Securities Limited (collectively referred to as the "the Group") provide retail and corporate banking services in the United Republic of Tanzania, The Union of Comoros, The Republic of Djibouti and The Republic of Uganda. Exim Bank Djibouti S.A has representative office in Ethiopia. Core Securities Limited is a non-banking subsidiary, incorporated in Tanzania is a licensed dealing member of the Dar Es Salaam Stock Exchange (DSE) and its main activities includes dealing in securities and secondary activities includes advisory services.

The Bank is a limited liability company and is incorporated and domiciled in the United Republic of Tanzania. The address of its registered office is:

Exim Tower
Plot 1404/45, Ghana Avenue,
Dar es Salaam, Tanzania

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

(i) *New standards, interpretations and amendments to published standards effective for the year ended 31 December 2019*

IFRS 16 Leases

In these financial statements, the Group Bank have applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective (simplified) method of adoption with the date of initial application of 1 January 2019. Under this method, the Right of Use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised immediately before the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has lease contracts for various branches, ATM spaces and office equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. The Group did not have any finance leases at adoption. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

- Leases previously classified as finance leases
The Group did not have any leases previously classified as finance leases.
- Leases previously accounted for as operating leases
The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)**(i) New standards, interpretations and amendments to published standards effective for the year ended 31 December 2019 (Continued)****IFRS 16 Leases (Continued)**

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- Right-of-use asset of TZS 26.7 billion was recognized and presented in the statement of financial position as "Right-of-use assets" by the Bank, and TZS 32.9 billion by the group.
- Additional lease liabilities of TZS 26.7 billion (included in "lease liability") were recognized and TZS 32.9 billion by the group.
- The adoption of IFRS 16 has no impact on the Group's retained earnings no material impact on its capital adequacy ratio.

The table below show adjustment for each financial statement line item affected by the application of IFRS 16 for prior years.

	Group TZS 'M'	Bank TZS 'M'
Impact on assets, liabilities and equity as at 1 January 2019		
Right of use asset: Gross carrying amount	33,178	26,961
Accumulated depreciation of right of use asset	-	-
Prepayments	(286)	(286)
Net impact on total assets	32,892	26,675
Lease liabilities recognised as at 1 January 2019	32,892	26,675
Retained earnings impact	-	-

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

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

(i) New standards, interpretations and amendments to published standards effective for the year ended 31 December 2019 (Continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (Continued)

The Group applies significant judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions.

The Group determined, based on its tax compliance that it is not probable that its tax treatments will not be accepted by the taxation authorities.

The Interpretation did not have an impact on the financial statements of the Group and Bank.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate associated hedging instruments, the Group assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion.

These amendments had no impact on the financial statements of the Group and Bank.

(ii) New and revised standards and interpretations that are not mandatorily effective (but allow early application) for the year ended 31 December 2019

Annual Improvements to IFRS Standards 2015-2017 Cycle

IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

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

(ii) New and revised standards and interpretations that are not mandatorily effective (but allow early application) for the year ended 31 December 2019 (Continued)

Annual Improvements to IFRS Standards 2015-2017 Cycle (continued)

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) sale or contribution of assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The Bank does not anticipate that the application of the amendments in the future will have an impact on the Bank's financial statements.

(iii) Early adoption of standards

The Group and Bank did not early-adopt any new or amended standards in the year ended 31 December 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated and separate financial statements (together, the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006. The consolidated and separate financial statements are presented in Tanzania Shillings (TZS), which is also the Bank's functional currency, and the amounts are rounded to the nearest million (TZS 'M'), except where otherwise indicated.

For Companies Act, 2002 reporting purposes, in these consolidated and separate financial statements the balance sheet is represented by the consolidated and separate statements of financial position and the profit and loss account is included in the consolidated and separate statements of profit or loss and other comprehensive income.

The consolidated and separate financial statements have been prepared on historical cost basis except where otherwise indicated, for example, equity investments and derivative financial instruments which have been measured at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Presentation of the financial statements

The consolidated and separate statements of financial position are presented in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes to the consolidated and separate financial statements.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated and separate statements of financial position only when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset unless required or permitted by an accounting standard or interpretation.

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

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved when the Bank:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of consolidation (Continued)

The choice of measurement is on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

(c) Interest income and expense

Under both IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39, is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

The Group calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in profit or loss.

Interest expense for interest-bearing financial liabilities is recognised in profit or loss using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and service fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised in profit or loss over the period of the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Fees and commission expense which relates to borrowing arrangement costs are recognized as an expense in the period in which they are incurred.

(e) Interest income and expense

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Interest expense for all interest-bearing financial liabilities is recognised in profit or loss at amortised cost 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.

(f) Dividend income

Dividends are recognized in profit or loss in 'other income' when the entity's right to receive payment is established.

(g) Translation of foreign currencies

The consolidated financial statements are presented in Tanzania shillings. For each entity in the Group, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Translation of foreign currencies (continued)

Transactions and balances (continued)

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

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

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Tanzanian shillings at the rate of exchange prevailing at the reporting date and their statements of profit or loss and other comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(h) Financial assets

All financial assets are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss.

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

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

The classification requirements for debt and equity instruments are explained below:

Debt instruments

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

The classification and subsequent measurement of financial assets depends on:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial assets (continued)

Debt instruments (continued)

Based on these factors, the Group 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 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 profit or loss 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 is 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(g) Financial assets (Continued)*****Equity instruments (continued)***

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.

Derivative financial instruments

The Group trades in derivatives such as cross-currency swaps and forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in profit or loss.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions.

A derivative is disclosed as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are disclosed as current assets or current liabilities.

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the consolidated and separate financial statements within provisions at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in profit or loss, and under IFRS 9 – an ECL provision. The premium received is recognized in profit or loss on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with a pre-specified term to the customer.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on the market terms, are not recorded in the consolidated and separate statements of financial position.

De-recognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Group also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition. The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset or
- It retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial assets (Continued)

De-recognition of financial assets (Continued)

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more entities, when all the following conditions have been met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients. The Group has to remit any cash flow it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

The Group considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Group's continuing involvement, in which case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on the asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 criteria of cure as described in Note 2(k).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial assets (Continued)

Modification of financial assets (continued)

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.

(h) Financial liabilities

Financial liabilities are initially recognised at fair value plus transaction costs, except for financial liabilities recorded at fair value through profit or loss. Subsequent to initial recognition all financial liabilities other than derivatives are measured at amortized cost. Derivatives are initially recognized and subsequently measured at fair value.

Financial liabilities measured at amortised cost are deposits due to banks and customers, long term borrowings and senior debts and subordinated debts and other liabilities.

De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in profit or loss.

(i) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(j) Classes of financial assets and liabilities**

Under IFRS 9, the Group classifies financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments as indicated below:

Category (as defined by IFRS 9)		Class (as determined by the Group)		Sub-class
Financial assets	Amortized cost	Loans and advances to banks		
		Loans and advances to customers	Personal loans	
			Over drafts	
			Commercial loans	
			Others	
		Other assets excluding prepayments		
		Investment in debt securities	Government securities	Treasury bills
			Treasury bonds	
	Private bonds		Private bonds	
			Subordinated bonds	
	Fair value through profit or loss (FVTPL)	Derivatives financial assets		
		Government securities		Treasury bills
			Treasury bonds	
Fair value through other comprehensive income (FVOCI)	Equity investments designated at FVOCI	Equity investments - listed		
		Equity investments – not listed		
Financial liabilities	Financial liabilities at amortised cost	Deposits to banks		
		Term borrowings		
		Subordinated debt and senior loans		
		Other liabilities		
		Customer deposits	Current and demand deposits	
			Savings accounts	
	Fixed deposit accounts			
	Fair value through profit or loss (FVTPL)	Derivative financial liabilities		

(k) Impairment of financial assets**Overview of the ECL principles**

The adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing the IAS 39 incurred loss approach to the forward looking ECL approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses on loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts (financial instruments subject to ECL). Equity instruments are not subject to impairment under IFRS 9.

ECL allowance is based on the credit losses expected to arise over the life of the asset (the life time expected credit losses or LTECL) unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses (12-month ECL). The Group's policies for determining if there is significant increase in credit risks are set out in Note 6.1.3.

The 12-month ECL allowance is a portion of LTECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12-month ECL are calculated on individual or collective basis depending on the nature of underlying portfolio of financial instrument.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has significantly increased since initial recognition, by considering the change in the risk of default occurring over the remaining life of the instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets (Continued)

Based on the above process, the Group classifies its financial instruments subject to ECL into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on the 12 months ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include those facilities which have improved from Stage 3.
- Stage 3: Loans considered credit impaired. The Group records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on the credit-adjusted EIR. ECLs are only recognized or released to the extent that there is subsequent change in the expected credit losses.

Calculation of ECLs

The Group calculates ECLs based on probability – weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below:

- PD: The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. 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 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: Exposure at default (EAD) is the total value which the Group is exposed to when a financial asset is in default. EAD takes 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(k) Impairment of financial assets (Continued)**

LGD: The Loss Given Default (LGD) is an estimate of loss arising in the case where a default occurs at a given time. The loss that is expected to arise on default which represents the difference between the contractual cash flows due and those that the Group 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. The inputs and models used may not always capture all the characteristics of the markets at the reporting date, therefore qualitative adjustments may be made as temporary adjustments when such differences are significantly material. Refer to Note 6.1.3 for the explanation about 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.

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.

The mechanics of ECL methods are summarized as follows:

Stage 1	The 12m ECL is calculated as a proportion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12m ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12 – month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.
Stage 2	When a loan has shown a significant increase in credit risk since origination, the Group records allowance for the LTECLs. The expected cash shortfalls are discounted by the original EIR. 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.
Stage 3	For loans considered credit –impaired, the Group recognizes the LTECL for these loans. The PD is set at 100%.
POCI	Are assets that are credit impaired on initial recognition. The Group recognizes the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighted amount , discounted by the credit –adjusted EIR.
Loan commitments and letters of credit	When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ELCs are calculated and presented together with the loan. For loan commitments and letters of credit, the ELC is recognized within provisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets (Continued)

Financial guarantee contracts	The Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in profit or loss, and the ECL provision. For this purpose, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs are recognised within provisions.
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Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying amount.

Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Group only recognizes the cumulative changes in LTECL since initial recognition in the loss allowance.

Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at fair value at FVOCI do not reduce the carrying amount of these financial assets in the consolidated and separate statements of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit or loss upon derecognition of the assets.

Credit cards and other revolving facilities

The Group offers retail overdrafts and credit cards facilities in which the Group has the right to cancel and / or reduce the facilities with one day's notice. The Group does not limit its exposures to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer's behavior, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

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 Group 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 but 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. Where the Group is unable to obtain qualitative information without undue cost or effort, the Group considers that default does not occur later than when a financial asset is 90 days past due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets (Continued)

Financial assets write off

Financial assets are written off either partially or in their entirety only when the Group does not reasonably expect to recover the asset. 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 may write off financial assets in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include: (i) ceasing enforcement activity; and (ii) where the 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 or there is no reasonable expectation of completing the recovery process because of litigation proceedings by the borrowers. The assessment is done per specific borrower.

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 Group considers criteria for upgrade of credit accommodations as follows:

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

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 Group shall consider the following:

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

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

For credit exposures that have cured, that is, 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 the effective interest rate. The carrying amount of the exposure shall be the amortised cost at the end of the period less the 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 the carrying amount of the asset at the beginning of the period after allowance for ECLs using the effective interest rate. The carrying amount of the exposure shall be the amortised cost at the end of the period less the allowance for ECL computed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(l) Property and equipment**

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated on the straight-line basis to write down their cost to their residual values over their estimated useful lives, as follows:

Asset	<i>Applicable annual rate</i>
Buildings	4%
Leasehold premises	11%
Motor vehicles	25%
Office equipment	15% - 20%
Computer hardware	25%
Furniture and fittings	15%

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each reporting date and adjusted prospectively, if appropriate.

Property and equipment 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other income in profit or loss in the year the asset is derecognised.

(m) Intangible assets

The Group's intangible assets include the value of computer software licenses. An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in operating expenses in profit or loss.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives at the rate of 25% per annum.

(n) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income tax

Income tax expense is the aggregate of the charge to 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 year determined in accordance with the applicable tax laws in the jurisdictions where the Group operates.

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with maturities of three months or less, including: cash and balances with central banks that are not part of the statutory minimum reserves as defined in Note 16, Government Securities with original maturities of 90 days or less and loans and advances to banks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits

Retirement contribution fund obligations

The Bank and all its employees contribute to the National Social Security Fund (NSSF), which is a defined contribution scheme. A defined contribution plan is a scheme under which the Bank pays fixed contributions into a separate entity (NSSF). The Bank has no legal or constructive obligation to pay further contributions if the Fund does not have sufficient assets to pay the employees post-employment benefits. Employees contribute 10% and the Bank also contributes 10% of the employees' basic salaries to the scheme.

In Comoro, the bank and all its employees are required to contribute to the Provident Fund (Caisse De Retraite) in Comoros, which is a defined contribution scheme. Employees contribute 3% of the basic salary of the employees and the bank contributes 5% to the scheme.

In Uganda, the bank and all its employees are required to contribute to the National Social Security Fund, which is a defined contribution scheme. Employees contribute 5% and the bank 10% of the employee's salary.

The Group's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate.

Other entitlements

The estimated monetary liability for the employee accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(r) Share capital

Ordinary shares are classified as 'share capital' in equity.

(s) Dividends on distribution

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

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(t) Accounting for leases

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application respectively. The measurement principles of IFRS 16 are only applied after that date.

(u) Comparatives

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.

If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

Impairment losses relating to goodwill are not reversed in future periods. Impairment of non-financial assets is disclosed in Notes 23 and 26.

(w) Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in profit or loss in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. For impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Business combination and goodwill (continued)

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative fair values of the disposed operation and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus associated cumulative translation differences, cash flow hedge and fair value reserves and goodwill is recognised in profit or loss.

(x) Non-current assets held for sale

Non-current assets and disposal group's classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations; or
- Is part of a single coordinated plan to dispose of a separate major line of business; or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale

In the consolidated and separate statements of profit or loss and other comprehensive income for the reporting period, and the comparable period in the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Bank retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated and separate statements of profit or loss and other comprehensive income. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(y) Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit, real estates, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded in the consolidated and separate statements of financial position. However, the fair value of collateral affects the calculations of ECL. It is generally assessed, at a minimum, at inception and re-assessed on a regular basis.

To the extent possible, the Group uses active market data for valuing financing assets held as collateral. Other financial assets which do not have a readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on external independent professional valuers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(z) Collateral repossessed**

The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying amount of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held-for-sale at the lower of their repossessed value or carrying amount of the original secured asset or fair value less cost to sell for non-financial assets.

In its normal course of business, the Group does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customer. Therefore, as a result, the residential properties under legal repossession process are not recorded in the consolidated and separate statements of financial position.

(aa) Fair value measurement

For financial instruments traded in active markets, the determination of fair value 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 these 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 reporting date.

In cases when the fair value of unlisted equity instruments is determined using valuation techniques, the Group's policy is to carry the instruments at FVOCI. The valuation of unlisted equity instruments is done using valuation methods that are appropriate in the circumstances including the market valuation method or discounted cash flows method.

At each reporting date, management analyses the movements in the values of the assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

(ab) Earnings per share

The Group presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the parent 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(ac) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Management Team, which is the chief operating decision maker. Details of the Group's segments are provided under Note 5.

(ad) IAS 39 to IFRS 9 transitional disclosures

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 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 most significant IFRS 9 transition impact for the Group and the Bank is the introduction of the ECL requirements which result in the early recognition of credit impairment provisions primarily as a result of the drivers outlined in the table below.

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 recognized 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.

IFRS 9 removes the option for carrying at cost investments in unlisted equity instruments. The Bank holds an unlisted equity investment which was previously carried at cost. The fair value of the unlisted equity investment was determined on application of IFRS 9 using a fair valuation method.

The adoption of IFRS 9 has resulted in the following financial impact on the consolidated and separate financial statements at the date of initial application.

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ad) IAS 39 to IFRS 9 transitional disclosures (Continued)

Impact on equity	Notes	Issued share capital TZS'M	Regulatory and other reserves TZS'M	Retained earnings TZS'M	Total controlling interest TZS'M	Non - controlling interest TZS'M	Total equity TZS'M
Group:							
At 1 January 2018		12,900	52,905	152,685	218,490	12,965	231,455
Increase in expected credit loss:							
Loans and advances to customers	18	-	-	(59,202)	(59,202)	(778)	(59,980)
Off-balance sheet items	35	-	-	(2,015)	(2,015)	(4)	(2,019)
Other financial assets		-	-	(3,731)	(3,731)	(46)	(3,777)
Fair value loss on equity investment	20	-	(170)	-	(170)	-	(170)
Gross impact		-	(170)	(64,948)	(65,118)	(828)	(65,946)
Deferred tax impact	13	-	51	17,280	17,331	-	17,331
Net impact of initial application of IFRS 9		-	(119)	(47,668)	(47,787)	(828)	(48,615)
Appropriation from regulatory reserve		-	(23,437)	23,594	157	(157)	-
At 1 January 2018 - Restated		12,900	29,349	128,611	170,860	11,980	182,840
Change (%)		0%	-45%	-16%	-22%	-8%	-21%
Bank							
At 1 January 2018		12,900	41,903	158,809	213,612		
Increase in expected credit loss:							
Loans and advances to customers	18	-	-	(53,500)	(53,500)		
Off-balance sheet items	35	-	-	(2,010)	(2,010)		
Other financial assets		-	-	(2,091)	(2,091)		
Fair value loss on equity investment	20	-	(170)	-	(170)		
Gross impact		-	(170)	(57,601)	(57,771)		
Deferred tax impact	13	-	51	17,280	17,331		
Net impact of initial application of IFRS 9		-	(119)	(40,321)	(40,440)		
Appropriation from regulatory reserve		-	(23,705)	23,705	-		
At 1 January 2018 - Restated		12,900	18,079	142,193	173,172		
Change (%)		0%	-57%	-10%	-19%		

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ad) IAS 39 to IFRS 9 transitional disclosures (Continued)

Changes in financial assets on application of IFRS 9

Group	IAS 39 measurement		Re- classification		Re- measurement		IFRS 9
Financial assets	Category	Amount			ECL/FV	Amount	Category
Cash and balances with central banks	Loans and receivables	176,289	-		(654)	175,635	Amortised cost
Loans and advances to banks		116,872	-		(643)	116,229	
Loans and advances to customers		911,742	-		(59,980)	851,762	
Other assets		31,969	-		(503)	31,466	
Government securities		270,719	-		(1,976)	268,743	
Corporate bonds		1,632	-		(2)	1,630	
		1,509,223	-		(63,758)	1,445,465	
Government securities	FVTPL (HFT)	4,844	-		-	4,844	FVTPL
Equity investments	AFS	1,365	-		(170)	1,195	FVOCI
Off-balance sheet financial assets		-	-		(2,018)	(2,018)	
Total financial assets		1,515,432	-		(65,946)	1,449,486	

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ad) IAS 39 to IFRS 9 transitional disclosures (Continued)

Changes in financial assets on application of IFRS 9 (continued)

Bank	IAS 39 measurement		Re- classification	Re- measurement	IFRS 9	
Financial assets	Category	Amount		ECL/FV	Amount	Category
Cash and balances with central banks	Loans and receivables	96,729	-	(64)	96,665	Amortised cost
Loans and advances to banks		62,488	-	(53)	62,435	
Loans and advances to customers		692,676	-	(53,500)	639,176	
Other assets		25,904	-	(35)	25,869	
Government securities		266,118	-	(1,937)	264,181	
Corporate bonds		8,104	-	(2)	8,102	
		1,152,019	-	(55,591)	1,096,428	
Government securities	FVTPL (HFT)	29	-	-	29	FVTPL
Equity investments	AFS	1,365	-	(170)	1,195	FVOCI
Off-balance sheet financial assets		-	-	(2,010)	(2,010)	
Total financial assets		1,153,413	-	(57,771)	1,095,642	

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(ad) IAS 39 to IFRS 9 transitional disclosures (Continued)**

Changes in capital ratios and ECL

Bank	At 1 January 2018		
	As previously stated	Adjustment	Restated
Tier 1 capital rate	17.34%	-1.77%	15.57%
Tier 1 + Tier 2 capital ratio	19.32%	-1.78%	17.54%

The change in equity is mostly driven by the effects of additional impairment provisions following the implementation of the expected credit loss methodology.

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.

Changes in expected credit losses

Group	Amount in TZS' M		
	ECL as previously stated	Increase in ECL	ECL as restated
Loans and advances to customers	35,173	59,980	95,153
Loans and advances to banks	-	643	643
Government securities at amortised costs	-	1,976	1,976
Balances with Central Bank	-	654	654
Bonds	-	2	2
Other assets	-	503	503
	<u>35,173</u>	<u>63,758</u>	<u>98,931</u>
Financial guarantees	-	797	797
Letters of credit	-	1,222	1,222
	<u>-</u>	<u>2,019</u>	<u>2,019</u>
Bank			
Loans and advances to customers	31,171	53,500	84,671
Loans and advances to banks	-	53	53
Government securities at amortised costs	-	1,937	1,937
Balances with Central Bank	-	64	64
Bonds	-	2	2
Other assets	-	35	35
	<u>31,171</u>	<u>55,591</u>	<u>86,762</u>
Bank guarantees	-	788	788
Letters of credit	-	1,222	1,222
	<u>-</u>	<u>2,010</u>	<u>2,010</u>

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(ad) IAS 39 to IFRS 9 transitional disclosures (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, credit risk, other basic lending risks, profit margin and liquidity risk and where the business intends to hold the asset to collect those cash-flows.
- For those debt instruments which the Group and the Bank intend 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 (AFS) under IAS 39).
- For financial assets that are more complex or where the Group and the Bank intend to trade them, then they are fair valued with movements going to profit or loss.

Forward-looking information

Forward-looking information has been incorporated into the Group's and the Bank's impairment methodology calculations which typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures. The table below shows a 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
GDP growth rate %	6.97	7.10	6.83
Inflation rate %	3.50	4.10	3.00
Lending rate %	16.27	18.42	14.96
Mortality rate %	26.30	28.70	22.40
Unemployment %	2.57	3.47	1.92

Designation of equity instruments at FVOCI

The Bank has elected to irrevocably designate its listed and unlisted equity investments at FVOCI as permitted under IFRS 9. These investments were previously classified as AFS. The changes in fair value of such investments will no longer be reclassified to profit or loss when they are disposed of.

4. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

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

Critical accounting estimates and assumptions

The Group 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 and are the 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 management. Changes in valuation assumptions could affect the reported fair value of the financial instruments. The impact on change in assumptions on the fair value and the carrying amount of the financial instruments is disclosed under Note 20.

b) Determination of ECL allowances under IFRS 9

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement and estimations. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The elements of the ECL models that are considered accounting judgements and estimates are indicated below. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of forward-looking information

The evolving economic environment is a key determinant of the ability of a Group's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions held 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 rate, GDP growth rate, interest rates, lending rate mortality rate and unemployment rate. Details on assumptions used are provided under Note 6.1.3.

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 LGD 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.

4. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS**Critical judgements in applying the Group's and the Bank's accounting policies****a) Business model assessment**

The business model reflects how the Group manages its assets in order to generate cash flows. That is, whether the Group'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 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.

Refer to Notes 16, 17, 18, 19 and 21 for the carrying amounts of financial assets.

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 quantitative factors, that is, 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 have low credit risk. The Group has determined that the quantitative factors reasonably reflect SICR and that, considering the nature of the Group's clients, consideration of qualitative factors would involve undue cost or effort. Refer to Notes 6.1 and 18 for further disclosures.

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 differs.

Refer to Notes 6.1 and 18 for further disclosures including the carrying amounts of loans and advances.

d) Going concern assessment

The Directors have made an assessment of the Group's and the Bank's ability to continue as going concerns and are satisfied that the Group and the Bank have the resources to continue in business for the foreseeable future. Exim Bank Uganda Limited (the "component") continues to make losses. During the year, the Bank injected additional capital to ensure the component meets the statutory capital requirement. The Directors have assessed that the financial performance of the component does not have a material impact on the going concern status of the Group. The directors are not aware of any material uncertainties that may cast significant doubt upon the Group's and the Bank's ability to continue as going concerns. Therefore, the consolidated and separate financial statements continue to be prepared on the going concern basis.

4. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (CONTINUED)**Critical judgements in applying the Group's and the Bank's accounting policies (continued)****e) Impairment of non-financial assets**

Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of the cash flows. Where the discounted cash flows method is not appropriate, other valuations techniques, like the market valuation approach, are used. Such valuation approaches involve benchmarking of observable market information with the valued cash generating unit's financial position and results, and applying premiums or discounts as appropriate.

The Group performed the annual impairment assessment at year-end. The Group considers the relationship between value in use and carrying amount of the asset, among other factors, when reviewing for indicators of impairment. Refer to Notes 3(v), 23 and 26 for the accounting policy on impairment of non-financial assets and details on the impairment assessment and carrying amounts of non-financial assets subject to impairment.

(f) Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise from a wide variety of issues, depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of the deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

For disclosures and details on tax and tax contingencies, refer to Notes 13 and 35 to the consolidated and separate financial statements.

(h) Useful lives of property and equipment, and intangible assets

The Group reviews the estimated useful lives of property and equipment, and intangible assets at the end of each annual reporting period. Factors considered while reviewing the useful lives and residual value of items of property and equipment include:

- The expected usage of the asset by the Group, which is assessed by reference to the asset's expected capacity;
- The expected physical wear and tear, which depends on operational factors, the repair and maintenance program of the Group, and the care and maintenance of the asset while idle;
- Technical or commercial obsolescence arising from changes in technology;
- Group's assets replacement cycle; and
- Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

Refer to Notes 3(l) (m) and 22, 24 for further details.

5. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Head of the Group's Management Team (the Chief Executive Officer), who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has the following business segments based on products and services offered:

Name of the business segment	Services and products offered
Corporate Banking	Loans and other credit facilities, deposit and current accounts for corporate and institutional customers.
Retail Banking	Individual customer deposits, consumer loans and overdrafts.
Others	Card and Treasury products

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's and Bank's total revenue in 2019 or 2018.

The majority of the Group's segments' revenues are from interest and the Chief Executive Officer relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. As such, for segment reporting, the Group reports segment interest revenue net of interest expense. The segment information provided to the Chief Executive Officer for reportable segments is as follows (all amounts in TZS 'Million):

Year ended 31 December 2019

	Corporate	Retail	Others	Total
Segmental profit or loss				
Net interest income	50,421	31,498	12,348	94,267
Credit impairment charges	(34,485)	(5,475)	(34)	(39,994)
Fee, commission and other income	27,357	16,439	13,231	57,027
Staff costs	(23,897)	(21,395)	(7,766)	(53,058)
Depreciation and amortization	(5,252)	(5,461)	(1,774)	(12,487)
Other expenses	(24,441)	(21,522)	(8,170)	(54,133)
Operating profit	(10,297)	(5,916)	7,835	(8,378)
Income tax expense	(2,889)	1,716	(5,443)	(6,615)
Net (loss)/profit for the year	(13,185)	(4,200)	2,392	(14,993)

Segment assets, liabilities and equity

Total assets	<u>1,063,152</u>	<u>125,379</u>	<u>596,341</u>	<u>1,784,872</u>
Total liabilities and equity	<u>59,804</u>	<u>526,609</u>	<u>663,459</u>	<u>1,784,872</u>
Non-performing assets	<u>179,764</u>	<u>21,794</u>	<u>-</u>	<u>201,558</u>
Additions to non-current assets*	<u>-</u>	<u>-</u>	<u>11,493</u>	<u>11,493</u>

*Additions to non-current assets comprise additions to property and equipment (note 24), intangible assets (note 22) and assets held for sale (note 23).

5. SEGMENT REPORTING (CONTINUED)**Year ended 31 December 2018**

	Corporate	Retail	Others	Total
Segmental profit or loss				
Net interest income	54,900	23,649	22,965	101,515
Credit impairment charges	(11,384)	(4,904)	(4,762)	(21,050)
Fee, commission and other income	15,041	17,004	18,448	50,493
Staff costs	(28,120)	(12,113)	(11,763)	(51,996)
Depreciation and amortization	-	-	(12,112)	(12,112)
Other expenses	(30,055)	(29,055)	(3,018)	(62,128)
Operating profit	382	(5,419)	9,758	4,721
Income tax expense	(6,107)	(6,904)	(7,490)	(20,500)
Net (loss)/profit for the year	(5,725)	(12,323)	2,268	(15,779)
Segment assets, liabilities and equity				
Total assets	750,117	36,615	777,632	1,564,364
Total liabilities and equity	361,278	535,969	667,117	1,564,364
Non-performing assets	103,370	6,637	-	110,007
Additions to non-current assets*	-	-	10,617	10,617

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

5. SEGMENT REPORTING (CONTINUED)**Geographical information**

The Group operates in four geographical markets; Tanzania, Uganda, Comoros and Djibouti. The following table shows the distribution of the Group's net operating income and non- current assets allocated based on the location of the customers and assets respectively for the years ended 31 December 2019 and 31 December 2018. All balances are in TZS' Million.

	Tanzania	Comoro	Djibouti	Uganda	Core Securities	Elimination adjustments	Total
Year ended 31 December 2019							
Interest and similar income	102,552	6,230	13,083	14,300	-	(5,371)	130,794
Interest expense and similar charges	<u>(33,600)</u>	<u>(339)</u>	<u>(2,040)</u>	<u>(5,854)</u>	<u>(65)</u>	<u>5,371</u>	<u>(36,527)</u>
Net interest income	68,952	5,891	11,043	8,446	(65)	-	94,267
Credit loss expense	<u>(30,352)</u>	<u>(8,502)</u>	<u>(1,588)</u>	<u>455</u>	<u>(7)</u>	<u>-</u>	<u>(39,994)</u>
Net interest income after loan impairment charge	38,600	(2,611)	9,455	8,901	(72)	-	54,273
Other external operating income	35,965	13,068	4,806	3,201	(13)	-	57,027
Intra-group management fees	<u>1,148</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,148)</u>	<u>-</u>
Total external operating income	75,713	10,457	14,261	12,102	(85)	(1,148)	111,300
Non- current assets	<u>102,929</u>	<u>7,046</u>	<u>11,459</u>	<u>10,586</u>	<u>140</u>	<u>(4,113)</u>	<u>128,047</u>

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

5. SEGMENT REPORTING (CONTINUED)

Geographical information (continued)

	Tanzania	Comoro	Djibouti	Uganda	Core Securities	Elimination adjustments	Total
Year ended 31 December 2018							
Interest and similar income	108,595	5,560	11,959	11,856	-	(5,200)	132,770
Interest expense and similar charges	<u>(29,735)</u>	<u>(801)</u>	<u>(2,052)</u>	<u>(3,867)</u>	-	5,200	<u>(31,255)</u>
Net interest income	<u>78,860</u>	<u>4,759</u>	<u>9,907</u>	<u>7,989</u>	-	-	<u>101,515</u>
Credit loss expense	<u>(16,443)</u>	<u>193</u>	<u>(2,157)</u>	<u>(2,643)</u>	-	-	<u>(21,050)</u>
Net interest income after loan impairment charge	62,417	4,952	7,750	5,346	-	-	80,465
							-
Other external operating income	32,371	8,307	6,046	3,122	647	-	50,493
Intra-group management fees	<u>4,793</u>	<u>-</u>	<u>-</u>	<u>-</u>	-	<u>(4,793)</u>	<u>-</u>
Total external operating income	<u>99,581</u>	<u>13,259</u>	<u>13,796</u>	<u>8,468</u>	<u>647</u>	<u>(4,793)</u>	<u>130,958</u>
Non-current assets	<u>52,424</u>	<u>4,024</u>	<u>3,102</u>	<u>4,878</u>	<u>50</u>	<u>-</u>	<u>64,479</u>

6. 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 practices.

The Board (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. As part of its governance structure, the Board 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. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and liquidity risk. In addition, internal audit is responsible for independent review of risk management and the control environment.

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, 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 risks are credit risk, liquidity risk and market risk. The notes below provide detailed information on each of these risks and the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

6.1 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 assets portfolio. There is also credit risk in the off-balance sheet financial instruments, such as loan commitments, letters of credit and guarantees. Credit risk management and control is centralized under the credit risk management team which reports to the Board regularly.

6.1.1 Credit risk measurement

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Group reflects three components: (i) the PD by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derives the EAD; and (iii) the likely recovery ratio on the defaulted obligations (LGD). EAD is based on the amounts the Group expects to be owed at the time of default. These credit risk measurements, which reflect expected loss are embedded in the credit risk management process and are in line with IFRS 9.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.1 Credit risk (continued)****6.1.1 Credit risk measurement (continued)**

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 are identified and documented and using a statistical analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses.

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty in line with the Bank of Tanzania (BOT) guidelines. Customers 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. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

Group's rating	Description of the grade	Number of days outstanding	Equivalent IFRS 9 grading
1	Current	0 - 30	Stage 1
2	Especially mentioned	31 - 90	Stage 2
3	Sub-standard	91 - 180	Stage 3
4	Doubtful	181 - 360	Stage 3
5	Loss	>360	Stage 3

Exposure at default is based on the amounts the Group expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

6.1.2 Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk whenever they are identified, in particular, to individual counterparties and groups, and to industries. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

6. FINANCIAL RISK MANAGEMENT (Continued)**6.1 Credit risk (continued)****6.1.2 Risk limit control and mitigation policies (continued)***Collateral*

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

- Mortgages over residential properties;
- Charges over business assets such as property, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured. The outstanding balances and collaterals held by the Group and Bank as at 31 December 2019 and 31 December 2018 against credit non-performing loans and advances to customers were as indicated below:

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
Non-performing loans	210,356	110,006	180,727	91,341
Market value of collateral held - legal mortgages	316,528	187,133	284,567	172,373
Present value of collateral held - legal mortgages	<u>204,229</u>	<u>130,465</u>	<u>179,324</u>	<u>120,680</u>

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 authorizing a third party to draw drafts on a bank within the Group up to a stipulated amount under specific terms and conditions – are collateralized 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 authorizations 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 is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Details of outstanding credit-related commitments are in Notes 35 and 6.3.5.

6. FINANCIAL RISK MANAGEMENT (Continued)**6.1 Credit risk (continued)****6.1.2 Risk limit control and mitigation policies (Continued)***Lending limits (for derivatives and loan book)*

The Group maintains 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 favorable to the Group (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 are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

6.1.3 Expected credit loss measurement

The Group adopted IFRS 9 from 1 January 2018 which outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

A financial instrument that is not credit –impaired on initial recognition is classified in 'Stage 1' and has credit risk continuously monitored by the Group.

If a significant increase in credit risk ('SICR') since recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired. If the financial asset is credit-impaired, the financial instrument is then moved to 'Stage 3'. Financial instrument in Stage 1 have their ECL measured at an amount equal to the portion of a lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on expected credit losses on a life time basis.

A pervasive concept in measuring ECL in accordance with IFRS9 is that it should consider forward-looking information. Purchased or originated credit – impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following sections describe how the Group defines when a significant increase in credit risk has occurred; how the Group defines credit –impaired and default; inputs and assumptions and estimation techniques used in measuring the ECL; and how the Group incorporates forward looking information in the ECL models.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.3 Expected credit loss measurement (continued)

6.1.3.1 Significant increase in credit risk (SICR)

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

Qualitative criteria

For retail portfolios, if the borrower meets one or more of the following criteria:

- In short-term forbearance;
- Direct debit cancellation;
- Extension to the terms granted; or
- Previous arrears within the last 12 months.

For corporate and treasury portfolios, if the borrower is on the Watch-list and / or the instrument meets one or more of the following criteria:

- Significant increase in credit spread;
- Significant adverse changes in business, financial and /or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default; or
- Early signs of cash flows / liquidity problems such as delay in servicing of trade creditors / loans.

The assessment of SICR incorporates forward-looking information. This is performed on a quarterly basis at a portfolio level for all Retail financial instruments. In relation to wholesale and treasury financial instruments, where a watch-list is used to monitor credit risk, this assessment is performed at the counterparty level on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the credit team.

Backstops

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

The Group has not used the low credit risk exemption for any financial instruments during the year. The Group applied back stops in assessing SICR during the year as applying other quantitative factors or qualitative factors was found to involve undue cost or effort.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.1 Credit risk (continued)****6.1.3 Expected credit loss measurement (continued)****6.1.3.2 Definition of default and credit - impaired assets**

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

Quantitative 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; or
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The Group applied the quantitative criteria during the year as this was deemed to be more prudent. The criteria have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected loss computations.

6.1.3.3 Measuring ECL

ECL is measured on either a 12 -month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit -impaired. Expected credit losses are the discounted product of the PD, EAD and LGD as detailed in Note 2(k). Forward - looking economic information is also included in determining both 12-month and lifetime PD, EAD and LGD. The table below table shows PD distribution with estimates computed at sector level:

Description of Risk	Stage allocation	Past due days	Probability of Default*
High risk	Stage 3	>= 90 days	100%
Moderate risk	Stage 2	>30 days up to 90 days	15.0%-94.24%
Low risk	Stage 1	0-30 days	0%- 58.90%

**PD estimated at sector level*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.1 Credit risk (continued)****6.1.3 Expected credit loss measurement (continued)****6.1.3.4 Forward-looking information incorporated in the ECL models**

The assessment of SICR and the calculation of ECL both incorporate forward looking information. The Group has performed historical analysis and has identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and associated impact on PD, EAD, and LGD vary by financial instrument. The Group has utilized analysis of historical default rates in the absence of internal rating model or behavior score.

6.1.3.5 Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modeled on a collective basis, a grouping of exposure is performed on the basis of shared risk characteristics, such that risk exposures within the group are homogeneous. Refer to Note 4 for further disclosures on the grouping of exposures.

6.1.3.6 Stage allocation.

The Group, in accordance with IFRS 9, has adopted the 3 stage classifications when determining changes in impairments and estimation of ECL as detailed in Note 3(k). Currently, the Group stages credit exposures using backstops.

6.1.4 Loans and advances impairment**(a) Loans and advances neither past due nor impaired**

These fall into the following categories: (Amounts are in TZS' Million)

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
Micro and Small Enterprises (MSE)	236	-	-	-
Consumer loans	45,359	25,929	27,903	9,777
Small and Medium size Enterprises (SMEs)	67,807	8,054	21,127	4,082
Corporate customers	618,173	787,463	523,733	626,161
Total	731,575	821,446	572,763	640,020
Loans and advances to banks	233,898	131,502	144,808	94,442

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.1 Credit risk (continued)****6.1.4 Loans and advances impairment (continued)****(a) Loans and advances neither past due nor impaired (continued)**

About 85% of the loans and advances that were neither past due nor impaired fall under the top grade of the Group's internal rating system, known as current. The rest fall under the next grades known as Especially Mentioned and Substandard.

Loans and advances to banks include bank balances and placements with both local and international banks. All international banks are also highly rated banks.

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Loans and advances past due by more than 90 days but with good collateral are also not considered impaired. The gross amount of loans and advances to customers by class that were past due but not impaired were as follows:

Group	Individual (retail customers)		Corporate customers		Total
	MSEs	Consumer	Corporate customers	SMEs	
At 31 December 2019					
Past due up to 30 days	121	1,556	48,698	17,109	67,484
Past due 30-60 days	-	609	3,999	804	5,412
Past due 60-90 days	-	386	1,244	1,410	3,040
Past due 90-180 days	-	-	22,232	530	22,762
Total	121	2,551	76,173	19,853	98,698
At 31 December 2018					
Past due up to 30 days	-	-	-	-	-
Past due 30-60 days	-	-	-	-	-
Past due 60-90 days	-	-	-	-	-
Past due 90-180 days	-	-	29,553	-	29,553
Total	-	-	29,553	-	29,553

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.4 Loans and advances impairment (continued)

(b) Loans and advances past due but not impaired (continued)

Bank	Individual (retail customers)		Corporate customers		Total
	MSEs	Consumer	Corporate customers	SMEs	
At 31 December 2019					
Past due up to 30 days	-	-	-	-	-
Past due 30-60 days	-	-	-	-	-
Past due 60-90 days	-	-	21,879	-	21,879
Total	-	-	21,879	-	21,879
At 31 December 2018					
Past due up to 30 days	-	-	-	-	-
Past due 30-60 days	-	-	-	-	-
Past due 60-90 days	-	-	-	-	-
Past due 90-180 days	-	-	-	-	-
Total	-	-	-	-	-

(c) Impaired loans and advances

The amount of individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held, by class, was as follows:

	Group		Bank	
	2019 TZS'M	2018 TZS'M	2019 TZS'M	2018 TZS'M
Micro and Small Enterprises (MSEs)	-	-	-	-
Consumer loans	4,592	2,813	3,813	2,080
Small and Medium Size Enterprises (SMEs)	17,202	3,130	6,191	-
Corporate customers	179,764	104,064	161,924	89,261
Total	201,558	110,007	171,928	91,341

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.4 Loans and advances impairment (continued)

Loans and advances are summarised as follows:

	2019		2018	
	Loans and advances to customers TZS'M	Amounts due from banks TZS'M	Loans and advances to customers TZS'M	Amounts due from banks TZS'M
Group				
Neither past due nor impaired	731,575	233,898	821,446	131,502
Past due but not impaired	98,698	-	29,553	-
Impaired	201,558	-	110,007	-
Gross	1,031,831	233,898	961,006	131,502
Less: Provision on restructured loans	-	-	(396)	-
Less: Expected credit loss	(78,457)	(620)	(83,537)	(567)
Net	953,374	233,278	877,073	130,935
Bank				
Neither past due nor impaired	572,763	144,808	640,020	94,441
Past due but not impaired	21,879	-	-	-
Impaired	171,928	-	91,341	-
Gross	766,570	144,808	731,361	94,441
Less: Provision on restructured loans	-	-	(396)	-
Less: Expected Credit Loss	(57,825)	(8)	(71,095)	(3)
Net	708,745	144,800	659,870	94,438

The total Expected Credit Loss for loans and advances represents both individually impaired loans and loans assessed on a portfolio basis. Further information on the impairment allowance for loans and advances to customers is provided in Note 18.

During the year ended 31 December 2019, the Bank's total net loans and advances to customers increased by 7% (2018: decreased by 5%) while the Group's total net loans and advances to customers increased by 9% (2018: increased by 4%). When entering into new markets, in order to minimise the potential increase of credit risk exposure, the Group focuses more on the business with large corporate enterprises or banks with good credit rating or retail customers providing sufficient collateral.

There were no individually impaired loans and advances to banks as at 31 December 2019 (2018: Nil). No collateral is held by the Group and Bank in respect to loans and advances to banks. The expected credit losses on loans and advances to banks are indicated in Note 17.

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.5 Other financial assets at amortised cost

The other financial assets at amortised cost held by the Group and Bank comprise treasury bills and bonds issued by the Government of Tanzania, Government of Uganda, bonds issued by PTA Bank and the Organisation for Economic Cooperation and Development (OECD); balances with central banks and other assets. These financial assets are considered to be neither past due nor in default. The treasury bills and bonds and other bonds are held with governments or institutions with good financial standing with no history of default. Refer to notes 16, 19, 20(b) and 21 for further information.

6.1.6 Expected credit losses on loans and advances to customers by class

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

	Group				Bank			
	Stage 1 12 - Month TZS 'M'	Stage 2 Lifetime TZS 'M'	Stage 3 Lifetime TZS 'M'	Total TZS 'M'	Stage 1 12 - Month TZS 'M'	Stage 2 Lifetime TZS 'M'	Stage 3 Lifetime TZS 'M'	Total TZS 'M'
Expected Credit Loss								
As at 31 December 2019								
Current	722,664	630	8,680	731,974	515,410	-	-	515,410
Especially mentioned	-	43,482	1,563	45,045	-	15,641	-	15,641
Substandard	-	61,770	4,902	66,672	-	61,770	541	62,311
Doubtful	-	-	82,380	82,380	-	-	88,116	81,116
Loss	-	3,998	101,762	105,760	-	3,998	88,094	92,092
Gross carrying amount	722,664	109,880	199,287	1,031,831	515,410	81,409	176,751	766,570
Less Expected credit loss	(13,343)	(18,371)	(46,743)	(78,457)	(10,429)	(14,606)	(32,790)	(57,825)
Net loans and advances to customers	709,321	91,509	152,544	953,374	504,981	66,803	143,961	708,745

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.6 Expected credit losses on loans and advances to customers by class (continued)

	Group				Bank			
	Stage 1 12 - Month TZS 'M'	Stage 2 Lifetime TZS 'M'	Stage 3 Lifetime TZS 'M'	Total TZS 'M'	Stage 1 12 - Month TZS 'M'	Stage 2 Lifetime TZS 'M'	Stage 3 Lifetime TZS 'M'	Total TZS 'M'
As at 31 December 2018								
Current	705,305	102,344	-	807,649	506,156	102,344	-	608,500
Especially mentioned	-	11,830	31,520	43,350	-	-	31,520	31,520
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	31,275	31,275	-	-	31,275	31,275
Loss	-	-	78,732	78,732	-	-	60,066	60,066
Gross carrying amount	705,305	114,174	141,527	961,006	506,156	102,344	122,861	731,361
Less: Loss on re-measurement of restructured loans	-	(396)	-	(396)	-	(396)	-	(396)
ECL allowance	(13,674)	(19,352)	(50,511)	(83,537)	(18,427)	(731)	(51,938)	(71,095)
Net loans and advances	691,631	94,426	91,016	877,073	487,729	101,217	70,923	659,870

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.1 Credit risk (continued)****6.1.6 Expected credit losses on loans and advances to customers by class (continued)**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans and advances to customers was as follows:

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

	Group 2019				Bank 2019			
	Stage 1 TZS M'	Stage 2 TZS M'	Stage 3 TZS M'	Total TZS M'	Stage 1 TZS M'	Stage 2 TZS M'	Stage 3 TZS M'	Total TZS M
Gross carrying amount								
At 1 January	705,305	114,174	141,527	961,006	506,156	102,344	122,861	731,361
Changes in the gross carrying amount					-			
-Transfer to stage 1	20,466	(17,633)	(2,833)	-	16,617	(14,340)	(2,277)	-
-Transfer to stage 2	(62,237)	63,191	(954)	-	(49,273)	49,274	(1)	-
-Transfer to stage 3	(28,410)	(30,027)	58,437	-	(25,365)	(28,514)	53,879	-
New financial assets originated or purchased	393,154	46,092	97,967	537,213	208,598	40,274	79,946	328,818
Financial assets that have been derecognised	(298,748)	(26,886)	(68,943)	(394,577)	(144,056)	(22,233)	(49,300)	(215,589)
Write-offs	(1,205)	(996)	(44,734)	(46,935)	(1,205)	(134)	(45,165)	(46,504)
Other changes	(121)	(29,533)	4,778	(24,876)	3,442	(36,940)	1,982	(31,51)
At 31 December	728,204	118,382	185,245	1,031,831	514,914	89,731	161,925	766,570
Expected credit loss								
At 1 January	11,190	21,835	50,512	83,537	9,530	14,618	46,947	71,095
Change in the allowance								
-Transfer to stage 1	1,193	(60)	(1,133)	-	1,164	(31)	(1,133)	-
-Transfer to stage 2	(2,027)	2,503	(476)	-	(1,747)	1,747	-	-
-Transfer to stage 3	(536)	(6,308)	6,844	-	(378)	(6,276)	6,654	-
-Write-off	(5)	(76)	(17,165)	(17,246)	(5)	(76)	(12,103)	(12,184)
New financial assets originated or purchased	10,348	1,464	34,079	45,891	8,346	939	19,176	28,461
Financial assets that have been derecognised	(8,040)	(13,372)	(23,050)	(44,462)	(6,335)	(10,180)	(19,968)	(36,483)
Changes in models/risk parameters	(3,404)	5,785	3,294	(5,675)	(295)	5,801	1,430	6,936
Other changes	-	-	5,062	5,062	-	-	-	-
At 31 December	8,719	11,771	57,967	78,457	10,280	6,542	41,003	57,825

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.1 Credit risk (continued)****6.1.6 Expected credit losses on loans and advances to customers by class (continued)**

	Group 2018				Bank 2018			
	Stage 1 TZS M'	Stage 2 TZS M'	Stage 3 TZS M'	Total TZS M'	Stage 1 TZS M'	Stage 2 TZS M'	Stage 3 TZS M'	Total TZS M
Gross carrying amount								
At 1 January	693,215	63,839	189,859	946,913	518,189	37,268	168,389	723,846
Changes in gross carrying amount	-	-	-	-	-	-	-	-
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	(24,099)	24,099	-	-	(24,099)	24,099	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Write-offs	-	-	(43,873)	(43,873)	-	-	(41,158)	(41,158)
New financial assets originated or purchased	48,242	48,824	-	97,066	17,336	48,824	-	66,160
Financial assets derecognised	(12,053)	(22,588)	(4,459)	(39,100)	(5,270)	(7,847)	(4,370)	(17,487)
Other changes	-	-	-	-	-	-	-	-
At 31 December	<u>705,405</u>	<u>114,174</u>	<u>141,527</u>	<u>961,006</u>	<u>506,156</u>	<u>102,344</u>	<u>122,861</u>	<u>731,361</u>
Expected credit loss								
At 1 January	17,839	1,721	75,594	95,154	16,656	655	67,360	84,671
Change in the loss allowance								
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	(2,484)	2,484	-	-	2,141	2,141	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Write-offs	-	-	(35,939)	(35,939)	-	-	30,971	30,971
New financial assets originated or purchased	-	-	-	-	-	-	-	-
Financial assets that have been derecognised	-	-	-	-	-	-	-	-
Changes in models/risk parameters	(4,165)	17,630	10,857	24,322	(4,985)	11,822	10,558	17,395
Other changes	-	-	-	-	-	-	-	-
At 31 December	<u>11,190</u>	<u>21,835</u>	<u>50,512</u>	<u>83,537</u>	<u>9,530</u>	<u>14,618</u>	<u>46,947</u>	<u>71,095</u>

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.1 Credit risk (Continued)****6.1.6 Expected credit losses on loans and advances to customers by class (Continued)****Maximum exposure to credit risk before collateral held or other credit enhancements**

The maximum on-balance sheet exposure to credit risk is as shown below:

	Group				Bank			
	2019		2018		2019		2018	
	TZS 'M'	%	TZS 'M'	%	TZS 'M'	%	TZS 'M'	%
Balances with central banks	137,297	8.28%	144,578	9.74%	67,739	5.51%	79,658	7.00%
Loans and advances to banks	233,897	14.1%	131,502	8.85%	144,808	11.79%	94,441	8.30%
Loans and advances to customers	1,031,831	62.2%	961,006	64.71%	766,570	62.39%	731,361	64.31%
Bonds - at amortised cost	242,670	14.6%	229,058	15.42%	238,887	19.44%	221,887	19.51%
Government securities: FVTPL - HFT	3,940	0.24%	7,528	0.51%	3,920	0.32%	-	0.00%
Other assets (excluding prepayments)	9,147	0.55%	11,400	0.77%	6,738	0.55%	9,978	0.88%
	<u>1,658,784</u>	<u>100%</u>	<u>1,485,072</u>	<u>100%</u>	<u>1,228,662</u>	<u>100.00%</u>	<u>1,137,325</u>	<u>100%</u>

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (Continued)

6.1.7 Concentration of risks of financial assets with credit risk exposure

The following table includes an analysis of the Group's maximum credit risk exposure at the carrying amounts of the financial assets, as categorised by industry sectors as of 31 December 2019 (All balances are in TZS' Million):

(a) Industry sectors

Group	Amounts in TZS 'M'							Total
	Financial institutions	Manu- facturing	Trading and commercial	Transport and communication	Agriculture	Individuals	Others	
Balances with Central Banks	137,298	-	-	-	-	-	-	137,298
Loans and advances to banks	233,278	-	-	-	-	-	-	233,278
Government securities – amortized cost	240,923	-	-	-	-	-	-	240,923
Government securities: FVTPL/held for trading	3,904	-	-	-	-	-	-	3,904
Bonds: Debt securities at amortized cost	30,583	-	-	-	-	-	-	30,583
Loans and advances to customers:								
<i>Loans to individuals:</i>								
- Personal loans	-	-	-	-	-	48,148	-	48,148
- Commercial loans	-	-	-	-	-	13,476	-	13,476
<i>Loans to corporate entities:</i>								
- Corporate customers	1,233	118,188	141,358	106,808	36,858	19,696	372,436	796,577
- SMEs	25	7,824	42,903	658	13,025	232	30,506	95,173
Other assets less prepayments	8,793	-	-	-	-	-	-	8,793
At 31 December 2019	656,037	126,012	184,261	107,466	49,883	81,552	402,942	1,608,153
Financial guarantees and acceptances	-	5,031	22,564	7,635	17,859	-	73,362	126,451
Loan commitments and other credit related obligations	2	9,180	14,966	24,247	2,692	269	25,709	77,065
At 31 December 2019	2	14,211	37,530	31,882	20,551	269	99,071	203,516

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (Continued)

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

The following table includes an analysis of the Group's maximum credit risk exposure at the carrying amounts of the financial assets, as categorised by industry sectors as of 31 December 2018 (All balances are in TZS 'Million):

(a) Industry sectors (Continued)

Group	(Amounts are in TZS' M')								Total
	Financial institutions	Manu- facturing	Trading and commercial	Transport and communication	Wholesale and retail trade	Agriculture	Individuals	Others	
Balances with Central Banks	144,578	-	-	-	-	-	-	-	144,578
Loans and advances to banks	160,774	-	-	-	-	-	-	-	160,774
Government securities - Loans and receivables	227,251	-	-	-	-	-	-	-	227,251
Government securities - held for trading	7,528	-	-	-	-	-	-	-	7,528
Investment securities - Loans and receivables	-	-	-	-	-	-	-	-	-
Loans and advances to customers:	978	-	-	-	-	-	-	-	978
<i>Loans to individuals:</i>									
- Personal loans	-	-	-	-	-	-	23,812	8,393	32,205
- Commercial loans	52	171	69,148	84	33	-	15,242	2,431	87,161
<i>Loans to corporate entities:</i>									
- Corporate customers	-	78,408	98,127	144,658	-	55,456	17,056	354,847	748,552
- SMEs	-	-	1,733	181	-	390	3,095	3,756	9,155
Other assets less prepayments	11,106	-	-	-	-	-	-	-	11,106
At 31 December 2018	552,267	78,579	169,008	144,923	33	55,846	59,205	369,427	1,429,288

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.1 Credit risk (Continued)****6.1.7 Concentration of risks of financial assets with credit risk exposure (Continued)****(a) Industry sectors (Continued)**

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

Group	(Amounts are in TZS' M')								
	Financial institutions	Manu- facturing	Trading and commercial	Transport and communication	Wholesale and retail trade	Agriculture	Individuals	Others	Total
Financial guarantees and acceptances	-	106	33,032	-	-	1,182	-	74,736	109,056
Loan commitments and other credit related obligations	24	18,564	26,421	2,340	-	1,523	1,092	20,934	70,898
At 31 December 2018	24	18,670	59,453	2,340	-	2,705	1,092	95,670	179,754

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (Continued)

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

(a) Industry sectors (Continued)

The following table includes an analysis of the Bank's maximum credit risk exposure at the carrying amounts of the financial assets, as categorised by industry sectors as of 31 December 2019 (All balances are in TZS' Million):

Bank	(Amounts are in TZS' M')								Total
	Financial institution	Manu- facturing	Trading and commercial	Transport and communication	Wholesale and retail trade	Agriculture	Individuals	Others	
Balances with Central Banks	67,739	-	-	-	-	-	-	-	67,739
Loans and advances to banks	144,800	-	-	-	-	-	-	-	144,800
Government securities - at amortized cost	237,149	-	-	-	-	-	-	-	237,149
Government securities - held for trading	3,884	-	-	-	-	-	-	-	3,884
Bonds - Debt securities at amortized cost	7,797	-	-	-	-	-	-	-	7,797
Loans and advances to customers:									-
<i>Loans to individuals:</i>									-
- Personal loans	-	-	-	-	-	-	23,892	-	23,892
- Commercial loans	-	-	-	-	-	-	12,220	-	12,220
<i>Loans to corporate entities:</i>									-
- Corporate customers	1,219	103,280	68,052	66,183	-	35,165	-	352,616	626,515
- SMEs	25	767	8,920	189	-	10,009	-	26,208	46,118
Other assets less prepayments	6,736	-	-	-	-	-	-	-	6,736
At 31 December 2019	469,349	104,047	76,972	66,372	-	45,174	36,112	378,824	1,176,850
Credit risk exposures relating to off-balance sheet items are as follows:									
Financial guarantees and acceptances	-	2,252	7,200	-	-	17,859	-	67,780	95,091
Loan commitments and other credit related obligations	2	9,180	7,189	2,148	-	2,692	269	24,937	46,417
At 31 December 2019	2	11,432	14,389	2,148	-	20,551	269	92,717	141,508

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (Continued)

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

(a) Industry sectors (Continued)

The following table includes an analysis of the Bank's maximum credit risk exposure at the carrying amounts of the financial assets, as categorised by industry sectors as of 31 December 2018 (All balances are in TZS' Million):

(Amounts are in TZS' M')									
Bank	Financial institution	Manu- facturing	Trading and commercial	Transport and communication	Wholesale and retail trade	Agriculture	Individuals	Others	Total
Balances with Central Banks	79,658	-	-	-	-	-	-	-	79,658
Loans and advances to banks	94,438	-	-	-	-	-	-	-	94,438
Government securities - at amortized cost	220,110	-	-	-	-	-	-	-	220,110
Bonds - Debt securities at amortized cost	6,668	-	-	980	-	-	-	-	7,648
Loans and advances to customers:									
<i>Loans to individuals:</i>									
- Personal loans	-	-	-	-	-	-	9,471	-	9,471
- Commercial loans	52	171	578	84	33	-	-	1,363	2,281
<i>Loans to corporate entities:</i>									
- Corporate customers	-	78,408	98,127	62,190	-	55,456	17,056	327,727	638,962
- SMEs	132	106	1,733	181	-	152	3,095	3,756	9,155
Other assets less prepayments	-	-	-	-	-	-	-	9,944	9,944
At 31 December 2018	401,058	78,685	100,438	63,435	33	55,608	29,622	342,789	1,071,668
Credit risk exposures relating to off-balance sheet items are as follows:									
Financial guarantees and acceptances	-	106	1,079	-	-	1,182	-	74,358	76,725
Loan commitments and other credit related obligations	24	8,754	12,919	2,340	-	1,523	757	20,790	47,107
At 31 December 2018	24	8,860	13,997	2,340	-	2,705	757	95,148	123,832

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (Continued)

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

(b) Geographical sectors

Group

(Amounts are in TZS' M')

Credit risk exposures relating to on-balance sheet assets are as follows:

At 31 December 2019

	Tanzania	Europe	America	Other African countries	Total
Balances with Central Banks	67,739	-	-	69,559	137,298
Loans and advances to banks	50,144	8,521	15,448	159,165	233,278
Government securities – At amortized cost	240,923	-	-	-	240,923
Government securities: FVTPL - held for trading	3,884	-	-	20	3,904
Bonds: Debt securities at amortized cost	5,463	-	-	25,120	30,583
Loans and advances to customers:					
<i>Loans to individuals:</i>					
- Personal loans	24,162	-	-	23,987	48,149
- Commercial loans	12,358	-	-	1,117	13,475
<i>Loans to corporate entities:</i>					
- Corporate customers	621,951	-	-	174,626	796,577
- SMEs	44,049	-	-	51,124	95,173
Other assets less prepayments	6,736	-	-	2,057	8,793
At 31 December 2019	<u>1,077,409</u>	<u>8,521</u>	<u>15,448</u>	<u>506,775</u>	<u>1,608,153</u>

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

Financial guarantees and acceptances	95,091	-	-	31,360	126,451
Loan commitments and other credit related obligations	46,417	-	-	30,648	77,065
At 31 December 2019	<u>141,508</u>	<u>-</u>	<u>-</u>	<u>62,008</u>	<u>203,516</u>

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (Continued)

6.1.7 Concentration of risks of financial assets with credit risk exposure-Group (Continued)

(b) Geographical sectors (Continued)

Group

(Amounts are in TZS' M')

Credit risk exposures relating to on-balance sheet assets are as follows:

At 31 December 2018

	Tanzania	Europe	America	Other African countries	Total
Balances with Central Banks	79,658	-	-	64,921	144,578
Loans and advances to banks	43,106	45,173	26,871	45,624	160,774
Government securities – at amortized cost	220,110	-	-	7,141	227,251
Government securities: FVTPL - held for trading	-	-	-	7,528	7,528
Bonds: Debt securities at amortized cost	78	-	-	900	978
Loans and advances to customers:					
<i>Loans to individuals:</i>					
- Personal loans	9,471	-	-	22,734	32,205
- Commercial loans	2,276	-	-	84,885	87,161
<i>Loans to corporate entities:</i>					
- Corporate customers	638,962	-	-	109,590	748,552
- SMEs	9,150	-	-	5	9,155
Other assets less prepayments	11,106	-	-	-	11,106
At 31 December 2018	<u>1,013,917</u>	<u>45,173</u>	<u>26,871</u>	<u>343,328</u>	<u>1,429,289</u>

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

Financial guarantees and acceptances	76,725	-	-	35,131	111,856
Loan commitments and other credit related obligations	47,107	-	-	23,791	70,898
At 31 December 2018	<u>123,832</u>	<u>-</u>	<u>-</u>	<u>58,922</u>	<u>182,754</u>

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (Continued)

6.1.7 Concentration of risks of financial assets with credit risk exposure-Group (Continued)

(b) Geographical sectors (Continued)

	(Amounts are in TZS' M')				
Bank	Tanzania	Europe	America	Other African countries	Total
Credit risk exposures relating to on-balance sheet assets are as follows:					
Balances with Central Banks	67,739	-	-	-	67,739
Loans and advances to banks	95,339	31,059	17,966	436	144,800
Government securities - At amortized cost	237,149	-	-	-	237,149
Government securities - held for trading	3,884	-	-	-	3,884
Government securities - available for sale	-	-	-	-	-
Bonds: Debt securities At Amortized Cost	-	-	-	7,797	7,797
Loans and advances to customers:	-	-	-	-	-
<i>Loans to individuals:</i>					
- Personal loans	23,892	-	-	-	23,892
- Commercial loans	12,220	-	-	-	12,220
<i>Loans to corporate entities:</i>					
- Corporate customers	626,515	-	-	-	626,515
- SMEs	46,118	-	-	-	46,118
Other assets less prepayments	6,736				6,736
At 31 December 2019	1,119,592	31,059	17,966	8,233	1,176,850
Credit risk exposure relating to off-balance sheet items are as follows:					
Financial guarantees and acceptances	95,091	-	-	-	95,091
Loan commitments and other credit related obligations	46,417	-	-	-	46,417
At 31 December 2019	141,508	-	-	-	141,508

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (Continued)

6.1.7 Concentration of risks of financial assets with credit risk exposure-Group (Continued)

(b) Geographical sectors (Continued)

	(Amounts are in TZS M)				
Bank	Tanzania	Europe	America	Other African countries	Total
Credit risk exposures relating to on-balance sheet assets are as follows:					
Balances with Central Banks	79,658	-	-	-	79,658
Loans and advances to banks	21,710	45,173	26,871	684	94,438
Government securities - At amortized cost	220,110	-	-	-	220,110
Bonds: Debt securities At amortized cost	-	-	-	7,648	7,648
Loans and advances to customers:					
<i>Loans to individuals:</i>					
- Personal loans	9,471	-	-	-	9,471
- Commercial loans	2,282	-	-	-	2,282
<i>Loans to corporate entities:</i>					
- Corporate customers	638,962	-	-	-	638,962
- SMEs	9,155	-	-	-	9,155
Other assets less prepayments	9,944	-	-	-	9,944
At 31 December 2018	991,292	45,173	26,871	8,332	1,071,668
Credit risk exposures relating to off-balance sheet items are as follows:					
Financial guarantees and acceptances	76,725	-	-	-	76,725
Loan commitments and other credit related obligations	47,107	-	-	-	47,107
At 31 December 2018	123,832	-	-	-	123,832

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 Market risk

The Group and Bank take an 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 on 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, credit spreads, foreign exchange rates and equity prices.

The market risk arising from trading and non-trading activities are concentrated in the Group's and Bank's treasury department and monitored regularly. Regular reports are submitted to the Group's and Bank's Assets and Liability Committees (ALCO) and heads of departments. Assessment is done of whether market risk exposures are within the limits set. Market risk sensitivity analysis is also done as indicated under foreign exchange, price and interest rate risk below.

6.2.1 Foreign exchange risk

The Group and Bank take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. With all other variables held constant, an increase/(decrease) in the USD:TZS foreign exchange rate by 5% on all US Dollar denominated assets and liabilities which is the main foreign currency exposure to the Group would have resulted in higher/(lower) profit before tax by TZS 4,160 million as at 31 December 2019 (2018: TZS 2,211 million). The equity would be impacted by TZS 2,912 million as at 31 December 2019 (2018: TZS 1,548 million).

The tables below summarise the Group's and Bank's exposure to foreign currency exchange risk at 31 December 2019. Included in the table are the Group's and Bank's financial instruments at carrying amounts, TZS by currency.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.2 Market risk (continued)****6.2.1 Foreign exchange risk (continued)****Group**

Concentrations of currency risk - on - and off-balance sheet financial instruments.

As at 31 December 2019	All amounts expressed in TZS'M'							Total
	USD	EURO	GBP	KMF	DJF	USHS	Others	
Financial assets								
Cash and balances with Central Banks	49,355	16,165	135	32,918	12,212	2,280	2,333	115,398
Loans and advances to banks	144,614	71,747	1,090	272	2,641	9,049	331	229,744
Loans and advances to customers	608,158	27	-	64,216	24,035	31,494	35,858	763,788
Other assets less prepayments	1	3	-	1,022	352	574	393	2,345
Bonds: Debt securities at AC	30,174	-	-	-	-	-	-	30,174
Total financial assets	832,302	87,942	1,225	98,428	39,240	43,397	38,915	1,141,449
Financial liabilities								
Deposits due to customers	609,666	62,003	880	89,569	94,520	57,753	-	914,391
Deposits due to banks	10,656	-	-	9,115	-	-	6,442	26,213
Subordinated debts and senior loans	117,224	-	-	-	-	-	-	117,224
Other liabilities	11,559	423	43	2,368	4,606	-	2,376	21,375
Total financial liabilities	749,105	62,426	923	101,052	99,126	57,753	8,818	1,079,203
Net on-balance sheet exposure	83,197	25,516	302	(2,624)	(59,886)	(14,356)	30,097	62,246
Off-balance sheet exposure	32,393	24,360	990	605	57,201	27,702	19,562	162,813

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.2 Market risk (continued)****6.2.1 Foreign exchange risk (continued)****Group**

Concentrations of currency risk - on - and off-balance sheet financial instruments.

As at 31 December 2018	All amounts expressed in TZS'M'							Total
	USD	EURO	GBP	KMF	DJF	USHS	Others	
Financial assets								
Cash and balances with Central Banks	35,349	20,538	337	31,853	14,672	2,848	672	106,269
Loans and advances to banks	100,521	3,650	-	273	119	11,613	-	116,176
Loans and advances to customers	599,246	401	-	30,614	57,986	35,715	-	723,962
Derivative financial asset	61	-	-	-	-	-	-	61
Other assets less prepayments	8,203	32	11	308	2,552	-	-	11,106
Total financial assets	743,380	24,621	348	63,048	75,329	50,176	672	957,574
Financial liabilities								
Deposits due to customers	631,556	10,264	582	17,859	105,712	39,091	-	805,064
Deposits due to banks	62,884	-	-	14,412	-	-	-	77,296
Subordinated debts and senior loans	75,541	-	-	-	-	-	-	75,541
Other liabilities	4,719	4,005	104	4,124	6,314	7,921	191	27,378
Total financial liabilities	774,700	14,269	686	36,395	112,026	47,012	191	985,279
Net on-balance sheet exposure	(31,320)	10,352	(338)	26,653	(36,697)	3,164	481	(27,705)
Off-balance sheet exposure	30,343	10,112	411	251	23,745	9,810	9,810	84,482

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.2 Market risk (continued)****6.2.1 Foreign exchange risk (continued)****Bank**

Concentrations of currency risk - on - and off-balance sheet financial instruments.

As at 31 December 2019	All amounts expressed in TZS'M'				
	USD	EURO	GBP	Others	Total
Financial assets					
Cash and balances with Central Banks	26,585	2,076	129	100	28,890
Loans and advances to banks	121,899	17,952	1,089	340	141,280
Loans and advances to customers	519,155	4	-	-	519,159
Other assets less prepayments	789	-	-	214	1,003
Bonds: Debt instruments at amortized cost	6,657	-	-	-	6,657
Total financial assets	675,085	20,032	1,218	654	696,989
Financial liabilities					
Deposits due to customers	326,412	10,234	880	-	337,526
Deposits due to banks	191,041	3,458	-	6,442	200,941
Subordinated debts and senior loans	117,225	-	-	-	117,225
Other liabilities	10,741	6	8	38	10,793
Total financial liabilities	645,419	13,698	888	6,480	666,485
Net on-balance sheet exposure	29,666	6,334	330	(5,826)	30,504
Off-balance sheet exposure	71,549	2,275	14,151	12,736	100,711

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.2 Market risk (continued)****6.2.1 Foreign exchange risk (continued)****Bank**

Concentrations of currency risk - on - and off-balance sheet financial instruments.

As at 31 December 2018	All amounts expressed in TZS'M'				
	USD	EURO	GBP	Others	Total
Financial assets					
Cash and balances with Central Banks	8,132	19,091	295	672	28,1901
Loans and advances to banks	49,840	-	-	-	49,840
Loans and advances to customers	506,359	401	-	-	506,760
Other assets less prepayments	8,890	32	12	-	8,934
Bonds: Debt instruments at amortized cost	6,669	-	-	-	6,669
Derivative financial assets	61	-	-	-	61
Total financial assets	579,951	19,524	307	672	600,454
Financial liabilities					
Deposits due to customers	288,754	9,947	582	-	299,282
Deposits due to banks	207,537	-	-	-	207,537
Subordinated debts and senior loans	75,540	-	-	-	75,540
Other liabilities	720	9,027	104	191	10,041
Total financial liabilities	572,551	18,974	686	191	592,401
Net on-balance sheet exposure	7,401	550	(380)	481	8,053
Off-balance sheet exposure	15,037	10,112	411	-	25,560

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.3 Market risk (continued)****6.3.1 Price risk**

The Group and Bank are exposed to equity securities price risk because of its investment in listed shares classified on the statement of financial position as FVOCI. The Group also has investments in government securities that are measured at fair value. The price exposure associated with these government securities is not significant to the financial statements given the amounts involved and the fact that the variability in market prices for the government securities is not significant.

The following table demonstrates the sensitivity to a reasonably possible change in equity prices (all other variables held constant) of the Group's profit before tax and equity:

As at 31 December 2019		Amounts in Million TZ	
Market risk exposure	Increase/(decrease) in basis points	Profit/(loss) sensitivity	Equity sensitivity
Equity prices	500 / (500)	-	24/(24)
As at 31 December 2018			
Equity prices	500 / (500)	-	7 / (7)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.3.2 Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The 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 decrease in the event that unexpected movements arise. The Group's and Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Group and Bank.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates (all other variables held constant) of the Group's profit before tax and equity:

Amounts in Million TZ			
As at 31 December 2019	Increase/(decrease) in basis points	Profit/(loss) sensitivity	Equity sensitivity
Market interest rates	100/(100)	140/(140)	98/(98)
As at 31 December 2018			
Market interest rates	100/(100)	1,374/(1,374)	962/(962)

The table below summarises the Group's and Bank's exposure to interest rate risk. It includes the Group's and Bank's financial instruments at carrying amounts, TZS by the earlier of contractual repricing or maturity dates. The Group and Bank do not bear any interest rate risk on off-balance sheet items.

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3.3. Interest rate risk (continued)

Group

(Amounts are in TZS Million)

	Up to1 month	1-3 months	3-12 month	1-5 years	Over 5 years	Non- Interest bearing	Total
As at 31 December 2019							
Financial assets							
Cash and balances with Central banks	22,400	-	-	-	-	156,244	178,644
Government securities – at amortized cost	15,416	26,646	41,353	115,651	41,857	-	240,923
Government securities: FVTPL - held for trading	-	103	-	97	3,704	-	3,904
Loans and advances to banks	167,852	1,291	53,481	1,327	-	9,327	233,278
Loans and advances to customers	594,521	75,704	121,146	77,998	84,005	-	953,374
Equity investments: FVOCI	-	-	-	-	-	2,529	2,529
Bonds: Debt instruments at amortized cost	-	-	14,083	9,150	7,350	-	30,583
Other assets less prepayments	-	-	-	-	-	8,793	8,793
Total financial assets	800,189	103,744	230,063	204,223	136,916	176,893	1,652,028
Financial liabilities							
Deposits due to banks	56,964	6,152	35,877	-	-	-	98,993
Deposits due to customers	894,811	54,167	270,571	23,106	53	55,469	1,298,177
Other liabilities	2,077	510	389	204	-	28,107	31,287
Subordinated debts and senior loans	-	-	33,438	104,807	-	-	138,245
Term borrowings	-	-	-	5,989	-	-	5,989
Total financial liabilities	953,852	60,829	340,275	134,106	53	83,576	1,572,691
Total interest repricing gap	(153,663)	42,915	(110,212)	70,117	136,863		

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3.3. Interest rate risk (continued)

Group	(Amounts are in TZS M')						Total
	Up to1 month	1-3 months	3-12 month	1-5 years	Over 5 years	Non- Interest bearing	
As at 31 December 2018							
Financial assets							
Cash and balances with Central banks	-	-	-	-	-	179,235	179,235
Government securities - at amortized cost	8,681	39,401	48,096	87,445	43,628	-	227,251
Derivative financial assets	-	-	-	-	-	61	61
Government securities: FVTPL - held for trading	7,528	-	-	-	-	-	7,528
Loans and advances to banks	64,364	-	21,883	-	-	44,688	130,935
Loans and advances to customers	198,432	84,115	126,122	319,787	148,617	-	877,073
Equity investments: FVOCI/available for sale	-	-	-	-	-	1,722	1,722
Bonds: Debt instrument at amortized cost	-	-	14,054	-	16,763	-	30,817
Other assets less prepayments	-	-	-	-	-	11,106	11,106
Total financial assets	279,005	123,516	210,155	407,232	209,008	236,812	1,465,728
Financial liabilities							
Deposits due to banks	18,754	-	58,542	-	-	-	77,296
Deposits due to customers	576,980	97,102	217,458	7,571	-	276,720	1,175,831
Other liabilities	-	-	-	-	-	36,045	36,045
Subordinated debts and senior loans	-	-	30,874	68,516	-	-	99,390
Term borrowings	-	-	1,007	-	-	-	1,007
Total financial liabilities	595,734	97,102	307,881	76,087	-	312,765	1,389,569
Total interest repricing gap	(302,061)	26,414	(106,347)	331,145	192,777		

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3.3. Interest rate risk (continued)

Bank	(Amounts are in TZS'M')						
As at 31 December 2019	Up to1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- Interest bearing	Total
Financial assets							
Cash and balances with Central bank	-	-	-	-	-	92,076	92,076
Government securities – at amortized cost	15,416	26,646	41,353	115,651	38,083	-	237,148
Government securities - held for trading	-	103	-	97	3,684	-	3,884
Loans and advances to banks	144,800	-	-	-	-	-	144,800
Loans and advances to customers	527,911	54,687	95,092	15,636	15,419	-	708,744
Equity investments: FVOCI	-	-	-	-	-	2,172	2,172
Bonds: Debt instrument at amortized cost	-	-	446	-	7,351	-	7,797
Other assets less prepayments	-	-	-	-	-	6,736	6,736
Total financial assets	688,127	81,436	136,891	131,384	64,537	100,984	1,203,357
Financial liabilities							
Deposits due to banks	182,186	10,751	80,783	-	-	-	273,720
Deposits due to customers	535,964	25,706	139,438	20,200	-	-	721,307
Other liabilities	-	-	-	-	-	20,524	20,524
Subordinated debts and senior loans	-	-	33,438	104,793	-	-	138,231
Term borrowings	-	-	-	5,989	-	-	5,989
Total financial liabilities	718,150	36,457	253,659	130,982	-	20,524	1,159,771
Total interest repricing gap	(30,023)	44,980	(116,769)	402	64,536		

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3.3. Interest rate risk (continued)

Bank

(Amounts are in TZS'M')

As at 31 December 2018

	Up to1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- Interest bearing	Total
Financial assets							
Cash and balances with Central bank	-	-	-	-	-	101,157	101,157
Government securities – At amortised cost	5,813	39,401	46,390	84,845	43,661	-	220,110
Loans and advances to banks	47,765	-	-	-	-	46,673	94,438
Loans and advances to customers	98,086	74,501	105,168	240,128	141,987	-	659,870
Equity investments: FVOCI	-	-	-	-	-	1,280	1,280
Bonds: Debt instrument at amortised cost	-	-	446	-	7,202	-	7,648
Derivative financial asset	-	-	-	-	-	61	61
Other assets less prepayments	-	-	-	-	-	9,944	9,944
Total financial assets	<u>151,664</u>	<u>113,902</u>	<u>152,004</u>	<u>324,973</u>	<u>192,850</u>	<u>159,115</u>	<u>1,094,508</u>
Financial liabilities							
Deposits due to banks	100,460	-	155,354	-	-	-	255,814
Deposits due to customers	211,541	26,930	147,287	7,571	-	276,720	670,049
Other liabilities	-	-	-	-	-	13,076	13,076
Subordinated debts and senior loans	-	-	30,874	68,516	-	-	99,390
Term borrowings	-	-	1,007	-	-	-	1,007
Total financial liabilities	<u>312,001</u>	<u>26,930</u>	<u>334,522</u>	<u>76,087</u>	<u>-</u>	<u>289,796</u>	<u>1,039,336</u>
Total interest repricing gap	<u>(160,337)</u>	<u>86,972</u>	<u>(182,518)</u>	<u>248,886</u>	<u>192,850</u>		

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.3 Liquidity risk**

Liquidity risk is the risk that the Group or Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

6.3.1. Liquidity risk management process

Day-to-day funding is 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. Other ways liquidity risk is managed include:

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow; and
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

6.3.2. Funding approach

Sources of liquidity are regularly reviewed by the Group's and Bank's Asset and Liability Committee to maintain a wide diversification by currency, geography, provider, product and term.

6.3.3. Non-derivative cash flows

The tables below present the cash flows payable by the Group and Bank under non-derivative financial liabilities by the remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, as the Group and Bank manage the inherent liquidity risk based on expected undiscounted cash flows.

Group					
(Amounts are in TZS'M')					
At 31 December 2019	Up to 1 months	1 - 3 months	3 - 12 months	Over 1 year	Total
Financial liabilities					
Deposits due to customers	950,280	54,167	270,571	23,159	1,298,177
Deposits due to banks	56,964	6,152	35,877	-	98,993
Other liabilities (excluding deferred fees)	30,184	510	389	204	31,287
Subordinated debt and senior loans	-	-	33,438	104,807	138,245
Term borrowings	-	-	-	5,989	5,989
Total financial liabilities (contractual maturity dates)	<u>1,037,428</u>	<u>60,829</u>	<u>340,275</u>	<u>134,159</u>	<u>1,572,691</u>
Total financial assets (expected maturity dates)	<u>800,189</u>	<u>103,744</u>	<u>230,063</u>	<u>341,139</u>	

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.3 Liquidity risk (continued)****6.3.3. Non-derivative cash flows (continued)****Group**

At 31 December 2018	(Amounts are in TZS'M')				Total
	Up to 1 months	1 - 3 months	3 - 12 months	Over 1 year	
Financial liabilities					
Deposits due to customers	853,700	97,102	217,458	7,571	1,175,831
Deposits due to banks	18,754	-	58,542	-	77,296
Other liabilities (excluding deferred fees)	30,411	-	-	-	30,411
Subordinated debt and senior loans	-	-	30,874	68,516	99,390
Term borrowings	-	-	1,007	-	1,007
Total financial liabilities (contractual maturity dates)	902,865	97,102	307,881	76,087	1,383,935
Total financial assets (expected maturity dates)	279,005	123,516	210,155	616,240	

Bank

At 31 December 2019	(Amounts are in TZS'M')				Total
	Up to 1 months	1 - 3 months	3 - 12 months	Over 1 year	
Financial liabilities					
Deposits due to customers	535,964	25,706	139,438	20,200	721,308
Deposits due to banks	182,186	10,751	80,783	-	273,720
Other liabilities	20,524	-	-	-	20,524
Subordinated debt and senior loans	-	-	33,438	104,793	138,231
Term borrowings	-	-	-	5,989	5,989
Total financial liabilities (contractual maturity dates)	738,675	36,456	253,659	130,982	1,159,772
Total financial assets (expected maturity dates)	796,908	81,437	136,444	188,570	

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.3 Liquidity risk (continued)****6.3.3. Non-derivative cash flows (continued)****Bank**

	(Amounts are in TZS'M')				
At 31 December 2018	Up to 1 months	1 - 3 months	3 - 12 months	Over 1 year	Total
Financial liabilities					
Deposits due to customers	488,261	26,930	147,287	7,571	670,049
Deposits due to banks	100,460	-	155,354	-	255,814
Other liabilities	13,076	-	-	-	13,076
Subordinated debt and senior	-	-	30,874	68,516	99,390
Term borrowings	-	-	1,007	-	1,007
Total financial liabilities (contractual maturity dates)	601,797	26,930	334,522	76,087	1,039,336
Total financial assets (expected maturity dates)					
	271,755	113,902	151,558	557,294	

Assets available to meet the financial liabilities and to cover outstanding loan commitments include cash, balances with central banks, 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.

6.3.4. Derivative cash flows

The Group's and Bank's derivatives that are settled on a gross basis include foreign exchange derivatives and currency forwards. Interest rate swaps are settled on a net basis. As at year-end, the Bank only had forward currency contracts.

The table below analyses the Group's and Bank's derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for the understanding of the timing of the cash flows on all derivatives including derivatives classified as 'liabilities held for trading'. The amounts disclosed in the table are the contractual undiscounted cash flows.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.3 Liquidity risk (continued)****6.3.4. Derivative cash flows (continued)****Group and Company**

	Amount are in TZS'M'				
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Total
At 31 December 2019					
Foreign exchange derivatives:					
Total inflow	-	-	-	-	-
Total outflow	-	-	-	-	-
Net liquidity gap	-	-	-	-	-
At 31 December 2018					
Foreign exchange derivatives:					
Total inflow	4,661	-	-	-	-
Total outflow	(4,600)	-	-	-	-
Net liquidity gap	61	-	-	-	-

6.3.5. Off-balance sheet items**6.3.7 Loan commitments**

The timing of the contractual amounts of the Group's and Bank's off-balance sheet financial instruments that commit the Group and the Bank to extend credit to customers and other facilities (Note 35), are summarised in the table below.

6.3.8 Financial guarantees and other financial facilities

Financial guarantees are included below based on the earliest contractual maturity date.

6.3.9 Capital commitments

These relate to the acquisition of property and equipment.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.3 Liquidity risk (continued)****6.3.5. Off-balance sheet items (continued)****Summary of off-balance sheet items:**

Group	(Amounts are in TZS'M')			
	No later than 1 year	1 – 5 years	Over 5 years	Total
At 31 December 2019				
Outstanding letters of credit, guarantees and indemnities	126,451	-	-	126,451
Commitments to extend credit	77,065	-	-	77,065
Capital commitments	27,400	-	-	27,400
Net off-balance sheet balances	230,916	-	-	230,916
At 31 December 2018				
Outstanding letters of credit, guarantees and indemnities	109,056	-	-	109,056
Commitments to extend credit	70,898	-	-	70,898
Capital commitments	12,500	-	-	12,500
Net off-balance sheet balances	194,454	-	-	194,454
Bank	(Amounts are in TZS'M')			
	Not later than 1 year	1-5 years	Over 5 years	Total
At 31 December 2019				
Outstanding letters of credit, guarantees and indemnities	95,091	-	-	95,091
Commitments to extend credit	46,417	-	-	46,417
Capital commitments	21,742	-	-	21,742
Net off-balance sheet balances	163,250	-	-	163,250
Bank	(Amounts are in TZS M')			
	Not later than 1 year	1-5 years	Over 5 years	Total
At 31 December 2018				
Outstanding letters of credit, guarantees and indemnities	74,207	-	-	74,207
Commitments to extend credit	47,107	-	-	47,107
Capital commitments	8,615	-	-	8,615
Net off-balance sheet balances	129,929	-	-	129,929

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

The fair value of financial assets and liabilities not measured at fair value approximate their carrying amounts for both the Group and Bank as explained below:

(i) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of their fair values.

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 and this reasonably approximates the carrying amounts of these balances since these investments are done at the prevailing market rates.

(ii) Loans and advances to customers

The estimated fair value of loans and advances represents the discounted amount of the estimated future cash inflows. Expected cash flows are discounted at current market rates to determine fair value. The carrying amount is a reasonable approximation of fair value since the loans are at market rates.

(iii) Government securities and investment securities -debt instruments at amortised cost

The fair value for these assets is based on market prices. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. The carrying amount of investment securities is a reasonable approximation of fair value since the market interest rates and yields for similar instruments reasonably approximate the interest rates and yields for the Group's and Bank's instruments.

(iv) Deposits due to 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 and this is the carrying amount.

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 amounts are a reasonable approximation of this.

(v) Borrowings

The interest rates charged on borrowings held by the Group and Bank are based on LIBOR or other bases for determining market interest rates. The interest rates are mostly variable and in line with market rates for similar facilities. The fair values of such interest bearing borrowings not quoted in an active market is based on discounted cash flows using interest rates for similar facilities. The carrying amounts of the Group's borrowings are a reasonable approximation of this.

(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.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.4 Fair value of financial assets and liabilities (continued)****(b) 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 that the entity can access at the measurement date. This level includes listed equity securities and debt instruments on exchanges;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices, interest and yield curves) or indirectly (that is, derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs to valuation techniques).

At 31 December 2019

Group	Amounts are in TZS'M'			Total
	Level 1	Level 2	Level 3	
Financial assets				
Derivative financial assets	-	-	-	-
Government securities: FVTPL-held-for-trading	-	3,904	-	3,904
Equity investments: FVOCI	497	-	2,032	2,529
	<u>497</u>	<u>3,904</u>	<u>2,032</u>	<u>6,433</u>
Bank				
Financial assets				
Derivative financial assets	-	-	-	-
Government securities: FVTPL-held-for-trading	-	3,884	-	3,884
Equity investments: FVOCI	140	-	2,032	2,172
	<u>140</u>	<u>3,884</u>	<u>2,032</u>	<u>6,056</u>

At 31 December 2018

Group	Amounts are in TZS'M'			Total
	Level 1	Level 2	Level 3	
Financial assets				
Derivative financial assets	-	61	-	61
Government securities: FVTPL-held-for-trading	-	7,528	-	7,528
Equity investments: FVOCI	582	-	1,140	1,722
	<u>582</u>	<u>7,589</u>	<u>1,140</u>	<u>9,311</u>
Bank				
Financial assets				
Derivative financial assets	-	61	-	61
Equity investments: FVOCI	140	-	1,140	1,280
	<u>140</u>	<u>-</u>	<u>1,140</u>	<u>1,341</u>

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.4 Fair value of financial assets and liabilities (continued)****(b) Fair value hierarchy (continued)**

Refer to Note 20 for further disclosures on fair value.

Description of valuation techniques used and key inputs to valuation of Level 2 financial instruments:

	Valuation technique	Significant observable inputs		Range (weighted average)	
				2019	2018
Government securities: FVTPL - Held for trading	Market approach	Market interest rates		14.52%	14.27%
Derivative financial instruments	Market approach	Market rates for similar instruments	TZS:USD	2,307	2,300
			TZS:EUR	2,583	2,637

There have been no transfers between level 1 and level 2 during the period.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.5 Capital management**

The Group's and Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the Bank of Tanzania (BoT);
- To safeguard the Group's and 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 Group's and 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 Banks on a quarterly basis.

BoT requires each bank to:

- (a) Section 5 of the Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 requires that a bank shall maintain at all times a minimum core capital of not less than TZS 15 billion;
- (b) Section 40 of the Banking and Financial Institutions (Licensing) Regulations, 2014 stipulates that a bank with core capital of not less than 150 billion may be authorised by Bank of Tanzania to establish a branch or a subsidiary abroad;
- (c) Maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') plus market risks and operational risk charges at or above the required minimum of 12.5%.
- (d) and maintain total capital of not less than 14.5% of the risk-weighted assets plus risk-weighted off-balance sheet items plus market risks and operational risk charges.

The Bank's regulatory capital as managed by its Treasury Department is divided into two tiers:

Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Intangible assets, deferred tax assets and prepaid expenses are deducted in arriving at Tier 1 capital; and

Tier 2 capital: qualifying subordinated loan capital and regulatory general provisions for loans and advances.

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 2019 and year ended 31 December 2018.

Tier 1 capital	Bank	
	2019	2018
	TZS'M'	TZS'M'
Share capital	12,900	12,900
Retained earnings	91,188	135,452
Spread the excess of the expected credit losses over the regulatory reserves on initial application of IFRS 9 over three (3) years	11,299	22,597
Less:		
Prepaid expenses	(2,970)	(3,031)
Deferred tax asset	(29,102)	(28,038)
Intangible assets	-	(12,341)
Total qualifying Tier 1 capital	83,315	127,539

6. FINANCIAL RISK MANAGEMENT (CONTINUED)**6.5 Capital management (continued)****Tier 2 capital**

	Bank	
	2019	2018
	TZS'M'	TZS'M'
Reserve for loans and advances - General	32,897	6,402
Subordinated debt	14,959	14,875
Total supplementary capital	47,856	21,277
Total qualifying Tier 2 capital*	21,178	19,585
Total regulatory capital	104,493	147,124
Risk-weighted assets and capital charges		
On-balance sheet	850,038	775,364
Off-balance sheet	109,578	85,969
Market risk capital charge	4,681	3,022
Operational risk capital charge**	94,600	114,871
Total risk-weighted assets and capital charges	1,058,897	979,226

	Required Ratio (%)		Bank Ratio (%)	
	2019	2018	2019	2018
Tier 1 capital	12.50%	12.50%	7.87%	13.02%
Tier 1 + Tier 2 capital	14.50%	14.50%	9.87%	15.02%

There have been no changes in the Group's and Bank's capital management objectives and policies in the years ended 31 December 2019 and 2018.

*Maximum amount allowable is 2% of Total Risk Weighted Assets (TRWA) plus off-balance sheet exposure (OBSE).

**The operational risk capital charge has been computed using the Basic Indicator Approach (BIA) by taking 15% of 3 years average gross income (Net interest income limited at 3.5% earning assets) and applying a conversion factor of 8.33.

As indicated above, the Bank's capital adequacy ratios were below the minimum requirements as at year-end. The Bank's total core capital (Tier I) was below TZS 150 billion. The directors will ensure that the total core capital exceeds TZS 150 billion by retaining in the business profit from operations and recovery of written off loans, and in case these measures are not sufficient, the shareholders will inject more capital into the Bank.

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
7. INTEREST AND SIMILAR INCOME				
Loans and advances to customers	93,116	87,931	67,988	66,093
Loans and advances to banks	3,134	9,693	1,528	8,477
Government securities - amortized cost	32,777	34,020	32,014	32,898
Bonds - amortized cost	1,378	671	733	672
Government securities held-for-trading	389	455	289	455
	<u>130,794</u>	<u>132,770</u>	<u>102,552</u>	<u>108,595</u>

8. DIRECT EXPENSES

(a) INTEREST EXPENSE AND SIMILAR CHARGES

Deposits due to customers	22,820	22,250	15,392	16,025
Deposits due to banks	4,684	1,605	9,292	6,310
Subordinated debts and senior loans	8,805	7,300	8,698	7,300
Long term borrowings	218	100	218	100
	<u>36,527</u>	<u>31,255</u>	<u>33,600</u>	<u>29,735</u>

(b) EXPECTED CREDIT LOSS

	Notes				
Balances with Central Banks	16	28	215	(6)	(2)
Loans and advances to banks	17	53	(76)	5	(50)
Loans and advances to customers	18	37,875	20,508	29,254	16,160
Government securities	19	(24)	(169)	8	(171)
Corporate bonds	20(b)	(1)	(1)	(1)	(1)
Other assets	21	60	(209)	(32)	(1)
Off-balance sheet items	35	2,003	782	1,124	508
		<u>39,994</u>	<u>21,050</u>	<u>30,352</u>	<u>16,443</u>

9. NET FEE AND COMMISSION INCOME

(a) Fee and commission income

Commission on Letters of Credit and Guarantees	2,367	2,138	1,452	1,527
Commission on telegraphic transfers and other international trade finance activities	7,289	6,199	3,474	3,638
Commission and fees from banking operations	10,144	10,352	6,219	6,748
Facility fees from loans and advances	11,450	10,611	5,366	6,338
Credit/debit card fees and commissions	3,940	5,651	3,872	5,572
Other fees and commissions	627	26	1	26
	<u>35,817</u>	<u>34,977</u>	<u>20,384</u>	<u>23,849</u>

(b) Fee and commission expense

Borrowing arrangement fees	(174)	(133)	(161)	(85)
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(c) Net fee and commission income

	<u>35,643</u>	<u>34,844</u>	<u>20,223</u>	<u>23,764</u>
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EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

		Group		Bank	
		2019	2018	2019	2018
		TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
10. OTHER INCOME/(EXPENSES)					
(a) Other income	Notes				
Dividend income		21	21	21	21
Profit from sale of assets		41	125	7	37
Recovery of written off debts		5,168	1,727	3,604	1,727
Management fee recharges		-	-	1,033	4,793
Other income		2,347	1,519	794	250
		7,577	3,392	5,459	6,828
(b) Other expenses					
Loss on modification of loans and advances terms		-	(396)	-	(396)
Impairment of goodwill	26(b)	(402)	(129)	-	-
Impairment of investment in subsidiary	26(a)	-	-	(1,846)	(6,381)
Impairment of assets held for sale	23	(115)	(2,113)	-	(1,541)
		(517)	(2,638)	(1,846)	(8,318)
Net other income/ (expenses)		7,060	754	3,613	(1,490)

11. OPERATING EXPENSES

The following items are included within operating expenses:

Employee benefit expenses (note 12)	53,058	51,997	35,578	35,339
Travelling expenses	1,171	1,149	685	590
Depreciation and amortisation (notes 22 and 24)	12,487	12,112	9,388	9,243
Depreciation of right of use (note 27(b))	10,469	-	5,267	-
Repairs and maintenance	3,131	2,804	1,264	927
Advertising and business promotion	2,878	2,176	1,943	1,513
Directors' emoluments	1,069	995	448	439
Auditor's remuneration	675	668	356	470
Legal and professional fees	3,185	8,857	1,798	2,490
Correspondent bank and SWIFT charges	1,896	1,086	585	605
Operating lease rentals	39	7,582	-	5,619
Occupancy costs	7,258	6,934	5,386	5,253
Credit/debit card expenses	6,310	7,874	5,669	7,255
Interest expense on lease liability (note 27(b))	2,470	-	2,027	-
Other operating expenses	13,065	19,365	15,167	16,484
	<u>119,161</u>	<u>123,599</u>	<u>85,561</u>	<u>86,227</u>

Included in other operating expenses are office running expenses such as telephone, stationery, courier charges, data connectivity, security charges and fuel charges, among others.

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
12. EMPLOYEE BENEFITS EXPENSES				
Wages and salaries	37,865	37,638	24,130	24,138
Social security costs (defined contributions)	4,386	4,093	2,850	2,672
Other employment costs and benefits	10,807	10,266	8,598	8,529
	<u>53,058</u>	<u>51,997</u>	<u>35,578</u>	<u>35,339</u>
13. INCOME TAX				
(a) Income tax expense				
Current income tax charge - current year	3,836	2,451	-	-
Current income tax charge - prior year	4,617	29,394	4,617	29,394
Deferred tax charge/(credit) - current year (Note 13(c))	(1,161)	2,652	(534)	3,634
Deferred tax (credit)/charge - prior year (Note 13(c))	(840)	(13,997)	(840)	(13,997)
Derecognition of deferred tax asset (Note 13(c)) - Subsidiary	163	-	-	-
	<u>6,615</u>	<u>20,500</u>	<u>3,243</u>	<u>19,031</u>
(b) Current income tax (payable)/recoverable				
At 1 January	(3,729)	13,990	(3,711)	13,996
Current income tax charge - current year	(3,836)	(2,451)	-	-
Current income tax charge - prior year	(4,617)	(29,394)	(4,617)	(29,394)
Tax paid during the year relating to current year	1,953	4,934	114	2,495
Tax paid during the year relating to previous year	4,617	4,694	4,617	4,694
Tax deposits applied to settled tax assessments	-	4,498	-	4,498
At 31 December	<u>5,612</u>	<u>(3,729)</u>	<u>(3,597)</u>	<u>(3,711)</u>
(c) Deferred tax				
Recognised deferred tax				
At 1 January	(29,183)	(378)	(28,038)	(378)
Credit for the year	(1,738)	(28,642)	(1,064)	(27,660)
Deferred tax asset on business combination	-	(163)	-	-
Deferred tax derecognised - subsidiary	163	-	-	-
At 31 December - recognised	<u>(30,758)</u>	<u>(29,183)</u>	<u>(29,102)</u>	<u>(28,038)</u>
The credit for the year is made up as follows:				
Deferred tax charge/(credit) to profit or loss: current year	(1,161)	2,652	(492)	3,634
Deferred tax (credit)/charge to profit or loss - prior year	(840)	(13,997)	(840)	(13,997)
Deferred tax charge to OCI	263	33	268	33
Deferred tax credit to retained earnings: impact of initial application of IFRS 9	-	(17,330)	-	(17,330)
	<u>(1,738)</u>	<u>(28,642)</u>	<u>(1,064)</u>	<u>(27,660)</u>

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

	Group		Bank	
	2019	2018	2019	2018
	TZS'M'	TZS'M'	TZS'M'	TZS'M'
13. INCOME TAX (Continued)				
(d) Tax reconciliation				
(Loss)/profit before income tax	(8,378)	4,721	(14,526)	5,036
Tax calculated at the statutory income tax rates*	(2,513)	1,416	(4,358)	1,511
Tax effect of:				
Non-taxable income	(6)	(6)	(6)	(6)
Tax at source	205	226	-	-
Income from subsidiaries taxable at Company level	2,244	-	2,244	-
Expenses not deductible for tax purposes	761	2,075	502	2,130
Current income tax charge - prior year	4,617	29,393	4,617	29,393
Deferred tax credit - prior year	(840)	(13,997)	(846)	(13,997)
Deferred tax credit not recognised	1,984	1,393	1,090	-
Derecognized deferred tax asset	163	-	-	-
Income tax expense	6,615	20,500	3,243	19,031

14. BASIC AND DILUTED LOSS PER SHARE

The calculation of the basic earnings per share is based on the net (loss)/profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year, calculated as follows:

	Group	
	2019	2018
Net loss attributable to equity holders of the parent (TZS'M)	(13,814)	(12,380)
Weighted average number of shares in issue in millions (Note 33)	12.9	12.9
Basic and diluted loss per share	(1,071)	(960)

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

15. FINANCIAL INSTRUMENTS BY CATEGORY

Group	Debt instruments at amortised cost TZS 'M'	Financial assets at FVTPL TZS 'M'	Equity investments at FVOCI TZS 'M'	Held for trading at FVTPL TZS 'M'	Total TZS 'M'
At 31 December 2019					
Financial assets					
Cash and balances with Central Banks	178,644	-	-	-	178,644
Loans and advances to banks	233,278	-	-	-	233,278
Loans and advances to customers	953,374	-	-	-	953,374
Derivative financial assets	-	-	-	-	-
Government securities	240,923	-	-	3,904	244,827
Bonds - Debt securities at amortised cost	30,583	-	-	-	30,583
Equity investments	-	-	2,529	-	2,529
Other assets less prepayments	8,793	-	-	-	8,793
	1,645,595	-	2,529	3,904	1,652,028

Financial liabilities	Financial liabilities at FVTPL TZS 'M'	Financial liabilities at amortised cost TZS 'M'	Total TZS 'M'
Deposits due to banks	-	98,993	98,993
Deposits due to customers	-	1,298,177	1,298,177
Term borrowings	-	5,989	5,989
Subordinated debts and senior loans	-	138,231	138,231
Other liabilities	-	40,466	40,466
	-	1,582,056	1,582,056

15. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Group	Debt instruments at amortised cost TZS 'M'	Financial assets at FVTPL TZS 'M'	Equity investments at FVOCI TZS 'M'	Held for trading at FVTPL TZS 'M'	Total TZS 'M'
At 31 December 2018					
Financial assets					
Cash and balances with Central Banks	179,235	-	-	-	179,235
Loans and advances to banks	130,935	-	-	-	130,935
Loans and advances to customers	877,073	-	-	-	877,073
Derivative financial assets	-	61	-	-	61
Government securities	227,251	-	-	7,528	234,779
Bonds - Debt securities at amortised cost	30,817	-	-	-	30,817
Equity investments	-	-	1,722	-	1,722
Other assets less prepayments	11,106	-	-	-	11,106
	1,456,417	61	1,722	7,528	1,465,728

Financial liabilities	Financial liabilities at FVTPL TZS 'M'	Financial liabilities at amortised cost TZS 'M'	Total TZS 'M'
Deposits due to banks	-	77,296	77,296
Deposits due to customers	-	1,175,831	1,175,831
Term borrowings	-	1,007	1,007
Subordinated debts and senior loans	-	99,390	99,390
Other liabilities	-	37,352	37,352
	-	1,390,876	1,390,876

15. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Bank	Debt instruments at amortised cost TZS'M'	Financial assets at FVTPL TZS'M'	Equity investments at FVOCI TZS'M'	Held for trading at FVTPL TZS'M'	Total TZS'M'
At 31 December 2019					
Financial assets					
Cash and balances with Central Banks	92,076	-	-	-	92,076
Loans and advances to banks	144,800	-	-	-	144,800
Loans and advances to customers	708,745	-	-	-	708,745
Government securities	237,149	-	-	3,884	241,033
Bonds - Debt securities at amortised cost	7,797	-	-	-	7,797
Equity investments	-	-	2,172	-	2,172
Other assets less prepayments	6,736	-	-	-	6,736
	1,197,303	-	2,172	3,884	1,203,359
Financial liabilities					
		Financial liabilities at fair value TZS'M'		Financial liabilities at amortised cost TZS'M'	Total TZS'M'
Deposits due to banks		-		273,720	273,720
Deposits due to customers		-		721,308	721,308
Term borrowings		-		5,989	5,989
Subordinated debts and senior loans		-		138,231	138,231
Other liabilities		-		29,375	29,375
				- 1,168,623	1,168,623

15. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Bank	Debt instruments at amortised cost TZS'M'	Financial assets at FVTPL TZS'M'	Equity investments at FVOCI TZS'M'	Held for trading at FVTPL TZS'M'	Total TZS'M'
At 31 December 2018					
Financial assets					
Cash and balances with Central Banks	101,157	-	-	-	101,157
Loans and advances to banks	94,438	-	-	-	94,438
Derivative assets	-	61	-	-	61
Loans and advances to customers	659,870	-	-	-	659,870
Government securities	220,110	-	-	-	220,110
Bonds - Debt securities at amortised cost	7,648	-	-	-	7,648
Equity investments	-	-	1,280	-	1,280
Other assets less prepayments	9,944	-	-	-	9,944
	1,093,167	61	1,280	-	1,094,508

Financial liabilities	Financial liabilities at fair value TZS'M'	Financial liabilities at amortised cost TZS'M'	Total TZS'M'
Deposits due to banks	-	255,814	255,814
Deposits due to customers	-	670,049	670,049
Other liabilities	-	13,076	13,076
Subordinated debts and senior loans	-	99,390	99,390
Term borrowings	-	1007	1,007
	-	1,039,336	1,039,336

	Group		Bank	
	2019 TZS 'M'	2018 TZS 'M'	2019 TZS 'M'	2018 TZS 'M'
16. CASH AND BALANCES WITH CENTRAL BANKS				
Cash in hand	42,243	35,526	24,393	21,561
Clearing accounts	60,670	38,156	18,369	20,580
Statutory Minimum Reserves (SMR)	76,628	106,422	49,370	59,078
Gross amount	179,541	180,104	92,132	101,219
Expected credit losses	(897)	(869)	(56)	(62)
Net carrying amount	178,644	179,235	92,076	101,157
Movement in ECLs (all in Stage 1):				
At 1 January	869	-	62	-
Impact of initial application of IFRS 9	-	654	-	64
At 1 January - Restated	869	654	62	64
Increase/(decrease) in ECL	28	215	(6)	(2)
Closing balance	897	869	56	62
Current	165,562	166,293	92,076	101,157
Non-current	13,082	12,942	-	-

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

16. CASH AND BALANCES WITH CENTRAL BANKS (CONTINUED)

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, cash and balances with central banks, Government securities maturing within 90 days and loans and advances to banks. Cash and cash equivalents exclude the cash reserve requirement held with Central Banks.

Banks are required to maintain a Statutory Minimum Reserve (SMR) which is a prescribed minimum cash balance with the Central Banks that is not available to finance the bank's day-to-day activities. The amount is determined as 8% for public deposits and 40% for Government deposits for Bank of Tanzania, for Central Bank of Comoros, 25% of the average outstanding customer deposits over a cash reserve cycle period of two weeks and for Bank of Uganda, 20% of the average outstanding customer deposits over a cash reserve cycle period of two weeks. The Central Bank of Djibouti requires the share capital amount to be maintained with them in a separate account and not to be used for operational purposes.

All the cash and balances with Central Banks are current except for the balance held with the Central Bank of Djibouti as indicated above.

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
17. LOANS AND ADVANCES TO BANKS				
Items in course of collection	3,692	7,365	1,953	1,586
Loans and advances to other banks	70,955	31,913	31,796	47,277
Placements with other banks	159,251	92,224	111,059	45,578
Gross amount	233,898	131,502	144,808	94,441
Expected credit losses	(620)	(567)	(8)	(3)
Net amount after expected credit losses	<u>233,278</u>	<u>130,935</u>	<u>144,800</u>	<u>94,438</u>
Movement in ECLs				
At 1 January	567	643	3	53
Impact to profit and loss during the year	53	(76)	5	(50)
Closing balance	<u>620</u>	<u>567</u>	<u>8</u>	<u>3</u>
Current	233,278	130,935	144,800	94,438
Non-current	-	-	-	-

Loans and advances to banks comprise short lending to regulated banks with no history of default. The amounts are not secured. These loans carry average interest rates for each entity as follows: Tanzania 5.5% for local currency and 2.5% for foreign currency loans; Comoro 0% for local currency and 3.5% for foreign currency Djibouti 0% for local currency and 3.25% for foreign currency and Uganda 7.3% for local currency and 0.94% for foreign currency.

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
18. LOANS AND ADVANCES TO CUSTOMERS				
Overdrafts	441,374	377,916	343,032	297,944
Personal loans	34,559	30,301	13,307	9,686
Commercial loans	524,211	528,035	397,909	414,863
Others	31,687	24,754	12,322	8,868
Gross loans and advances	1,031,831	961,006	766,570	731,361
Less: Loss on re-measurement of restructured loans	-	(396)	-	(396)
Less: Provision for expected credit losses	(78,457)	(83,537)	(57,825)	(71,095)
Net carrying amount	953,374	877,073	708,745	659,870
Current	94,177	463,689	63,155	418,143
Non-current	937,654	497,317	703,415	313,218
	1,031,831	961,006	766,570	731,361

The movement in provision for Expected Credit Loss on loans and advances is as follows:

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
Provision for expected credit losses at 1 January	83,537	95,153	71,095	84,671
UBL acquisition impairment	3,979	-	3,979	-
Amounts written of during the year	(46,934)	(32,124)	(46,503)	(29,735)
Amounts recovered during year	-	(3,815)	-	(1,236)
Expected credit loss charge for the year	37,875	24,323	29,254	17,395
At 31 December	78,457	83,537	57,825	71,095

The expected credit losses for the year is made up of:

Expected credit losses	37,875	24,323	29,254	17,396
Amounts recovered during the year	-	(3,815)	-	(1,236)
Expected credit loss for the year	37,875	20,508	29,254	16,160

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
19. GOVERNMENT SECURITIES				
Debt instruments at amortized cost				
Treasury Bills	60,004	43,492	56,625	38,537
Treasury Bonds	182,666	185,567	182,262	183,340
	<u>242,670</u>	<u>229,059</u>	<u>238,887</u>	<u>221,877</u>
FVTPL/held for trading				
Treasury Bonds	3,940	7,528	3,920	-
	<u>246,610</u>	<u>236,587</u>	<u>242,807</u>	<u>221,877</u>
Maturing within 90 days	48,319	62,866	47,029	62,186
Maturing after 90 days	198,291	173,720	195,778	159,690
Gross	246,610	236,586	242,807	221,876
Less: Provision for ECLs	(1,783)	(1,807)	(1,774)	(1,766)
Net carrying amount	<u>244,827</u>	<u>234,779</u>	<u>241,033</u>	<u>220,110</u>
Government securities	240,923	227,251	237,149	220,110
FVPTL: Held for trading	<u>3,904</u>	<u>7,528</u>	<u>3,884</u>	<u>-</u>
Movement in provision for ECL (All in Stage 1):				
At January	1,807	-	1,766	-
Impact of initial application of IFRS 9	-	1,976	-	1,937
At 1 January-restated	1,807	1,976	1,766	1,937
Increase (decrease) in expected credit loss	(24)	(169)	8	(171)
As 31 December	<u>1,783</u>	<u>1,807</u>	<u>1,774</u>	<u>1,766</u>
The maturity analysis of treasury bills and bonds is as follows:				
Current	84,318	93,318	83,038	91,605
Non-current	<u>160,509</u>	<u>141,461</u>	<u>157,995</u>	<u>128,505</u>

Treasury bills and bonds are debt securities issued by the Government of the United Republic of Tanzania and the Government of Uganda. Treasury bills are short term in nature with maturities of up to one year while treasury bonds are long term with maturities of up to 15 years. Treasury bills attract interest rates of 8.32% to 26.97% while treasury bonds attract effective interest rates of 7.83% to 17.99%.

The Bank is holding treasury bills and bonds with face value of TZS 18,171 million (2018: TZS 38,536 million) which have been pledged as collateral by local banks against short term borrowings. These are not recognized in the financial statements as assets of the Bank.

As of 31 December 2019, the Bank had pledged treasury bills and bonds with face value of TZS 114,865 million (2018: TZS 4,000 million) against a short term borrowings.

20. INVESTMENT SECURITIES**(a) Equity investments -FVOCI/AFS**

	Group		Bank	
	2019	2018	2019	2018
Equity securities - listed shares	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
Tanzania Oxygen Limited (TOL)	130	130	111	111
Tanzania Cigarette Company	170	170	-	-
Tanzania Portland Cement Company	108	108	-	-
Mwalimu Commercial Bank (MCB)	31	31	-	-
Others	41	41	-	-
	480	480	111	111
Equity securities - not listed				
Tanzania Mortgage Refinancing Company (TMRC)	1,200	1,200	1,200	1,200
HARADALI Investment Scheme	-	70	-	-
	1,200	1,270	1,200	1,200
Total Equity securities	1,680	1,750	1,311	1,311
Fair value gain/(loss)	849	(28)	861	(31)
Net amount	2,529	1,722	2,172	1,280
Fair value changes:				
At 1 January	(28)	(116)	(31)	(116)
Fair value gain/(loss)	877	88	892	85
As 31 December	849	(28)	861	(31)
Credit/(charge) to OCI				
Listed equity investments	29	(22)	-	(25)
Not listed equity investments	848	110	892	110
Deferred tax impact	(263)	(33)	(268)	(33)
	614	55	624	52
Share of fair value gain/(loss)				
Parent	617	55	624	52
Non-controlling interest	(3)	-	-	-

The investment securities are non-current

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

20. INVESTMENT SECURITIES (CONTINUED)

In the prior years, the unlisted equity investment were recorded at cost on the basis that its fair value could not be reliably estimated. There is no market for this or similar investments and the Bank intends to hold it for the long term. The movement in the equity investments was as follows:

	2019 TZS'M'				2018 TZS'M'			
	TOL	TMRC	Others	Total	TOL	TMRC	Others	Total
Group								
At 1 January	136	1,169	417	1,722	130	1,254	-	1,384
Impact of initial application of IFRS 9	-	-	-	-	6	-	-	-
At 1 January - Restated	136	1,169	417	1,722	136	1,254	-	1,390
Additions/(disposals)	-	-	(70)	(70)	-	-	420	420
Fair value (loss)/gain	-	892	(15)	877	-	(85)	(3)	(88)
At 31 December	136	2,061	332	2,529	136	1,169	417	1,722

	2019 TZS'M'			2018 TZS'M'		
	TOL	TMRC	Total	TOL	TMRC	Total
Bank						
At 1 January	111	1,169	1,280	111	1,254	1,365
Impact of initial application of IFRS9	-	-	-	-	-	-
At 1 January - Restated	111	1,169	1,280	111	1,254	1,365
Fair value (loss)/gain	-	892	892	-	(85)	(85)
At 31 December	111	2,061	2,172	111	1,169	1,280

(b) Financial assets at amortised cost/Other loans and receivables

	Group		Bank	
	2019 TZS 'M'	2018 TZS 'M'	2019 TZS 'M'	2018 TZS 'M'
PTA Bank - 7 year bond	409	979	409	980
Subordinated bond - Exim Bank Djibouti	-	-	6,657	6,669
Subordinated Loan to Core Securities Organisation for Economic Cooperation and Development (OCDE) bond	-	-	731	-
	30,174	29,840	-	-
Gross	30,583	30,819	7,797	7,649
Less: Provision for ECLs	-	(1)	-	(1)
Net carrying amount	30,583	30,818	7,797	7,648

Movement in expected credit loss (All in Stage 1):

	1	2	1	2
At 1 January				
Change in expected credit loss	(1)	(1)	(1)	(1)
As 31 December	-	1	-	1
Current	18,661	18,804	409	446
Non-Current	11,922	12,014	7,388	7,202

The PTA Bank bond is denominated in Tanzanian Shillings, has a maturity period of 7 years effective from 29 May 2015 and bears interest at the rate of 15.75% per annum. The bond is unsecured.

The Exim Bank Djibouti bond is denominated in US Dollar, has a maturity period of 6 years effective from 1 July 2015 and bears interest at the rate of 6.75% per annum. The bond is unsecured.

The subordinated loan to Core Securities is denominated in US Dollar, has a maturity of 7 years effective from 20 August 2018 and bears interest at the rate of 6 months T bill +4%. The loan is unsecured.

	Group		Bank	
	2019	2018	2019	2018
	TZS'M'	TZS'M'	TZS'M'	TZS'M'
21. OTHER ASSETS				
Sundry debtors	4,960	7,852	2,922	6,923
Visa cards	464	15	463	15
Master Card receivables	3,355	3,033	3,355	3,033
Money Gram receivables	368	500	(2)	7
Prepaid expenses	4,238	4,013	2,970	3,031
Gross	13,385	15,413	9,708	13,009
Less: Expected credit loss	(354)	(294)	(2)	(34)
Net carrying amount	13,031	15,119	9,706	12,975
Movement in Expected credit loss (All in Stage 1):				
At 1 January	294	-	34	-
Impact of initial application of IFRS 9	-	503	-	35
At 1 January - Restated	294	503	34	35
Change in expected credit loss during the year	60	(209)	(32)	(1)
As 31 December	354	294	2	34

Other assets include other resources owned by the Group and the Bank which are expected to be utilized to generate revenue and have maturity of less than 12 months. These resources carry no interest and are unsecured

22. INTANGIBLE ASSETS

	Group		Bank	
	2019	2018	2019	2018
	TZS'M'	TZS'M'	TZS'M'	TZS'M'
Application software				
Cost				
At 1 January	32,804	21,490	24,357	14,759
Additions during the year	2,232	3,522	1,504	1,708
Transfers in from property and equipment (note 24)	188	7,890	188	7,890
Translation difference	(590)	(98)	-	-
At 31 December	34,634	32,804	26,049	24,357
Amortization				
At 1 January	15,414	9,752	12,016	7,653
Charge for the year	6,165	5,617	4,870	4,363
Translation difference	(581)	45	-	-
At 31 December	20,998	15,414	16,886	12,016
Net Carrying Value	13,636	17,390	9,163	12,341

23. ASSETS HELD FOR SALE

The Group takes possession of property (land and building) pledged as security for loans due from customers on failure of the customers to repay the loan amounts in accordance with the agreed terms and conditions. Repossessed property held only for disposal to recover the outstanding loan amounts are presented as non-current assets held for sale at the lower of the outstanding loan amount (carrying amount) and fair value less costs to sell. The assets held for sale as at year-end were measured at fair value less costs to sell as follows:

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
Cost				
At 1 January	18,910	18,281	17,269	16,194
Additions	315	1,177	221	1,075
Disposals	(331)	(509)	-	-
Translation differences	43	(39)	-	-
At 31 December	<u>18,937</u>	<u>18,910</u>	<u>17,490</u>	<u>17,269</u>
Impairment				
At 1 January	(2,113)	-	(1,541)	-
Charge for the year [note 8(b)]	(115)	(2,113)	-	(1,541)
Translation differences	198	-	-	-
At 31 December	<u>(2,030)</u>	<u>(2,113)</u>	<u>(1,541)</u>	<u>(1,541)</u>
Net carrying amount	<u>16,907</u>	<u>16,797</u>	<u>15,949</u>	<u>15,728</u>

The property was acquired as a settlement of debt obligations of customers who defaulted on their obligations. The Group intends to sell the properties as soon as practicable when a suitable buyer is identified. As at year-end, the Group determined the fair value less costs to sell and charged the decrease in carrying amount to profit or loss.

The assets held for sale and changes thereto during the year are presented under the retail operating segments.

The key assumptions considered in determining the carrying amount include.

	Tanzania
Period to sell	1 year
Discount rate	15.42%
Costs to sell (TZS'M)	2,186
Others	Property will be sold as separate apartment units

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

24. PROPERTY AND EQUIPMENT

Group	Buildings TZS'M'	Leasehold premises TZS'M'	Motor vehicles TZS'M'	Office equipment TZS'M'	Computer hardware TZS'M'	Furniture and fittings TZS'M'	Capital Work in Progress TZS'M'	Total TZS'M'
Cost								
At 1 January 2019	14,733	20,632	2,024	24,135	5,064	5,672	1,489	73,749
Additions During the year	209	730	174	3,189	452	687	3,505	8,946
Disposals	-	-	(35)	-	-	(42)	-	(77)
Reclassification	-	-	-	-	-	-	-	-
Transfers in/(out)	-	21	-	468	-	17	(506)	-
Transfer to intangible assets (Note 22)	-	-	-	-	-	-	(188)	(188)
Write offs	-	-	-	(27)	-	(7)	-	(34)
Translational Difference	457	(184)	83	165	978	1,206	(500)	2,205
At 31 December 2019	15,399	21,199	2,246	27,930	6,494	7,533	3,800	84,601
Depreciation								
At 1 January 2019	4,291	11,623	1,643	17,724	4,271	3,905	-	43,457
Charge for the year	289	1,748	243	2,514	601	927	-	6,322
Elimination on disposal	-	-	(35)	-	-	(34)	-	(69)
Write off	-	-	-	(27)	-	(4)	-	(31)
Translational Difference	(111)	305	(136)	641	393	1,043	-	2,135
At 31 December 2019	4,469	13,676	1,715	20,852	5,265	5,837	-	51,814
Net carrying amount	10,930	7,523	531	7,078	1,229	1,696	3,800	32,787

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

24. PROPERTY AND EQUIPMENT (CONTINUED)

Group	Buildings TZS'M'	Leasehold premises TZS'M'	Motor vehicles TZS'M'	Office equipment TZS'M'	Computer hardware TZS'M'	Furniture and fittings TZS'M'	Capital work in progress TZS'M'	Total TZS'M'
Cost								
At 1 January 2018	12,461	18,879	2,235	22,262	4,978	5,923	9,319	76,057
Additions	2,060	1,230	151	1,502	329	254	393	5,919
Acquired through business combination (Note 26)	-	-	5	-	24	5	-	34
Disposals	-	-	(405)	(60)	(340)	(609)	-	(1,414)
Reclassification	-	-	-	(18)	-	18	-	-
Transfer in/(out)	-	226	9	103	-	-	(338)	-
Transfer to intangible assets (Note 22)	-	-	-	-	-	-	(7,890)	(7,890)
Translation differences	212	297	29	346	73	81	20	1,058
Write-off	-	-	-	-	-	-	(15)	(15)
At 31 December 2018	14,733	20,632	2,024	24,135	5,064	5,672	1,489	73,749
Depreciation								
At January 2018	3,825	9,537	1,774	14,743	3,441	3,673	-	36,993
Charge for the year	348	1,766	227	2,549	1,056	550	-	6,495
Disposals	-	-	(403)	(57)	(339)	(426)	-	(1,225)
Translation differences	118	320	45	489	113	108	-	1,193
At 31 December 2018	4,291	11,623	1,643	17,724	4,271	3,905	-	43,457
Net carrying amount	10,442	9,009	381	6,411	793	1,767	1,489	30,292

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

24. PROPERTY AND EQUIPMENT (CONTINUED)

Bank	Buildings TZS'M	Leasehold premises TZS'M	Motor vehicles TZS'M	Office equipment TZS'M	Computer hardware TZS'M	Furniture and fittings TZS'M	Capital work in progress TZS'M	Total TZS'M
Cost								
At 1 January 2019	12,055	18,433	1,295	19,071	3,207	3,671	701	58,433
Additions	50	685	152	2,247	220	246	247	3,847
Disposals	-	-	(21)	-	-	-	-	(21)
Transfers in/(out)	-	21	-	468	-	17	(506)	-
Transfer to intangible assets (Note 22)	-	-	-	-	-	-	(188)	(188)
At 31 December 2019	12,105	19,139	1,426	21,786	3,427	3,934	254	62,071
Depreciation								
At January 2019	2,958	10,281	1,030	14,369	2,708	2,732	-	34,078
Charge for the year	257	1,621	134	1,959	268	279	-	4,518
Disposals	-	-	(21)	-	-	-	-	(21)
At 31 December 2019	3,215	11,902	1,143	16,328	2,976	3,011	-	38,575
Net carrying amount	8,890	7,237	283	5,458	451	923	254	23,496
Cost								
At 1 January 2018	12,029	17,033	1,583	18,060	3,073	3,507	8,670	63,955
Additions	26	1,174	82	926	138	146	276	2,768
Disposals	-	-	(379)	-	(4)	-	-	(383)
Reclassification	-	-	-	(18)	-	18	-	-
Transfer in/(out)	-	226	9	103	-	-	(338)	-
Transfer to intangible assets (Note 22)	-	-	-	-	-	-	(7,890)	(7,890)
Write-off	-	-	-	-	-	-	(17)	(17)
At 31 December 2018	12,055	18,433	1,295	19,071	3,207	3,671	701	58,433
Depreciation								
At 1 January 2018	2,700	8,581	1,265	12,269	2,341	2,422	-	29,578
Charge for the year	258	1,700	142	2,100	370	310	-	4,880
Disposals	-	-	(377)	-	(3)	-	-	(380)
At 31 December 2018	2,958	10,281	1,030	14,369	2,708	2,732	-	34,078
Net carrying amount	9,097	8,152	265	4,702	499	939	701	24,355

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

25. RIGHT OF USE

Group	Buildings TZS'M'	Office equipment TZS'M'	Motor vehicles TZS'M'	Total TZS'M'
Cost				
At 1 January 2019	-	-	-	-
IFRS 16 Transition	29,550	1,880	1,462	32,892
Additions	12,282	286	-	12,568
At 31 December 2019	41,832	2,166	1,462	45,460
Depreciation				
At 1 January 2019	-	-	-	-
Charge for the year	9,020	1,040	409	10,469
At 31 December 2019	9,020	1,040	409	10,469
Net carrying amount	32,812	1,126	1,053	34,991
Bank				
Cost				
At 1 January 2019	-	-	-	-
IFRS 16 Transition	23,387	1,880	1,408	26,675
Additions	5,737	286	-	6,023
At 31 December 2019	29,124	2,166	1,408	32,698
Depreciation				
At 1 January 2019	-	-	-	-
Charge for the year	3,848	1,040	379	5,267
At 31 December 2019	3,848	1,040	379	5,267
Net carrying amount	25,276	1,126	1,029	27,431

	Bank	
	2019 TZS 'M'	2018 TZS 'M'
26. INVESTMENTS IN SUBSIDIARIES AND GOODWILL		
(a) Investment in subsidiaries		
Investment in Exim Bank Comoros S.A	2,728	2,728
Investment in Exim Bank Uganda Limited	28,704	24,651
Investment in Exim Bank Djibouti S.A	10,111	10,111
Investment in Core Securities Limited	765	765
Gross amount	42,308	38,255
Less: Provision for impairment	(8,227)	(6,381)
	34,081	31,874
Movement in provision for impairment:		
At 1 January	6,381	-
Impairment of investment in Uganda Exim Bank	1,846	6,381
At 31 December	8,227	6,381

26. INVESTMENTS IN SUBSIDIARIES AND GOODWILL (CONTINUED)**(b) Goodwill**

	2019			2018		
	Exim Bank Uganda TZS 'M'	Core Securities TZS 'M'	Total TZS 'M'	Exim Bank Uganda TZS 'M'	Core Securities TZS 'M'	Total TZS 'M'
At 1 January	129	961	1090	129	-	129
Business combination	-	-	-	-	961	961
At 31 December	129	961	1,090	129	961	1,090
Impairment						
At 1 January	(129)	-	(129)	-	-	-
Impairment charge for the year	-	(402)	(402)	(129)	-	(129)
At 31 December	(129)	(402)	(531)	(129)	-	(129)
Net carrying amount	-	559	559	-	961	961

The impairment testing for the goodwill in Core Securities was tested by determining the recoverable amount of the subsidiary as a cash generating used using the discounted cash flows approach. The determined recoverable amount was TZS 1.324 billion which was lower than the determined carrying amount plus the goodwill of the component (TZS 402 million) and investment in subsidiary. The key inputs into the valuation were: discounting rate of 20%; long term growth rate of 2%; and forecast cash flows over a period of five years.

The following were the investments done during the year.

	Bank	
	2019 TZS 'M'	2018 TZS 'M'
Amount invested without change in ownership interest - Exim Bank Uganda	4,053	-
Amount invested on acquisition of control of Core Securities Limited	-	765
Total amount invested	4,053	765

The Bank's shareholding in the subsidiaries as at 31 December 2019 and 2018 was as follows:

At 31 December	Country of incorporation	Interest held	
		2019	2018
Investment in Exim Bank Comoros S.A	The Union of Comoros	100.00%	100.00%
Investment in Exim Bank Djibouti S.A	Djibouti	100.00%	100.00%
Investment in Exim Bank Uganda Limited	Uganda	58.60%	58.60%
Core Securities Limited	Tanzania	80.00%	80.00%

Subsidiaries with material non-controlling interests (NCI)

The Group includes two subsidiaries, Exim Bank Uganda Limited and Core Securities Limited, with material non-controlling interests.

Name	Proportion of ownership interest and voting right held by the NCI	Total comprehensive loss allocated to NCI		Accumulated NCI share of total comprehensive loss	
		2019 TZS 'M'	2018 TZS 'M'	2019 TZS 'M'	2018 TZS 'M'
Exim Bank Uganda Ltd	41.40%	(1,013)	(3,379)	(7,141)	(6,128)
Core Securities Ltd	20.00%	(169)	(20)	(189)	(20)

No dividends were paid to the NCIs during the years 2019 and 2018.

The Group has elected to measure the non-controlling interests at fair value.

26. INVESTMENTS IN SUBSIDIARIES AND GOODWILL (CONTINUED)**Assets acquired and liabilities assumed**

The fair values of the identifiable assets and liabilities of Core Securities Limited as at the date of acquisition were.

	Fair value recognized on acquisition TZS'M
Assets	
Cash and cash equivalents	86
Trade and other receivables	163
Financial assets available for sale	410
Property and Equipment	49
Deferred tax asset	163
Total assets	<u>871</u>
Liabilities	
Trade and other payables	390
Corporate tax payable	726
Total liabilities	<u>1,116</u>
Total identifiable net liabilities at fair value	(245)
Non-controlling interest measured at fair value	(49)
Goodwill arising on acquisition [note 26(b)]	961
Purchase consideration	<u>765</u>

The goodwill comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognised.

The fair value of the trade receivables at the date of acquisition was TZS 163 million which was also the gross amount. It is expected that all the trade receivables will be recovered.

Analysis of cash flows on acquisition.

	Bank 2018 TZS'M'
Payment on acquisition of control	(765)
Net cash acquired with the subsidiary	86
Net Cash flows included in investing activities	<u>(679)</u>
Transaction costs of the acquisition (included in cash flows from operating activities)	(198)
Net cash flows on acquisition	<u>(877)</u>

The transaction costs are included in operating expenses in the statement of profit or loss and other comprehensive income.

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

26. INVESTMENTS IN SUBSIDIARIES AND GOODWILL (CONTINUED)

The post-acquisition summary financial information for Core Securities Limited and Exim Bank (Uganda) Limited before intragroup eliminations, is set out below.

	2019		2018	
	Core Securities	Exim Bank Uganda	Core Securities	Exim Bank Uganda
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
Non-current Assets	140	10,586	1,026	74,840
Current Assets	743	191,930	544	89,714
Total Assets	883	202,516	1,570	164,554
Non-current Liabilities	1,188	5,621	2,420	67,937
Current Liabilities	1,306	171,241	-	71,102
Total Liabilities	2,494	176,862	2,430	139,039
Equity attributable to owners of the parent	(1,952)	37,928	(688)	15,091
Non-controlling interest	341	(12,274)	(172)	10,424
Total equity	(1,611)	25,654	(860)	25,515
Revenue	965	19,397	647	14,979
Interest Expense	(65)	(5,854)	-	(3,867)
Operating and other expense	(1,608)	(15,990)	(732)	(19,049)
Income Tax expense	(124)	-	(12)	(226)
Loss for the year	(832)	(2,447)	(97)	(8,163)
Other comprehensive loss	(15)	-	-	-
Total comprehensive loss for the year	(847)	(2,447)	(97)	(8,163)
Loss for the year attributable to owners of the parent	(666)	(1,434)	(77)	(4,784)
Loss for the year attributable to NCI	(166)	(1,013)	(20)	(3,379)
	(832)	(2,447)	(97)	(8,163)
Total comprehensive income for the year attributable to owner of the parent	(678)	(1,434)	(77)	(4,784)
Total comprehensive income for the year attributable to NCI	(169)	(1,013)	(20)	(3,379)
	(847)	(2,447)	(97)	(8,163)
Net cash flows (used in)/from operating activities	150	28,616	(159)	(31,018)
Net cash flows (used in)/from investing activities	(471)	(1,684)	70	(1,696)
Net cash flows from financing activities	167	6,704	692	-
Net increase in cash or cash equivalents	(154)	33,636	603	(32,714)

The 2018 results presented for Core Securities are post acquisition. If the Core Securities combination had taken place at the beginning of the year, the contribution of revenue would have been TZS 834 million and the loss before tax would have been TZS 438 million

27. LEASES

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
(a) Lease liability				
At January	-	-	-	-
IFRS 16 transition	32,892	-	26,675	-
Additions	12,508	-	5,963	-
Interest expense to lease liability	2,473	-	2,017	-
Payment to lease liability (including interest)	(12,570)	-	(7,059)	-
	<u>35,303</u>	<u>-</u>	<u>27,606</u>	<u>-</u>

(b) Lease expense charged to profit and loss

The following table shows the breakdown of the lease expense between amounts charged to operating profit and amounts charged to finance cost

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
Depreciation on the right of use:				
Buildings	9,020	-	3,848	-
Office equipment	1,040	-	1,040	-
Motor vehicles	409	-	379	-
Charged to profit and loss	<u>10,469</u>	<u>-</u>	<u>5,267</u>	<u>-</u>
Interest expense on lease liability	<u>2,470</u>	<u>-</u>	<u>2,027</u>	<u>-</u>
Total charge to profit and loss	<u>12,939</u>	<u>-</u>	<u>7,294</u>	<u>-</u>

(c) Lease liability maturity analysis

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
Less than one year	5,669	-	4,089	-
One to five years	20,705	-	14,257	-
More than 5 years	6,457	-	6,652	-
	<u>32,831</u>	<u>-</u>	<u>27,606</u>	<u>-</u>
Interest on liability	<u>2,608</u>	<u>-</u>	<u>2,472</u>	<u>-</u>
	<u>35,303</u>	<u>-</u>	<u>27,606</u>	<u>-</u>
Current	5,669	-	4,089	-
Non-current	<u>29,634</u>	<u>-</u>	<u>23,517</u>	<u>-</u>

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
28. DEPOSITS DUE TO BANKS				
To be settled within 12 months	98,993	77,296	273,720	255,814
To be settled after 12 months	-	-	-	-

Deposits due to banks include financial instruments classified as liabilities at amortised cost with fixed interest rates. All the deposits due to banks are short term in nature with maturities of not more than 12 months from the reporting date. The Group and Bank incur interest on those deposits at the prevailing market interest rates. The Group and Bank have pledged TZS 114,865 million (2018: TZS 4,000 million) collateral for these deposits.

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
29. DEPOSITS DUE TO CUSTOMERS				
Current and demand deposits	641,806	598,828	307,771	290,986
Savings accounts	266,002	255,626	197,455	198,029
Fixed deposit accounts	390,369	321,377	216,082	181,034
	<u>1,298,177</u>	<u>1,175,831</u>	<u>721,308</u>	<u>670,049</u>
Current	1,276,307	1,034,731	701,108	589,644
Non-current	<u>21,870</u>	<u>141,100</u>	<u>20,200</u>	<u>80,405</u>

Deposits due to customers include financial instruments classified as liabilities at amortised cost. The Group and Bank incur interest on those deposits at the prevailing market interest rates. The Group and Bank have pledged no collateral for these deposits.

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
30. OTHER LIABILITIES				
Bank drafts payable	3,125	3,066	1,858	1,771
Accrued expenses	4,941	5,271	4,160	4,930
TANAPA cards	963	1,131	963	1,131
Master cards	1,788	1,254	1,775	1,254
Guarantee and Letters of Credit margins	8,486	5,032	6,852	3,774
Deferred commission	9,365	1,307	8,851	1,307
Other creditors*	<u>11,984</u>	<u>20,291</u>	<u>4,916</u>	<u>3,990</u>
	<u>40,652</u>	<u>37,352</u>	<u>29,375</u>	<u>18,157</u>

Other liabilities are non-interest bearing and are expected to be settled within no more than 12 months after the reporting date.

*Include indirect taxes payable, amounts payable on clearing accounts and other operational liabilities.

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
31. TERM BORROWINGS				
Tanzania Mortgage Refinance Company Limited (TMRC)	5,989	1,007	5,989	1,007

The Bank acquired a loan of TZS 3,000 million on 28 August 2013 from TMRC to finance issuance of mortgage loans. The loan was initially for three years to 27 August 2016 but was extended to 28 May 2017 with interest payable on quarterly basis and the principal payable at maturity. TZS 2,000 million was repaid in 2017. On 27 May 2019 the outstanding TZS 1,000 million was renewed to a 5 years term loan, repayable at maturity date and interest repaid quarterly. On 30 June 2019 the Bank entered in to three years facility arrangement amounting to TZS 5,000 million to pre-finance mortgage loans. The principal amount repayable at maturity and interest rate repaid quarterly. The interest rate applicable for both facility is 7.5% per annum.

The term borrowing is secured as disclosed under note 20 and by the funded mortgage loans and advances to customers amounting to 125% of the outstanding term borrowing balance.

The movement in term borrowings during the year was as follows:

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
At 1 January	1,007	1,010	1,007	1,010
Additions	4,983	-	4,983	-
Accrued interest	81	129	81	129
Interest payment	(82)	(132)	(82)	(132)
At 31 December	5,989	1,007	5,989	1,007

32. SUBORDINATED DEBT AND SENIOR LOANS

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
USD 10 million DEG floating rate notes due 2022 (a)	9,686	13,680	9,686	13,680
USD 10 million DEG floating rate notes due 2021 (b)	5,812	9,737	5,812	9,737
TZS 14,959 million fixed rate subordinated retail bond due December 2021 (c)	14,913	14,875	14,913	14,875
USD 15 million PROPARCO floating rate notes due 2020 (d)	2,677	8,099	2,677	8,099
USD 10 million FMO floating rate notes due 2024 (e)	23,079	23,333	23,079	23,333
USD 12.5 million FMO floating rate notes due 2024 (f)	28,963	-	28,963	-
USD 12.5 million FMO floating rate notes due 2024 (g)	28,688	-	28,688	-
USD 11.379 million EIB fixed interest rate notes due 2023 (h)	17,503	20,692	17,503	20,692
TZS 10.14 billion EIB fixed interest rate notes due 2023 (h)	6,910	8,974	6,910	8,974
	<u>138,231</u>	<u>99,390</u>	<u>138,231</u>	<u>99,390</u>
Current	98,905	30,874	98,905	30,874
Non-current	<u>39,326</u>	<u>68,516</u>	<u>39,326</u>	<u>68,516</u>

32. SUBORDINATED DEBT AND SENIOR LOANS AT AMORTIZED COST (CONTINUED)

- (a) The second tranche of the senior loan of USD 10 million from DEG was drawn on 15 July 2015. The loan is repayable within 7 years and had a grace period of 1 year. The principal repayments are in 12 equal semi-annual instalments, beginning on 15 October 2016. The principal loan balance as at 31 December 2019 was USD 4.2 million (2018: USD 6.67 million). The effective interest rate was 5.03% (2018: 5.01%).
- (b) The senior loan of USD 10 million from DEG was drawn in December 2014. The loan is repayable within 7 years and had a grace period of 1 year. The principal repayments are in 12 equal semi-annual instalments, beginning on 15 October 2015. The principal loan balance as at 31 December 2019 was USD 2.50 million (2018: USD 5.95 million). The effective interest rate was 5.03% (2018: 5.01%).
- (c) The sub-ordinated retail bond of TZS 14,495 million was issued on 21 December 2015. The bond is repayable within 6 years. Interest payments are on semi-annual instalments beginning on 21 June 2016. The principal loan balance as at 31 December 2019 was TZS 14,959 million (2018: TZS 14,959 million) and the effective interest rate was 15.6% (2017: 15.6%). The subordinated debts are subordinated in payment and liquidation to all senior loans. The subordinated loans are due to various lenders.
- (d) The senior loan of USD 15 million from PROPARCO was drawn down in 2013. The loan had a one year grace period and principal repayment will be in 6.5 years (i.e., thirteen equal instalments) starting 30 April 2014. The principal loan balance as at 31 December 2019 was USD 1.16 million (2018: USD 4.6 million). The effective interest rate was 3.5% (2018: 4.72%).
- (e) The senior loan of USD 10 million from FMO was drawn down in June 2018. The loan is repayable within 7 years with a grace period of 1.25 years and is the first tranche of the USD 35 million committed. Principal repayment is in 9 equal semi-annual instalments, beginning on 15 March 2020. The principal loan balance as at 31 December 2019 was USD 10 million (2018: USD 10 million). The effective interest rate was 5.3% (2018: 5.23%).
- (f) The senior loan of USD 12.5 million from FMO was drawn down in March 2019. The loan is repayable within 7 years with a grace period of 1.25 years and is the first activation of the second tranche of the USD 35 million committed. Principal repayment is in 9 equal semi-annual instalments. The principal loan balance as at 31 December 2019 was USD 12.5 million (2018: Nil). The effective interest rate was 5.3%.
- (g) The senior loan of USD 12.5 million from FMO was drawn down in November 2019. The loan is repayable within 7 years with a grace period of 1.25 years and is the second activation of the second tranche of the USD 35 million committed. Principal repayment is in 9 equal semi-annual instalments. The principal loan balance as at 31 December 2019 was USD 12.5 million (2018: USD Nil). The effective interest rate was 5.14%.
- (h) The senior loan of EURO 15 million from European Investment Bank (EIB) was drawn down on 15 March 2017. The loan was converted into USD 11,379 million (equivalent of EURO 10.7 million) and TZS 10,140 million (equivalent of EURO 4.3 million). The loan had a grace period of 1 year and repayment thereafter is within 6 years, that is, by 31 October 2023. Principal repayment is in 12 equal semi-annual instalments, beginning on 30 April 2018. The loan balances as at 31 December 2019 were USD 7.59 million and TZS 6,760 million (2018: USD 8.96 million and TZS 8.75 billion). The effective interest rates were 4.16% and 11.74% (2018: 4.16% and 11.74%) respectively.

All the above loans are unsecured. The movement in the subordinated debts and senior loans was as follows:-

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
At 1 January	99,390	97,780	99,390	97,780
Additions	57,176	23,000	57,176	23,000
Interest accrued during the year	8,698	7,300	8,698	7,300
Repayments - principal	(19,036)	(23,714)	(19,036)	(23,714)
Repayments - interest	(7,814)	(7,002)	(7,814)	(7,002)
Foreign exchange differences	(183)	2,026	(183)	2,026
At 31 December	<u>138,231</u>	<u>99,390</u>	<u>138,231</u>	<u>99,390</u>

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

33. SHARE CAPITAL

Group and Bank	2019 TZS 'M'	2018 TZS 'M'
Authorised		
20,000,000 ordinary shares of TZS 1,000 each	<u>20,000</u>	<u>20,000</u>
Issued and fully paid		
12,900,000 ordinary shares of TZS 1,000 each	<u>12,900</u>	<u>12,900</u>

34. REGULATORY AND OTHER RESERVES

	Group		Bank	
	2019 TZS 'M'	2018 TZS 'M'	2019 TZS 'M'	2018 TZS 'M'
Fair value reserve (a)	607	(10)	611	(13)
Regulatory reserves (b)	39,317	6,420	37,385	4,488
General and legal reserve (c)	(597)	5,599	-	6,402
Currency translation reserve (d)	5,089	1,894	-	-
	<u>44,416</u>	<u>13,903</u>	<u>37,996</u>	<u>10,877</u>

(a) The fair value reserve comprises the effect of changes in equity investments at FVOCI. The movement in the fair value reserve was as follows:-

	Group		Bank	
	2019 TZS 'M'	2018 TZS 'M'	2019 TZS 'M'	2018 TZS 'M'
At 1 January	(10)	54	(13)	54
Impact of initial application of IFRS 9 (note 3ad)	-	(119)	-	(119)
At 1 January - Restated	(10)	(65)	(13)	(65)
Fair value gain/(loss) for the year (note 20)	<u>617</u>	<u>55</u>	<u>624</u>	<u>52</u>
At 31 December	<u>607</u>	<u>(10)</u>	<u>611</u>	<u>(13)</u>

(b) The regulatory reserves (loan loss reserves) represent the amounts set aside to cover additional provisions for loans and other financial assets losses as required in order to comply with the Bank of Tanzania (BOT), Bank of Uganda and Central Bank of Comoro prudential guidelines. The reserves are not available for distribution to the equity holders. The movement in regulatory reserves was as follows:-

	Group		Bank	
	2019 TZS 'M'	2018 TZS 'M'	2019 TZS 'M'	2018 TZS 'M'
At 1 January	6,420	43,893	4,488	35,486
Impact of initial application of IFRS 9 (note 3ad)	-	(23,437)	-	(23,705)
At 1 January - Restated	6,420	20,456	4,488	11,781
Appropriation from/(to) retained earnings	<u>32,897</u>	<u>(14,036)</u>	<u>32,897</u>	<u>(7,293)</u>
At 31 December	<u>39,317</u>	<u>6,420</u>	<u>37,385</u>	<u>4,488</u>

This is broken down as follows:

Reserve for loans and advances - Specific	34,661	1,932	34,661	-
Reserve for other assets	<u>6,420</u>	<u>4,488</u>	<u>4,488</u>	<u>4,488</u>
	<u>41,081</u>	<u>6,420</u>	<u>39,149</u>	<u>4,488</u>

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

34. REGULATORY AND OTHER RESERVES (CONTINUED)

(c) The general and legal reserve comprises the following:

- 1% general provision on loans classified as current was required by Bank of Tanzania (BOT) in 2018 but waived in 2019. Bank of Uganda (BOU) still requires 1% general provision. This is part of the Tier 2 capital as stipulated in the BOT and BOU prudential guidelines. This reserve is not available for distribution to the equity holders.

- The legal reserve is comprising an appropriation of 10% of the Exim Bank Comoro S.A profit for the year as required by the Central Bank of Comoro regulations.

The movement in the general and legal provision reserve is as follows:-

	Group		Bank	
	2019	2018	2019	2018
	TZS 'M'	TZS 'M'	TZS 'M'	TZS 'M'
At 1 January	5,599	6,447	6,402	6,363
Appropriation (to)/from retained earnings	(6,196)	(848)	(6,402)	39
At 31 December	(597)	5,599	-	6,402

(d) The currency translation reserve comprises the effect of translation of the financial statements of the foreign subsidiaries on consolidation.

	Group	
	2019	2018
	TZS 'M'	TZS 'M'
At 1 January	1,894	2,511
Translation differences for the year	3,195	(617)
At 31 December	5,089	1,894

35. CONTINGENT LIABILITIES AND COMMITMENTS**(a) Litigation**

In the ordinary course of business, the Group is a defendant in various litigations and claims. Although there can be no assurances, based on the information currently available and legal advice, the directors expect that it is possible that the outcome of actions with total exposure of TZS 1.27 billion (2018: 1.1 billion) could result into loss to the Group and Bank.

(b) Capital commitments

At 31 December 2019, the Group and Bank had capital commitments of TZS 27,400 million (2018: TZS 12,500 million) and TZS 21,742 million (2018: TZS 8,615 million) respectively, in respect of core banking upgrade, alternative channel expansion, construction of new branches as well as rehabilitation of the old branches, purchase of IT equipment and computers, office equipment, furniture and other capital items. The Group's and Bank's management is confident that future net revenues and funding will be sufficient to cover these commitments.

(c) Acceptances, letters of credit, guarantees and performance bonds

In common with other banks, the Group and the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities cover corresponding obligations of third parties. The nominal amounts for these off statement of financial position items are not reflected in the statement of financial position.

35. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
Acceptances and letters of credit	55,364	47,181	51,821	40,270
Guarantees and performance bonds	75,891	64,676	46,912	36,455
Gross	131,255	111,857	98,733	76,725
Less: Expected credit loss	(4,804)	(2,801)	(3,642)	(2,518)
Net carrying amount	126,451	109,056	95,091	74,207
Movement Expected credit loss:				
At 1 January	2,801	2,019	2,518	2,010
Expected credit loss charge in the year	2,003	782	1,124	508
As 31 December	4,804	2,801	3,642	2,518

An acceptance is an undertaking by the Group or Bank to pay a bill of exchange drawn on a customer. The Group or Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Group or Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers. Guarantees are generally written by the Group or Bank to support performance by a customer to third parties. The Group or Bank will only be required to meet these obligations in the event of the customer's default.

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
(d) Loan commitments				
Undrawn formal stand-by facilities, credit lines and other commitments to lend	77,065	70,898	46,417	47,107

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Group or Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

36. ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE STATEMENT OF CASH FLOWS

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
Cash and balance with central banks	179,541	180,104	92,132	101,219
Less: Cash reserve requirement	(76,628)	(106,422)	(49,370)	(59,078)
Subtotal	102,913	73,682	42,762	42,141
Loans and advances to banks	233,898	131,502	144,808	94,441
Government securities maturing within 90 days	48,319	62,866	47,029	62,186
	385,130	266,050	234,599	198,768

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, cash and balances with central banks, Government securities maturing within 90 days and loans and advances to banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Banks.

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY DISCLOSURES

The Bank (Exim Bank (Tanzania) Limited) is related to the following entities/persons.

Entity

Exim Bank Comoros S.A.
Exim Bank Djibouti S.A.
Exim Bank (Uganda) Limited
Corporate and Management Consultants
Limited
J & J Kothari
Strategies Insurance Limited
ACE Properties Limited
MAC Group Limited
MAC-UTI Properties Limited
Alliance Life Assurance Ltd
Alliance Insurance Corporation Limited
Core Securities Limited
Mr. Yogesh Manek
Mr. Hanif Jaffer
Mr. Shaffin Jamal
Mr. Azim Virjee
Mr. Azim Kassam
Ambassador Juma Mwapachu
Mr. Said Ally Mwema
Mr. Sherazam Mazari
Mr. Thomas F. Wescott
Mr. Kalpesh Mehta
Mr. Hafez Abdallah Awad
Mwema Advocates
Agro Value Limited
Alliance Africa General Insurance (U) Limited
Amazal Holdings Limited
Mukwamo Enterprises Limited
Mukwano Foundation Trust
Mukwano Industries (U) Limited
Nexia SJ Tanzania (formerly PKF Tanzania)
National Knitwear Industries Ltd
M2 Advertising Agency
Techno Brain Uganda Limited
Union Trust investment Limited
Chai Bora Limited
FTN Service

37. RELATED PARTY DISCLOSURES (CONTINUED)

A number of transactions are entered into with the related parties in the normal course of business. These include loans and deposits transactions. The related party transactions and outstanding balances at the year-end are as follows:

Loans and advances to customers at year-end include loans to Directors and key management personnel as follows:

Loans to Directors and other key management personnel

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
At 1 January	1,176	3,296	702	2,748
Advanced during the year	2,755	303	2,629	417
Repaid during the year	(519)	(2,423)	(389)	(2,463)
At 31 December	3,412	1,176	2,942	702
Interest income earned from related parties	358	280	270	216
Expected credit losses in loans to key management personnel	334	113	233	99

The loans granted by the Group or Bank to Directors and other key management personnel during the year are at market interest rates. The loans advanced to the Directors during the year are secured by mortgage collateral

Deposits by Directors and other key management personnel

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
At 1 January	5,677	2,274	1,389	28
Received during the year	8,892	6,384	5,353	2,466
Repaid during the year	(8,506)	(2,981)	(5,352)	(1,105)
At 31 December	6,063	5,677	1,390	1,389
Interest expense incurred	146	479	136	185

The above deposits carry variable interest rates and are repayable on demand

Transactions carried out during the year with other related parties include

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
Consultancy services:				
MAC Group Limited	-	102	-	37
M2 Advertising agency	286	313	264	296
Mwema Advocates	-	90	-	90
Core Securities Limited	192	-	192	430
FTN Service	138	-	-	-
Sherazam Mazari	422	570	345	259
	1,038	1,075	801	1112

37. RELATED PARTY DISCLOSURES (CONTINUED)

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
Group health insurance cover				
Strategies Insurance Limited	1,235	1,084	1,235	1,084
Group life assurance cover:				
Alliance Life Assurance Ltd	237	142	209	130
Alliance Africa General Insurance (U) Ltd	-	58	-	-
	237	200	209	130
Assets all risks and motor vehicles cover:				
Alliance Insurance Corporation Limited	1,790	37	1,610	37
Alliance Africa General Insurance (U) Ltd	325	225	-	70
	2,115	262	1,610	107
Operating lease rentals:				
ACE Properties Limited	392	341	392	341
MAC-UTI Properties Limited	1,594	1,359	1,594	1,359
National Knitwear Industries Ltd	53	-	53	-
Mukwano Enterprises Limited	88	281	-	-
	2,127	1,981	2,039	1,700
Loans and advances to customers				
Chai Bora Limited	-	9,776	-	9,776
Nexia SJ Tanzania (Former PKF Tanzania)	-	-	-	-
Corporate and Management Consultants Limited	236	210	236	210
Alliance Insurance Corporation Limited	1,214	-	1,214	-
Strategies Insurance Limited	1,362	-	1,362	-
Union Trust investment Limited	290	-	290	-
Shaffin Jamal	38	-	38	-
Hafez Abdallah Awad	43	-	-	-
Techno Brain Uganda Limited	545	-	-	-
J & J Kothari	1,150	1,124	-	-
Agro Value Limited	-	313	-	-
	4,878	11,423	3,140	9,986
Interest income on loans and advances to related parties	519	1,604	359	1,493

The loans and advances due to related parties are on normal commercial terms. The expected credit losses on these loans was as follows:

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
Expected credit losses on loans and advances to related parties	203	677	203	634

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY DISCLOSURES (CONTINUED)

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
Deposits due to customers				
Alliance Insurance Corporation Ltd	7,924	15,559	7,865	15,559
Alliance Life Assurance Ltd	251	1,014	251	1,014
Nexia SJ Tanzania (formerly PKF Tanzania)	52	11	52	11
Chai Bora Limited	-	5	2,493	5
Strategies Insurance Limited	2,493	-	-	-
Mukwamo Enterprises Limited	25	15	-	-
Mukwano Foundation Trust	1	1	-	-
Mukwano Industries (U) Limited	1,894	914	-	-
	<u>12,640</u>	<u>17,519</u>	<u>10,661</u>	<u>16,589</u>
Interest expense on deposits due to customers	<u>849</u>	<u>1,238</u>	<u>457</u>	<u>1,191</u>

	Bank	
	2019	2018
	TZS' M'	TZS' M'
Loans and advances to subsidiaries		
Exim Bank Djibouti S.A	6,657	6,669
Core Securities Limited	<u>1,158</u>	<u>700</u>
	<u>7,815</u>	<u>7,369</u>
Interest earned on loans and advances to subsidiaries	<u>577</u>	<u>501</u>
Expected credit loss on loans and advances to subsidiaries	<u>22</u>	<u>22</u>
Off-balance sheet facility to Core Securities Limited.	<u>458</u>	<u>-</u>

Deposits due to subsidiaries		
Exim Bank Comoros S.A.	2,046	-
Exim Bank Djibouti S.A	178,449	149,532
Exim Bank (Uganda) Limited	<u>188</u>	<u>4,025</u>
	<u>180,683</u>	<u>153,557</u>
Interest expense on deposits due to subsidiaries	<u>4,430</u>	<u>4,670</u>

Key management compensation

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The remuneration of key management personnel during the year was as follows:

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
Short term employment benefits	13,866	13,451	8,162	8,936
Post-employment benefits	<u>1,476</u>	<u>1,447</u>	<u>769</u>	<u>922</u>
	<u>15,342</u>	<u>14,898</u>	<u>8,931</u>	<u>9,858</u>

EXIM BANK (TANZANIA) LIMITED

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY DISCLOSURES (CONTINUED)

Directors' remuneration

Fees and other emoluments paid to directors by the Group and Bank during the year amounted to TZS 941.59 million and TZS 446 million respectively (2018: Group - TZS 995 million; Bank - TZS 439 million). Details of payments by the Bank to individual Directors will be tabled at the annual general meeting.

Management fees

The Bank recharges the following subsidiaries for the cost incurred in providing oversight.

	Bank	
	2019	2018
	TZS' M'	TZS' M'
Exim Bank Comoros S.A	1,150	680
Exim Bank Djibouti S.A	-	4,113
	<u>1,150</u>	<u>4,793</u>

38. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Bank	
	2019	2018	2019	2018
	TZS' M'	TZS' M'	TZS' M'	TZS' M'
Derivative financial assets - forward currency contracts	-	61	-	61
Nominal amount	-	4,600	-	4,600

The above balances are current.

The balances above represent the fair values of USD to USD forward currency derivative instruments.

39. NON-CONTROLLING INTEREST

	2019	2018
	TZS' M'	TZS' M'
Exim Bank Uganda Limited and Core Securities Limited		
At 1 January	10,252	12,965
Impact on initial application of IFRS 9	-	(828)
Transfer from regulatory reserve on initial application of IFRS 9	-	(157)
	<u>10,252</u>	<u>11,980</u>
NCI on acquisition	-	(49)
Additional investment	2,863	-
Share of losses for the year	(1,182)	(3,399)
Transfer from regulatory reserve for the year	-	1,333
Transfer from general reserve	-	387
At 31 December	<u><u>11,933</u></u>	<u><u>10,252</u></u>

40. EVENTS AFTER THE REPORTING PERIOD

The financial statements were prepared based on management estimates and judgement as at the reporting date. Subsequent to year-end, there has been a global pandemic outbreak caused by coronavirus which may have a bearing on those estimates due to change in the business environment in which the Bank operates. However, due to the high level of uncertainty resulting from the pandemic outbreak, the Directors are not at the moment in a position to determine its impact to those estimates.

Other than matters stated above, the Directors are not aware of any other matter or circumstance arising since the end of the financial period, not otherwise dealt with in these financial statements, which significantly affected the financial position of the Bank and results of its operations at the date of signing the financial statements.

41. SUMMARY OF ACQUISITION

On 1 November 2019 the Bank acquired assets and liabilities of UBL Bank (Tanzania) Limited in a special Assets Purchase Agreement (APA) with a Net Assets on Acquisition of TZS 11.3 billion. The acquisition resulted on an acquisition gain which have been deferred and to be amortized with effect from November 2019 for the period of three (3) years based on the average tenor of the acquired Assets.

The Details of Assets and liabilities on the acquisition date are as detailed here under:

	Fair value TZS 'M'
Assets	
Cash	505
Balance with Bank of Tanzania	4,296
Investments on Government securities	19,657
Net loans and advances	38,299
Property, plant and equipment	337
Total assets	63,094
Liabilities	
Customer deposits	(18,304)
Placement with other banks	(33,446)
Accrued expenses	(12)
Other liabilities	(11)
Total liabilities	(51,773)
Net assets acquired	11,321
Less Cash paid	(3,300)
Acquisition costs	(750)
Acquisition gain on assets and liabilities	7,271