



**PBZ BANK**



# **ANNUAL REPORT**

**2023**

## LIST OF ABBREVIATIONS

BOT	Bank of Tanzania
CBS	Core Banking System
CGU	Cash generating unit
CVA	Credit value adjustment
DVA	Debit value adjustment
EAD	Exposure at default
ECL	Expected Credit Loss
EIR	Effective Interest Rate
EMV	Euro money, MasterCard and Visa
EURO	Euro currency
FVA	Fair value adjustment
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
FX	Foreign Exchange
GBP	Great Britain Pound
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
LGD	Loss given default
LTECL	Lifetime expected credit loss
NAV	Net Assets Value
OCI	Other comprehensive income
PBZ	The People's Bank of Zanzibar LTD.
PD	Probability of default
POCI	Purchased or originated credit impaired (Financial assets)
RGZ	Revolutionary Government of Zanzibar
SAC	Shariah Advisory Committee
SIC	Standing Interpretations Committee
SMR	Statutory Minimum Reserve
SPPI	Solely payments of principle and interest
SWIFT	Society Worldwide Inter-Bank Financial Telecommunication
TISS	Tanzania Inter Bank Settlement System
TZS	Tanzania Shillings
USD	United States Dollar
ZSSF	Zanzibar Social Security Fund
ZIC	Zanzibar Insurance Corporation
CRDB	Cooperatives and Rural Development Bank
UBS	Union Bank of Switzerland
LGs	Letter of Guarantees
LC	Letter of Credit

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Mr. Joseph A. Meza  
 Mr. Said M. Said  
 Mr. Fahad S. Hamid  
 Dr Saleh J. Rashid  
 Mr. Ahmed S. Khamis  
 Mr. Khamis J. Mfaume  
 Ms Khalda Kh. Gharib  
 Mr. Mohammed F. Mzee

### REGISTERED OFFICE AND CONTACT

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 Website: www.pbzbank.co.tz  
 Zanzibar, Tanzania.

### HEAD OF LEGAL AND COMPANY SECRETARY

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 Zanzibar, Tanzania,  
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### LAWYER

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 Zanzibar, Tanzania,  
 Fax: 024 2232502,  
 Email: info@agc.go.tz  
 Website: agchambers@zanlink.com

### AUDITOR

Controller and Auditor General,  
 Ukaguzi House – Maisara,  
 P.O. Box 258,  
 Zanzibar, Tanzania

## CORPORATE INFORMATION (CONTINUED)

### LIST OF BANKERS

1. UBS Switzerland Ag,  
Postfach, 8098 Zurich,  
www.ubs.com,  
For Information:  
Tel.+41-44-234 11 11
2. Bank of Tanzania,  
2 Mirambo Street,  
11884 Dar Es Salam, Tanzania,  
Tel +255-22-2234494/5/7  
+255-22-2235433
3. CRDB - Azikiwe Branch  
P.O.Box 72344  
Tel No 022-2124556  
022-2124558  
Swift Code: Corutztz  
Dar es Salaam
4. Citi Bank  
Reuterweg 16, 60323 Frankfurt/Main  
Blatt/Page ¼  
Iban: De67 502109004 114264038  
Bic Code: Citideff
5. Standard Chartered Bank Tanzania Ltd  
(Branch Office, See Legal Head Office)  
Dar Es Salaam, Tanzania  
Telephone 255/22-2113774  
Swift Bic: ScbLtzTx  
Chips Uis: 356728  
Chips Member No(S): 0256
6. Citi Bank, Na  
(Branch Office, See Legal Head Office Las  
Vegas  
Unite State)  
1 Court Sq  
New York City, Ny 11120  
United States  
Telephone: (718) 472-3400  
Swift Bic: Citius 33 Pbgb  
Chips Uid: 337344  
Chips Member No(S) 0008x
7. Citi Bank, Na  
(Branch Office, See Legal Head Office Las  
Vegas  
United State)  
11 Old Jewry  
London, England Wc2r 1 Hb  
United Kingdom  
Telephone: 44/20 -7500 5000  
Swift Bic: Citigb22 Citigb 2  
Chips Uid: 029715  
Chips Member No(S)0008

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## INTRODUCTION

The Directors hereby submit their report and the audited financial statements for the year ended 31 December 2023 which disclose the state of affairs of People’s Bank of Zanzibar Limited (“the Bank” or PBZ).

## INCORPORATION

The People’s Bank of Zanzibar Limited (PBZ Bank) a government owned commercial Bank offering both Islamic and Conventional Banking Services, was established on 30th June 1966 and incorporated under Cap. 153 of the Zanzibar Companies Decree which has been repealed and replaced by Companies Act No.15 of 2013.

## VISION & MISSION

01

### Vision

A leader in the provision of valued financial services to customers and other stakeholders.

👁️

02

### Mission

To provide innovative financial service solutions that are responsive to customer’s needs at competitive cost

🎯

## BRANCH NETWORKS

As at end of year under review, the Bank had eighteen (18) branches and sixteen (16) services delivery centres. Out of eighteen (18) branches, eight (8) branches offering Islamic Banking services located at Mwanakwerekwe, Mpirani, Chake Chake and Wete for Zanzibar, and Lumumba, Tazara, Mtwara and Dodoma for Tanzania Mainland. Other remaining ten (10) branches are offering traditional (conventional) Banking services. These branches are Forodhani, Malindi, Mlandege, Mwanakwerekwe, Chake chake and Wete for Zanzibar. Whereas in Tanzania mainland were Kariakoo, Tazara, Mtwara and Dodoma.

Out of sixteen (16) service delivery centres three (3) are located at Mainland (Tandika, Kigamboni and Tandahimba), eleven (11) services delivery centres are located in Unguja Zanzibar and two (2) at Mkoani and Gombani Pemba Zanzibar. During the year 2023 four new service centres were opened at Paje, Tunguu, Zanzibar Airport terminal III and Nungwi Zanzibar.

The bank did a major renovation of three branches (Malindi, Forodhani and Mlandege) and ATMs (Paje and Mpirani) during the year to improve the look and uniformity of our branches.

The Bank introduced alternative channels of services distribution such as ATMs, Bureau de changes and agency Banking. As at 31st December 2023 the Bank has forty-five (45) ATMs (2022: 43 ATMs) in the Umoja Switch which is network of seventeen (17) Banks. The Bank dominates 48% of all Umoja switch ATM transactions. Out of forty-five (45) ATMs eight (8) ATMs are located in Tanzania Mainland, seven (7) ATM in Pemba and twenty-nine (29) were fixed in Unguja. Total of 1,155 agents (2022:709 Agents) were registered and distributed up to the end of year 2023, this mark 63% increase from last year number of agents distributed. PBZ customer can also transact in all Umoja switch ATMs with more than 260 ATM networks around Tanzania, through PBZ VISA card customers can transact through other bank networks in Tanzania and Worldwide, customers can also transact through merchant POS and online purchase through VISA card both in Tanzania and abroad, PBZ partnership with Selcom to allow bank merchant POS to accept MasterCard.



## PRINCIPLE ACTIVITIES

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### Islamic Banking Activities

In recent years, Islamic Banking appetite has tremendously increased in Tanzania, especially in coastal area including Zanzibar. Islamic Banking services has higher contribution in promoting financial inclusion within society. Due to its growth, it shows the potential and great opportunity for more expansion, PBZ aiming to become a leader in the provision of Islamic services in Tanzania by offering innovative and valued services to its customers and improving geographical presence, PBZ is planning to have a fully-fledged Islamic banking subsidiary by 2025.

During the year, PBZ Ikhlas issued total of TZS. 103 billion as financing that follows shariah compliance, an increase of 27% compared to previous year, Islamic financing contributed TZS 11,987 million in total bank revenue during the year, which is 29% higher, compared to TZS 9,283 million recorded in 2022. PBZ Ikhlas invested total of TZS. 8 billion in the SUKUK issued during the year from KCB bank, AMANA bank and IMAAN Microfinance, Islamic deposits grow by 69% to TZS 414 billion for the year 2023 (2022: TZS 245 billion), the growth contributed by increase in all categories of Islamic deposits (current accounts, saving and time deposit intermediate). PBZ continues to offer innovative Islamic products to cater for the demand of the market.

Islamic Banking products are mainly dealing with deposit mobilization contracts and fund utilization (financing) products. During the year under review, Bank approved the Islamic financing facilities to the various

sectors and products such as Murabaha, Bai-Muajjal, Ijarah, Mortgage, Salaam and Istisnaa, in year under review the bank launched new product of Commodity Murabaha (Tawarruq) which helps customer to obtain cash from Halal arrangements of buying and selling commodity from the market, that aim to enhance the Islamic banking growth. Under deposits mobilization, the products offered are current accounts (Mudharaba, Wadiah and Qard), saving accounts (Mudharaba and Wadiah) and Islamic fixed deposits. All products are available in Tanzania Shilling (TZS) and other three major foreign currencies i.e. United State Dollar (USD), Great Britain Pound (GBP) and European Money (Euro). Investment accounts are Musharakah and Mudharaba products. Islamic bank same offers other various services to customers including all alternatives channels products such as mobile banking, internet banking, agency banking, mobile app, VISA services and other transaction services like forex exchange and money transfer both local and abroad.

The major challenge faces Islamic Banking is non-availability of Islamic banking legal and regulatory framework and lack of Sovereignty Sukuk for Islamic banks to trade, this hold back the Islamic banking growth and profitability Apart from increases of appetite for Islamic banking services in Tanzania.





### Conventional Banking Activities

PBZ Bank offers variety of Banking deposit products in the categories of current accounts, time deposits and savings accounts. The available deposit accounts are denominated in Tanzania Shilling (TZS) and other three major foreign currencies which are United State Dollar (USD), Great Britain Pound (GBP) and European Money (Euro). Additionally, the Bank grants different types of credit facilities in Commercial terms, personal/consumption loans, overdraft facilities and Mortgage financing.

Other products and services have been channelled electronically available through mobile Banking and internet Banking. Through these services, customers perform different Banking services in their Bank account via mobile phone, PBZ Mobile apps and workstation at any time anywhere performing various transactions such as:

- Government services and payments
- Money Transfer
- Cash withdraws including cardless services
- Airtime top up
- Bill payments
- Forex exchange rates request
- Cheque book request
- Balance enquiry
- PBZ agent and merchant Banking
- Mini and full Bank statement.

The Bank is well known for its expertise in Trade financing activities of import and export trade business such as letters of credit (LC), bills for collection etc. Other facilities are bid bonds, performance bonds, guarantees etc. Fund remittance services offered by the Bank are World remit (WR), Western union (WU), Express Money transfer, SWIFT and TISS services. All of these services are available both in Conventional and Islamic.



## COMPOSITION OF THE BOARD OF DIRECTORS

The Board consists of eight (8) Directors, seven (7) of them are Non-Executive Directors (including Chairperson) and one (1) is Executive Director i.e. Managing Director. The Board Chairperson is appointed by President of Revolutionary Government of Zanzibar while other six (6) members are appointed by the Minister from Ministry of State, President’s Office, Finance and Planning-Zanzibar. The board first 3 years term was expired on 21st January 2024 and on 16th March 2024 the new board was appointed by authority, the chairperson was replaced by Mr. Joseph A. Meza (new Chairman), Prof. Mohammed Hafidh Khalfan, Mr. Hussein Magodo Mataka, Mr. Abdulrahman Mohammed Said replaced by new members Mr, Ahmed Said Khamis, Ms Khalda Khatib Gharib and Mr. Mohammed Fakh Mzee, other members continue with next term, Dr. Muhsin Salim Masoud contract was expired on 9th February 2024 as Managing Director, The Bank’s Company Secretary was Mr. Ali Alhaj Masoud. The members of the board as at the date of this report and who have served during the year except where otherwise stated are as shown in the table below:

No.	Name	Position	Age	Discipline/Qualifications	Nationality	Appointment
1.	Dr. Estella Ngoma Hassan	Chairperson	55	PhD in Public Finance, Masters in Economics (Finance and Banking)	Tanzanian	27th January 2021
2.	Dr. Muhsin Salim Masoud	Board Member and MD	59	PhD in BA, MSc Finance, BBA	Tanzanian	10th February 2021
3.	Mr. Fahad Soud Hamid	Board Member	42	EMIF, MBA, CPA(T)	Tanzanian	8th February 2021
4.	Dr Saleh Juma Rashid	Board Member	44	PhD in Finance, CPA(T), MSc in Accounting and Finance, BBA, IPSAS	Tanzanian	8th February 2021
5.	Prof. Mohammed Hafidh Khalfan	Board Member	59	PhD in International Economics, MSc in Economics	Tanzanian	8th February 2021
6.	Mr. Khamis Jaffar Mfaume	Board Member	40	LLM in Taxation, LLB	Tanzanian	8th February 2021
7.	Mr. Hussein Migoda Mataka	Board Member	54	LLM in Trade Laws, LLB (Hons)	Tanzanian	8th February 2021
8.	Mr. Abdulrahman Mohammed Said	Board Member	41	B com (Hons) in Financial Analysis and Portfolio Management	Tanzanian	8th February 2021



## CORPORATE GOVERNANCE

The Board delegates the day-to-day management of the Banking activities to the Managing Director who is assisted by a Management Committee. The Management Committee is responsible for the implementation of strategies and internal controls as well as monitoring the performance of the Bank.

During the year, the Board had the following Board sub-committees to ensure a high standard of corporate governance throughout the Bank. All Board Committees including Shariah Advisory Committee report to full board.

- Board Credit, Risk and Compliance Committee (BCRCC)
- Board Audit Committee (BAC)
- Board Strategies, Human Resources and Investment Committee (BSHRIC)
- Shariah Advisory Committee (SAC)

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

The Bank considers and accepts the best practices in Corporate Governance. The Board, Management and staff of the Bank are committed to uphold the core values of excellence, integrity, accountability, teamwork and ethical which are fundamental to the performance of any organization.

Directors	Board (12), Shariah Committee (4)	BCRCC (9)	BAC (5)	BSHRIC (5)	SAC (5)
Dr. Estella N. Hassan	12	N/A	N/A	N/A	N/A
Dr. Muhsin S. Masoud	12	N/A	N/A	N/A	N/A
Mr. Fahad S. Hamid	12	6	N/A	4	N/A
Dr. Saleh J. Rashid	12	N/A	4	N/A	N/A
Prof. Mohammed H. Khalfan	12	N/A	3	N/A	N/A
Mr. Khamis J. Mfaume	12	N/A	4	N/A	N/A
Mr. Hussein M. Mataka	12	6	N/A	5	N/A
Mr. Abdulrahman M. Said	11	6	N/A	5	N/A
Prof. Hamed R.H. Hikimany	5	N/A	N/A	N/A	6
Shk. Abdulla T. Abdulla	5	N/A	N/A	N/A	6
Shk. Ali Sharif Maalim	6	N/A	N/A	N/A	6
Shk. Mohamed Issa Hemed	6	N/A	N/A	N/A	6

N/A = The member is not a member of that committee.

## CORPORATE GOVERNANCE (CONTINUED)

### Board Credit, Risk and Compliance Committee (BCRCC)

The Board Credit, Risk and Compliance Committee (BCRCC) discusses credit reports on quarterly basis and provides credit approval for all applications above the Management Credit Limit and monitors performance and quality of credit portfolio. The committee also discusses risk and compliance issues while managing the credit risk by reviewing continuously the credit portfolio, credit standards and credit policy. Committee ensuring a comprehensive risk management framework is in place for management of risk within Bank. Finally, the risk and compliance functions with legal and regulatory requirements and adequacy of the risk management are determined by the committee. The committee is vested with authority to oversee Management activities in managing operational, liquidity, market, legal and other risks. The following are the members of the committee:

S/N	Name	Position
1.	Mr. Fahad S. Hamid	Chairperson
2.	Mr. Abdulrahman M. Said	Member
3.	Mr. Hussein M. Mataka	Member

The Board Credit, Risk and Compliance Committee met ordinarily four (4) times and five (5) special meeting during the year.

### Board Audit Committee (BAC)

The main functions of this Committee are to assist the Board of Directors in its responsibilities of monitoring of financial reporting process; to ensure financial statements are prepared in accordance with the law and regulations; and also, to review the internal control systems and safeguarding of Bank assets.

The committee fulfils oversight responsibilities relating to integrity of the Bank's Financial Statements. The committee has also oversight responsibilities on planning and conduct of audits to determine the Bank's Financial Statements and disclosures are complete and accurate and are in accordance with the standards, applicable laws and regulations. Members of the committee are composed of the following:

S/N	Name	Position
1.	Dr. Saleh J. Rashid	Chairperson
2.	Prof. Mohammed H. Khalfan	Member
3.	Mr. Khamis J. Mfaume	Member

The Board Audit Committee met ordinarily five (5) times during the year.

### Board Strategies, Human Resources and Investment Committee (BSHRIC)

This Committee is responsible for ensuring that necessary policies and procedures are in place to efficiently and effectively manage Bank's human resources and to offer all employees fair and competitive compensation aligned with performance. Also, the committee is responsible for overseeing the investment management function of the Bank's investment for short and long term business objectives. The committee members are listed below:

S/N	Name	Position
1.	Mr. Abdulrahman M. Said	Chairman
2.	Mr. Fahad S. Hamid	Member
3.	Mr. Hussein M. Mataka	Member

The Board Strategies, Human Resources and Investment Committee met statutorily four (4) times and one more special meeting during the year.

### Shariah Advisory Committee (SAC)

The Shariah Advisory Committee is responsible to advise the Board of Directors on Shariah matters in order to ensure that the Islamic Business Operations of PBZ comply with Shariah principles at all times. The Committee also ensures that Islamic deposits, financing products and Banking activities are complied with Shariah principles in all aspects. The list of members is given below:

S/N	Name	Age	Nationality	Discipline/Qualifications	Position
1.	Prof. Hamed R.H. Hikimany	74	Tanzanian	Ph.D. in Education (Economics). MA Economics of Education.	Chairperson
2.	Dr. Abdallah Ussi Hamad	39	Tanzanian	P.h.D in Islamic Banking and Finance. MSc. in Finance (Specialization in Islamic Banking and Finance). Bachelor of Business Administration (Accounting and Finance).	Member
3.	Shk. Ali Sharif Maalim	49	Tanzanian	Bachelor in Shari'ah Post graduate Diploma in Islamic Judiciary and Islamic Policy. Diploma in Islamic Banking and Financing.	Member
4.	Shk. Abdullah T. Abdullah	54	Tanzanian	MA in Religions, Peace and Conflict Resolution. PGD International Relations and Diplomacy BA Shari'ah	Member
5.	Shk. Mohamed Issa Hemed	60	Tanzanian	Diploma in Islamic Knowledge (Thaanawy) Certified Sukuk Professional	Member

The Shariah Advisory Committee met in four (4) regular meeting and two (2) extra ordinary meetings during the year under review.

## MANAGEMENT OF THE BANK

As at end of year under review, management of the Bank which is made by key management personnel, was chaired by Managing Director. Other members are four (4) Directors and eight (8) Heads and Independent Managers. The composition of the committee who served the Bank during the year ended 31 December 2023 or otherwise stated is shown below.

### Key management personnel:

Name	Position
Dr. Muhsin S. Masoud*	Managing Director
Mr. Anwar A. Saleh	Director of Finance
Mr. Abdul B. Kandoro	Director Human Resource and Administration
Mr. Said M.Said	Head of Banking Operations
Mr. Mussa H. Mussa	Acting Director of Islamic Banking
Mr. Ali A. Masoud	Head of Legal and Company Secretary
Mr. Seif A. Said	Head of Risk Management and Compliance
Mr. Suleiman A. Suleiman	Chief Internal Audit
Mr. Ahmed S. Abdulkarim	Head of Credit
Mr. Eddie E. Mhina	Director of Commercial
Mr. Masoud A. Mohammed	Head of Procurement
Mr. Kassim S. Said	Head of ICT
Mr. Mohammed Kh. Ismail	Head of Credit Recovery Unit
Mr. Harith H. Fentu	Head- MD's Unit

\* Dr Muhsin S. Masoud completed his contract as PBZ managing director on 9th February 2024, Mr Said M. Said is acting position of Managing Director.

### Management committees

There are five (5) committees on management level comprised of senior management whose frequency meetings are on weekly, monthly or quarterly.

The following are the main management committees of the Bank.

#### 1) Management committee

This is the Bank committee which meets once in every week its scheduled to meet on Monday of every week however they can meet in any other day as decided by the chairman who is Managing Director or the one delegated to chair the committee meeting. This committee has the following roles in the Bank;

- To discuss the business and commercial issues for the Bank aligned with the Bank's strategic planning and budget, by exploring the ways to increase the business volume in expectation of increasing the market share and shareholder's wealth for the shareholder;
- To discuss the implementation of day to day operations of the Bank by considering the existing policies, manual and procedure so as to ensure the operations are done effectively; and,
- To examine the applicability of the Bank's policies which custodies by risk and compliance department toward ensuring that the Bank is safeguarded from being affected with those risks which will result into effect to the Bank performance.

#### 2) Credit committee

This is another committee which meets in once in every month or at any time when the need arises. The main roles of this committee are;

- To discuss the overall credit activities in account of the credit analysis, portfolio management, provisioning and way forward on implementing all required Internal regulations, policies and those issued by regulator (BOT);
- Presenting and discussing the credit which meet the criterial of its limit being above the manager credit for the management approval and those which have the limits to be presented to the Board of Directors for the decision and approval; and,
- Discussing the Bank's credit welfare toward granting and proper management of the credits to the customer, by looking the need of the market and economic which have greater impact to the customer's growth base and repayment capacity.

#### 3) ALCO committee

This is asset -liability committee which meet once in every moth have main roles of;

- Discussing the ways of maintaining and controlling the Bank's liquidity in daily basis, they discuss the way forward for maintaining the liquidity position of the Bank for better decision on investing of borrowing from the market;
- Discussing the controls of liquidity risk in the Banks by applying the risk management measure which directed to the decision making;
- Discussing the investment portfolio of the Bank depend on the liquidity position both in risk- and risk-free investment like treasury bill, treasury bond and inter Bank placement; and,
- Discussing the impact of the business and risk toward on Bank's asset and liquidity, which aimed to maintain the liquidity position by applying the appropriate strategies on accomplish the Bank's goals on liquidity side.

**4) Steering committee**

This is a management committee which meet once in every quarter or when need arises for the aim of discussing the ICT operation ability in the Bank. The committee have among the roles as following;

- Discussing the ICT issues which have greater impact on daily operations activities for the decision making;
- Discussing the function ability of the existing ICT infrastructure to ensure that the service provision is steadily and smooth in the organizations which will helps to customer retentions; and,
- Discussing all necessary issues for digitalization of the Bank to meet the competition in the industry for the aim of improving the service delivery to the extent of satisfying the customer.

**5) Risk Management Committee**

This is another management Committee which meet once in every month when need arise, aim of the Committee is empowered to manage all inherent business risks such as Credit Risk, Liquidity Risk, Market Risk, Operation Risk, Strategic Risk and Compliance Risk, and make decision within its mandate before escalation to the Board Audit and Risk Management Committee. The main roles of this committee are:

- To translate the bank Risk Management Framework, its related policies and other risk limits set by the Board into adequate applicable procedures understandable by all staff for implementation to mitigate business and processes inherent risks;
- To review the bank Risk Profile on monthly basis and take remedial actions on timely basis;
- Implementing strategies, policies and other directives given by the Board with regard to risk management practices;
- Ensure that risks inherent in day to day operations are well identified and mitigated in all business areas and processes across the bank;
- Putting in place systems to identify, control and monitor process and business inherent risks;
- Ensure there is a defined process to monitor and report all incidents of control breaks or failures across the bank

**CAPITAL STRUCTURE AND SHAREHOLDING**

**Capital Structure**

As at 31st December 2023 the authorized share, capital comprised 600,000,000 ordinary shares (2022: 600,000,000 ordinary shares).

**Authorized share capital**

	2023	2022
	TZS '000	TZS '000
600,000,000 ordinary shares of TZS 100 each.	60,000,000	60,000,000

The number of shares issued and fully paid by shareholder (Revolutionary Government of Zanzibar) as at 31st December 2023 was 310,000,000 (2022: 310,000,000). The nominal value per share is TZS 100.

**Paid up share capital**

	2023		2022	
	No. of Ordinary Share	TZS '000	No. of Ordinary Share	TZS '000
Fully paid-up ordinary share	310,000,000	31,000,000	310,000,000	31,000,000

**Shareholding structure**

Name of shareholders	Number of shares	Value of shares TZS '000	% of holding
Revolutionary Government of Zanzibar (RGZ)	310,000,000	31,000,000	100%

**7. RESULTS AND DIVIDENDS**

During the year, the Bank had a profit before tax of TZS 74,063 million (2022: TZS 44,259 million). During the year 2023 PBZ Bank paid a total dividend of TZS 6,586 million, the dividend related to the financial year 2022. These payments of dividend were made to PBZ shareholder Ministry of Finance Zanzibar.

**8. REVIEW OF BUSINESS PERFORMANCE**

The Bank's operating results for the year are set out on page 40 of the financial statements. During the year under review, the Bank recorded a profit before tax of TZS 74,063 million (2022: TZS 44,259 million).

**9. REVIEW OF BUSINESS PERFORMANCE (CONTINUED)**

**Key performance ratios**

The key performance ratios of the Bank are as indicated hereunder:

Ratios	Definition and calculation method	Year	
		2023	2022
Return on average assets	Profit before tax/ Average Assets	4.29%	3.69%
Return on average equity	Profit after tax/average equity	30.28%	22.96%
Non-interest income to net interest income	Non-interest income/net interest income	38.57%	45.51%
Operating expenses to average assets	Operating expenses/average assets	0.18%	0.04%
Interest Expenses to Interest Income	Interest expenses/ interest income	17.41%	20.17%
Interest Margin to Average Earning Assets	Net interest income/ average earning assets	8.31%	6.65%
Cost to income	Total costs/Net income	45.69%	51.12%
Gross loans to customers' deposits	Total loans to customers/Total deposits from customers.	65.23%	76.78%
Earning assets to total assets	Earning assets/Total assets.	62.55%	77.88%
Growth on total assets	Increase in assets for the year/Total asset opening balance.	46.28%	40.78%
Growth on loans and advances to customers	Increase in Loans and advances /Opening balance of loans and advances.	29.00%	33.45%
Growth on customer deposits	Increase in customer deposits/Opening balance of customer deposits	<b>68.75%</b>	40.23%
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances	<b>2.47%</b>	2.77%

**Capital adequacy**

Tier 1 Capital	Core Capital /Risk weighted assets including off balance sheet items	24.26%	14.28%
Tier 1+Tier 2 Capital	Total Capital /Risk Weighted assets including off balance sheet items	26.26%	16.11%

**9. REVIEW OF BUSINESS PERFORMANCE (CONTINUED)**

**FUNDING MIX**

The Bank's primary source of funding during the year was deposits from customers (Demand deposits, Savings deposits and Time/ Fixed deposit) which commands 84% of the total funding, equity 9% and borrowing 7%. There was no major change in the funding mix in 2023 compared to the year 2022. The Current/ Savings Account (CASAs) represented 80% of total customer deposits in 2023 (2022: 79%). This interprets a lower cost of funds for the Bank.

The balance between debt and equity was as follows.

	2023	2022
	TZS '000	TZS '000
Customer deposits (due to customers and Banks)	<b>1,732,083,178</b>	1,064,793,509
Borrowings - Current	<b>90,139,938</b>	153,619,913
Debt securities in issue	<b>20,418,171</b>	20,418,171
Other liabilities	<b>16,499,556</b>	16,136,013
	<b>1,859,140,843</b>	1,254,967,606
Share capital	<b>31,000,000</b>	31,000,000
Government grant	<b>3,275,701</b>	3,293,163
Regulatory risk reserve	<b>11,485,009</b>	3,484,219
Other reserves	<b>146,194,647</b>	109,115,119
	<b>191,955,357</b>	146,892,501

**10. BORROWINGS**

The Bank secured TZS 10 billion with 11.40% rate, 7 years from ZSSF as long-term borrowing during the year 2022, the bank also maintain another bond with ZSSF 12%, 7 years TZS 10 billion with remaining maturity of 2 years (September 2025).

The bank was actively on interbank borrowing during the period this was contributed by industry liquidity challenge during the year.

**a) Interbank borrowing**

	2023	2022
	TZS '000	TZS '000
Balance 1 January	<b>153,108,903</b>	83,349,542
Loans received during the year	-	69,759,361
Loan repaid during the year	<b>(63,479,975)</b>	-
Accrued interest on borrowing	<b>511,010</b>	511,010
Total	<b>90,139,938</b>	153,619,913

**b) Debt securities in issue**

	2023	2022
	TZS '000	TZS '000
7 YEARS 12%	10,000,000	10,000,000
7 YEARS, 11.40% Corporate bond	10,000,000	10,000,000
Accrued Interest on Bond	418,171	418,171
<b>TOTAL</b>	<b>20,418,171</b>	<b>20,418,171</b>

**11. INVESTMENTS**

The Bank held the following equity investments as at 31st December 2023

Investment	Number of shares	Share Value (TZS)'000'
Africa Export – Import Bank	37	2,169,887
TMRC	625,000	1,013,750
Umoja Switch Company Ltd	39	100,831
MUCOBA	24,509,804	5,000,000
Swift investment	6	129,131
		8,413,599
Less: Allowance for probable loss		(5,000,000)
<b>TOTAL</b>		<b>3,413,599</b>

The Bank held the following equity investments as at 31st December 2022

Investment	Number of shares	Share Value (TZS)'000'
Africa Export – Import Bank	33	1,542,619
TMRC	625,000	1,013,750
Umoja Switch Company Ltd	39	38,200
MUCOBA	24,509,804	5,000,000
Swift investment	6	108,871
		7,703,440
Less: Allowance for probable loss		(2,000,000)
<b>TOTAL</b>		<b>5,703,440</b>

**12. REVIEW OF OPERATING RESULTS**

**Operating Results**

The Bank realized profit before tax amount of TZS 74,063 million during the year (2022: TZS 44,259 million) representing an increase of 67.34%. The increase was due good performances on personal loans that lead to the increase on interest income on personal loan, income from Islamic banking financing and foreign currency exchange income during the year under review.

The Bank posted 36% growth in interest income to TZS 121,705 million (2022: TZS 89,312 million). The increase in interest income resulted from personal and individual loan income. Interest expenses increased by 18% to TZS 21,189 million (2022: TZS 18,016 million). This increase resulted from higher cost of deposits. Interest margin increased to 83% in 2023 from 80% in 2022.

In 2023, non-interest income, increased by TZS 4,714 million (17%) to TZS 33,079 million compared to TZS 28,365 million in year 2022. The increase in non-interest income was due to the increase in Income from Islamic Financing and Fees and commission income compared to previous period. Revenue from Islamic financing and investment reach TZS 11,987 million in 2023 compared to TZS 9,283 million generated in year 2022 marked an increase of 29%.

Total operating expenses increased by TZS 7,162 million from TZS 47.253 million for the year 2022 to TZS 54,415 million for the year 2023. The increase was attributed by increasing in staff cost and administrative expenses during the year under review.

**Financial Position**

The Total assets of the Bank increased by 46% year-on-year to TZS 2,051,862 million (2022: TZS 1,402,725 million). This increase was mainly due to higher volume of loans and advances granted. Loan and advance (conventional loan and Islamic financing) increased on net basis by TZS 237,215 million or 30% to TZS 1,038,921 million in 2023 (2022: TZS 801,706 million). The increase in loan and advances is in line with the strategic plan and forecast target. Cash and balance with BOT increased by 179% to TZS 640,969 million in 2023 from TZS 229,637 million in 2022. The increase in cash was mainly attributed by the increase in foreign currency. Investment in Government securities increased by TZS 21,718 million or 32% from TZS 67,277 million in 2022 to TZS 88,995 million in 2023. The increase in government securities was mainly due to the increase investment in Treasury bond.

During the year, customers' deposits liabilities which represent 93% of total liabilities increased by 63% to TZS 1,731,913 million in 2023 from TZS 1,063,233 million reported in 2022. Also, shareholder's fund rose by 31% to TZS 191,955 million in 2023 from TZS 146,893 million reported in 2022.

**14. CASH FLOWS**

In 2023, net cash flow from operating activities increased from TZS 123 billion (2022) to TZS 420 billion in 2023, investment in government securities outflow cash by TZS 22 billion (2022: outflow of TZS 28 billion) and lending to customer’s outflow cash by TZS 237 billion (2022: outflow was TZS 201 billion). On the other hand, deposits from customers increased by TZS 669 billion (2022: increase of TZS 305 billion). Customer deposits are the major factors explaining the Bank’s movement in cash flow generated from operations during the period deposits inflow cash of TZS 669 billion. Bank paid total of TZS 8.82 billion in various investing activities (2022: paid TZS 5.28 billion) and decrease cash from financing activities by TZS 72.46 billion (TZS 62.28 billion inflow in 2022) The Bank continues to maintain sound liquidity position to meet its cash flow commitments.

**15. LIQUIDITY AND FUNDING**

The Bank places a strong emphasis on managing liquidity risk and daily cash flow management which is handled by the Treasury Department to ensure the Bank holds sufficient liquid assets to enable it to continue with its normal operations.

**Asset Liability**

Committee (ALCO) also manage the Bank’s exposure to liquidity risk by ensuring that limits are in line with realistic assumptions and track compliance on a monthly basis.

The Bank’s main sources of funding are customers’ deposits and shareholders’ funds as part of its normal market operations.

**16. SOLVENCY AND GOING CONCERN**

The Bank has complied with the Bank of Tanzania liquidity and capital adequacy ratios. The Directors consider the Bank to be solvent. Nothing has come to the attention of the Directors indicates of any material uncertainties that may cast significant doubt on the Bank and its subsidiary’s ability to continue as a going concern for at least twelve months from the date of this financial statements. The Directors consider the Bank to be solvent within the meaning ascribed by the Companies Act No.15 of 2013 and Banking and Financial Institutions Act, 2006.

**CONSIDERATIONS OF THE CORONAVIRUS OUTBREAK**

Recently the corona virus global outbreak is slowing down and many countries release blocks, quarantines and restriction which open up the business operations and economic activities have improved.

Disruptions declined in many sectors that affected by corona outbreak, activities improved in industries such as tourism, hospitality, transportation, retail, and entertainment, that lead also to improve other related sectors such as manufacturing and the financial sector. As the outbreak continues to decline, the threat of bank to operate as a going concern due to uncertainty and material economic impact related to corona virus have decreased due to improvement in the following sectors.

- Effect on tourism and related sectors and individual customers on credit risk and loan performance
- Effect on market risks with regard to currency and interest rates disruption
- Effect on Fair Value Measurement (FVM) on material uncertainties for fair value of assets and liabilities
- Effect on Expected Credit Loss (ECL) assessment which consider the basis of inputs and assumptions and estimation techniques used, and how forward-looking information such as GDP, inflation rate, and unemployment etc.

**Impact of Coronavirus outbreak to the bank performance**

Decreasing of the pandemic has brought into greater impact on bank balance sheet size and income statements, specifically on result of increase on bank’s profit, deposit and assets. Since the disease have spillover effects around the world on financial sector distress but in PBZ have resulted to the improvement on interest and non-interest income for the year ended 2023 as the result improved economic activities that lead bank’s performed well compared to the budgeted profit and balance sheet assets which observed by favorable variances recorded from various votes. More ever, the bank liquidity improved during the year.

**CAPITAL ADEQUACY**

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania (BOT). These ratios measure capital adequacy by comparing the Bank’s eligible capital with its risk assets, off-balance sheet exposure and commitments and market and operational risk positions at a weighted amount to reflect their relative risk.

The bank ensures at any time maintain sufficient capital consistent with bank respective risk profile, PBZ assesses its capital levels in adequacy against series of internal quantitative capital plan in the implementation of bank strategic goals that help to evaluate the strength of capital and expected impact in stressed economic environment.

The Bank follows the Bank of Tanzania’s liquidity and capital adequacy ratios, including the required minimum Core Capital amount of TZS 91,150 million against the available risk exposures. The Board confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board has reasonable expectation that the Bank will have adequate resources to continue in operational existence and growth for the foreseeable future. The capital adequacy of the Bank is shown in note 47 to the financial statements.

**PRINCIPAL RISKS AND UNCERTAINTIES**

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

**Credit Risk**

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

**Strategic Risk**

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

**Operational Risk**

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

**Liquidity Risk**

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

**PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

**Market Risk**

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

**Information Technology and Cyber Risk**

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

**Compliance Risk**

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

**ICT risk**

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

**Reputational risk**

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

**Procyclicality Risk**

The risk that associate with the tendency of financial variables to fluctuate around a trend during the economic cycle. The tendency of risk measurement to overestimate future risk in times of crises, while under estimate it in a normal time this is a major problem that all financial institution including bank must manage. The bank required to provide substantial capital aftermath of financial crises but far less capital to search crises. Hence Bank require to evaluate their risk bases on probabilistic and Statistical models from which risk measure are estimated.

**Shariah Compliance Risk**

Is the possibility that financial services or product will not be in compliance with established Shariah principle and standards, financial products and services that designed especial for Islamic financial market place are distinguished from their conventional counter party by compliance with shariah precepts and principals while this product may appear similar to conventional financial products and services particularly from an economic perspective. The contractual under pinning the product and services to comply with shariah.

**17. KEY STRENGTH AND RESOURCES**

The bank continues to give its top priority to key resources which are people and technology which gives us strength in service delivery, productivity and financial strength. The bank has skilled and experienced employees who are considered as a key resource in pursuing its business objectives and continues to encourage open and honest communication in decision making.

Information and Communication Technology (ICT) is an enabler in service delivery. This is the reason why the bank continued to invest in advanced technology so as to realize operational excellence and better service delivery to our customers. In 2023 the bank continued with fine-tuning of the new core Banking system to support business growth and innovation.

**18. CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS**

Results of the bank are sensitive to the accounting policies, assumptions and estimates that under- lie the preparation of the financial statements. When preparing the financial statements, it is the Directors’ responsibility under the Companies Act 2002 and Zanzibar Zanzibar companies Act No 15 of 2013 to select suitable accounting policies and to make judgments and estimates that are reasonable and prudent.

The accounting policies that are deemed critical to our results and financial position, in terms of the materiality of the items to which the policies are applied and the high degree of judgment involved, including the use of assumptions and estimation, are described in notes 5 and 6 to the Financial Statements.

**19. STRATEGIC OBJECTIVES**

The financial year 2023 was the second year for the implementation of current five years’ rolling strategic plan which covering the period from 2022 to 2026, the strategic implementation accomplished with the main focus for five years’ period was expansion of business in Zanzibar and mainland Tanzania enhancement of electronic channel transactions by issuing VISA card, agency banking improvements, mobile Banking and internet Banking. Improving service delivery to customer by opening new service centres Zanzibar (Tunguu, Paje and Nungwi) finishing of two new branches at Morogoro and Mbeya, renovating old branches of Mlandege Corporate branch, Malindi and Forodhani together with various ATMs for the purpose of maintain brand uniformity, having modern view and feel to our customers, establishment of Contact centre for customers complaints and advises, training centre for staff skills, knowledge updates and customers handling techniques capacity improvements the mission was well accomplished for the period.

**20. STRATEGIC OBJECTIVES**

The main focus of the Bank is to provide the valued financial services to customers and other stakeholders by using the following strategic goals;

1. Becoming a leader in Islamic banking
1. Make PBZ a reliable partner and customers’ choice.
1. Corporate culture transformation

The strategy was in the form balance score card which focus on four perspectives

- Financial perspectives (Increase in assets utilization and improve Capital Adequacy level)
- Customer satisfactory (Maintain Sustainable Operation)
- Internal process (Develop and Maintain Business Continuity program)
- Organization capability (Improve organization and Individual Performance)

**21. FUTURE PROSPECTS AND DEVELOPMENT PLANS**

During the year 2024, the Bank aim continue implementation of 5-year business strategy plan, the plan crafted to focus on use opportunities available in the market to expand customer base, to diversify and innovate attractive product and services, to enhance staff competence and morale, Development of infrastructural platforms to sup-

port service and product delivery, Implementation of aggressive marketing strategy and finally to Enhancement of business processes.

The Bank again aim to strengthen Digital and electronic channels, which targets to transform branch operations to improve customer experience and overall efficiency and reduce unnecessary Bank Hall crowd. The management has a strategy to enhance the quality of customers' services and experience through alternative channels of services delivering. Technological advancement plan has opted to be most priority and to increase channel of services distribution during coming year. This will streamline the quality onto electronic service delivery in increasing customer's base.

## **22. FUTURE PROSPECTS AND DEVELOPMENT PLANS**

According to the Bank's Strategic Business Plan (2021 – 2025), the Bank planned to accomplish various ongoing and future development projects/activities. Some activities planned within year 2024 are as following:

- Distribution of 1,000 POS for agency banking.
- Acquisition of PBZ own financial Switch.
- Opening new branch at Tanga, Mwanza, Arusha, Ubungo and Dar es salaam Port. Construction of new service centres (Konde, Kinyasini, Madungu and Mbagala).
- Launching new mobile Application.
- Branch network expansion. (Arusha, Mwanza and Mbeya)
- Installation of new ATMs at various areas in Zanzibar and Tanzania Mainland.
- Starting Construction of Head Office building at Mazizini.

## **23. MARKET OVERVIEW**

### ***Zanzibar economy overview***

During the period, the Zanzibar economy grew moderately, boosted by tourism industry, which recorded an increase of 5.3 percent in tourist arrivals. Notwithstanding, inflation inched to 7 percent, mainly caused by higher global commodity prices. On fiscal side, the Zanzibar government's fiscal deficit widened, in spite of improved revenue collections. The outturn was on account of expanded spending in infrastructural projects. The current account deficit worsened as well, driven by a rise in the import bill. With regard to Zanzibar debt, the stock stood at TZS 3,043 billion at the end of September 2023, with external debt accounting for the largest share. (BOT, Economic bulletin for the quarter ended September 2023).

### ***Tanzania economy overview***

In respect to domestic economic performance, growth was satisfactory, recording a growth of 5.2 percent in the quarter ending September 2023, a notable improvement compared to the 4.7 percent growth in the corresponding quarter of 2022. This growth was largely backed by the agriculture sector, transportation and storage, and financial and insurance services. Inflation rate remained within the country target and regional benchmarks, recording an average of 3.3 percent, a decline from the 4.6 percent recorded in the corresponding quarter in 2022. The slow-down in inflation was driven by a moderation in the prices of both food and non-food items, as well as from items within the energy and fuels category. (BOT, Economic bulletin for the quarter ended September 2023).

## **24. TREASURY POLICY**

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

Regulatory ratios and internal limits on the above stated risks are stipulated in the policy to enable an efficient monitoring of compliance. Moreover, to combat any losses that may result from dealing activities, the policy allows for establishment of dealer limits, counterparty limits and stop-loss limits that must be reviewed regularly and

kept up to-date. In addition to this, roles and responsibilities of Treasury staff, Market Risk unit, senior management and Assets and Liabilities Committee (ALCO) members in complying with the policy are stated.

Assets and Liability Management (ALM) Policy covers a strategic management of the Bank's balance sheet and off-balance sheet items intending to achieve sustained growth, profitability and solvency. It involves a multiplicity of management activities and responsibilities, including the formulation of short and long-term strategic objectives and the management of inherent financial risks. Also It involves managing the mix of the Bank's balance sheet to attain maximum return within the Bank's risk appetite, while maintaining regulatory compliance. The ALM Policy highlights a set of actions and procedures designed to manage the Bank's financial risks in order to ensure competitive return on assets by putting in place specific predefined risk management policies.

### ***(i) Liquidity Management***

Liquidity Risk Management Policy provides guidance on management of liquidity risk under normal and stressed conditions. The policy prescribed a framework for making liquidity management decisions in the Bank, approaches to funding and liquidity operations, limits to liquidity risk exposures, regulatory compliance, reporting, controls and contingency funding planning.

The Bank's sound and robust liquidity management process, as carried out within the Bank and monitored by ALCO, encompasses the following:

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

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

### ***(ii) Foreign Exchange risk***

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

- ii. Identification of foreign exchange risks in the trading and Banking book;
- iii. Risk appetite specification in the form of limits and triggers;
- iv. Breach management;
- v. Price validation and profit recognition;
- vi. Sign off of positions and profit or loss; and,
- vii. Reporting and management of foreign exchange risk.

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

### ***(iii) Interest rate risk***

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

All borrowings have been disclosed under note 22 and 23 to the financial statements. Interest rate sensitivity analysis is disclosed under note 10.5.1

**(iv) Contingency Funding Plan**

Liquidity contingent plan puts down procedures of dealing with liquidity problem. It consists of a set of policies and procedures that serve as a blue print for PBZ to meet its funding needs in a timely manner and at a reasonable cost. It helps to ensure that PBZ prudently and efficiently.

**26. RISK MANAGEMENT AND INTERNAL CONTROL**

Manages routine and extraordinary fluctuations in her liquidity.

The PBZ has developed a contingent liquidity plan that enables it to continuously meet its daily obligations when fall due. This plan is designed to ensure that the Bank could continuously maintain normal business operations.

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

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

The Board assessed the internal control systems throughout the year under review and is of the opinion that they met accepted criteria.

Taking risk is an integral part of any financial institution, and the operational risks are inevitable consequence of being in business. The Bank’s aim is therefore, to achieve an appropriate balance between the risk and return and minimize potential adverse effects on the Bank’s financial performance. The Board is responsible for identifying the major business risk faced by the Bank and to determine the appropriate course of action to manage those risks.

Risk management is carried out by the department responsible for Risk and Compliance under policies approved by the Board of Directors. Internal Audit Department is responsible for the independent review of risk management and the control environment. The most core risks are credit risk, liquidity risk, interest risk, foreign currency risk and operational risks. The Board carries out risk and internal control assessment through Board Audit Committee.

**27. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)**

PBZ strives to integrate material environment, social and governance factors alongside the financial factor to optimize the risk return profile of the bank financial portfolio. Environmental and social sustainability are fundamental aspects of achieving desired outcomes and are consistent with our long-term growth strategy. Management always gives priority to support the projects that direct impact to its surrounding environment, social health and education, our internal policies give importance to projects that foster environmental and social sustainability which is fundamental aspects of achieving desired outcomes and are consistent with our long-term growth strategy.

PBZ bank believes that working to promote sustainability both for our firm and for our clients is good business

practice. This belief is reflected in our dedication to financing and credit business opportunities with positive environmental and social impacts, actively mitigating environmental, social and climate related financial risks associated with client transactions, reducing our operational risk. Our commitment to sustainability is also aligned with, and contributes to, PBZ’s Mission and Vision to serve as a leader in the provision of valued financial services to our customers and other stakeholders.

Considering the crucial impact of environmental conservation, the bank has developed a specific environmental, social and climate related financial risk management policy. The objective is to guide the Bank to transition towards climate resilient operations and investments and to provide the framework at which actual and potential direct and indirect environmental and social impacts because of the bank’s operations or financing program can be managed.

**28. GENDER PARITY AND STAFF STRENGTH**

The Bank gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribe, religion and disability which does not impair ability to discharge duties. As at 31 December 2023, the Bank had 485 staff 272 staff (56%) were males and 213 staff (44%) were females (2022: 489). Permanent staffs were 480 employees while 5 employees were under three-year renewable contracts.

**29. POLITICAL DONATIONS**

The Bank did not provide donations during the year ended 31st December 2023.

**30. RELATED PARTY TRANSACTIONS**

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

The volumes of related party transactions for the year and the outstanding amounts at the year-end are provided under Note 44 to the financial statements.

**31. CORPORATE SOCIAL RESPONSIBILITIES AND CHARITABLE DONATION**

The People’s Bank of Zanzibar Limited, as corporate entity, obliged to provide proper consideration to the society in which it operates. During the year ended 31 December 2023, the Bank contributed in support different sectors such as health, tourism, education and sports. PBZ Bank spent TZS 498 million for social responsibility for the year ended 31 December 2023. (2022: TZS 197 million), the followings are bank support in various social activities in terms of donation or sponsorship.

**Education**

Bank contributed total of TZS 421 million in supporting education activities during the year, most of the fund were used to support on repair Muyuni School at Kizimkazi and other to support various activities in contribute chair and table for students at kizimkazi, support Form four seminar that helps to improve form four and form six students performance in exam which result into outstanding performance for Zanzibar students during the year 2023 exams.

**Health**

In supporting government in improving health to society, PBZ donated TZS 126 million during 2023, most of fund are used to support health foundation like Asma Mwinyi Foundation and Maisha Bora Foundation of health Check

Up.

**Blue economy**

Bank revolves TZS 26 million fund placed in supporting Blue Economy Where fund used in seminar and Training on Blue Economy Activities and Other on Sea Food Festival where some fisherman's get a Chance to emphasise People to engage in Blue Economy

**Sports**

The bank is at the forefront of supporting and encouraging sports issues. PBZ has been assisting around 900million in Different Sport Activities include purchase of various sports items in Unguja and Pemba. In sponsoring, Bank for the year 2023 the sponsor PBZ Premier league TZS 550 million, and Yamle Yamle Cup for TZS 62 million and House of Representatives TZS 26 million respectively. Also, in 2023 Bank Contribute in football academies, Beach Soccer, Marathon and Boxing.

**Other**

Bank spent a total of TZS 300 million in supporting various social activities such as foods contribution for orphan-ages, food during Ramadhani Month, welcome Islamic New Year Celebration, international Woman Day, Agriculture and Other Social Activities that Zanzibar Society interact with Bank.

**Islamic Charity fund**

Bank used charity fund collected from Islamic division transaction to support various economic and social activities, during the year 2023 bank spent TZS 47 million to support widows, poor, orphans, madrasa and capacity building programs.

**32. EMPLOYEES WELFARE**

**(a) Training Facilities**

Training is the learning process of imparting and sharpening skills of an employee to enable him/her to perform duties efficiently. The Bank continued to offer long and short-term training facilities to employees with a view to building up their capacity.

During the year ended 31 December 2023 the Bank engaged to train its employees for the purpose of improving the following:

- Customer services,
- Staff morale
- Shaping behaviour and attitudes of staff towards organizational performance.
- Staff improvement to cutter further customers' needs
- Compliance with regulatory bodies (BOT, TRA and others)

Bank built a modern training centre at Mlandege Zanzibar with capacity of handling more than 50 staff, the centre provides conducive environment and equipment's for staff learning, various trainings and workshops will be conducted throughout a year, that will highly improve awareness on various bank products and customer handling technique that can help the bank staff to be more productive.

**(b) Medical Assistance**

The Bank fully meets the cost of medical consultation and treatment for all employees and their immediate family members. During the year ended 31 December 2023 the Bank provided health service care through health insurance service scheme. Each staff with a maximum of four dependents is granted medical service by the Bank.

**(c) Financial Assistance to Staff**

The Bank offers salary advances free of charge of up to three-months to any member of staff as per Staff Regulations in place. Also, it provides loans to its staff up to TZS. 200 million depending on employee salary levels. Other financial assistance offered are mortgage loan, motorcar/motorcycle loan and education loan.

**(d) Persons with Disabilities**

Applications for employment by persons with disability are always being considered. In the event of members of staff becoming disabled, every effort is made to ensure that his/her employment with the Bank continues. Disable staff are given best treatment and conducive environment to perform their duties smoothly.

**(e) Employees Benefit Plan**

The Bank pays contributions to a publicly administered pension scheme on mandatory basis, which qualifies to be a defined contribution plan. The number of employees as at 31 December 2023 was 485 (2022: 489). The Bank is contributing 14% of gross salary for each employee to Social Security Fund includes 1% of workers compensation fund. During the period under review, the Bank contributed TZS 1,327 million (2022: 1,051 million) to the Fund for employee's benefit.

**(f) Relationship Between Management and Employees**

There was continued good relationship between employees and management of the PBZ Bank for the year ended 31 December 2023. There were no unresolved complaints received by management from employees during the year under review.

**33. EVENT AFTER REPORTING PERIOD**

There was no event after reporting period which required adjustment or disclosure in the Bank financial statements. However, on 21st January 2023 the board of directors and Managing Director ends their tenure of 3 years and on 17th March 2024 shareholder appointed new board of directors with new chairman, Mr Said M. Said is acting the position of managing director.

**34. AUDITOR**

The Controller and Auditor General of Zanzibar (CAG) is the statutory Auditor of the Bank by virtue of the power given by the Zanzibar Constitution and Public Finance Act 2016. However, by the power conferred to the CAG under section 40 and 41 of the Controller and Auditor General Act, 2003, Ernst and Young (EY) was authorized to jointly carry out the audit of the Bank with the office of the CAG.

BY ORDER OF THE BOARD

  
Mr. Joseph A. Meza  
Chairman of the Board

27/03/2024

  
Mr. Said M. Said  
Ag. Managing Director

27/03/2024

**STATEMENT OF DIRECTORS' RESPONSIBILITIES  
FOR THE YEAR ENDED 31 DECEMBER 2023**

The Companies Act No 15 of 2013 and Tanzania Companies Act of 2002 requires the Directors to prepare financial statements for each financial period which present fairly, in all material respects, the state of financial affairs of the Bank as at the end of each financial year and of its profit or loss. It also requires the Directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the bank. The Directors are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act No 15 Of 2013 and the Banking and Financial Institutions Act, 2006. The Directors are of the opinion that the financial statements present fairly, in all material respects, the state of the financial affairs of the bank and of its profit.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the bank ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement.

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 financial statements to be accompanied with a declaration issued by Head of Finance/Accounting responsible for the preparation of the financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing a true and fair view of the entity's position and performance in accordance with International Financial Reporting Standards and the requirements of the Companies Act No 15 of 2013, the Companies Act, No.12 of 2002 and the Banking and Financial Institutions Act, 2006. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as stated under the Statement of Directors' Responsibilities on the previous page.

I, CPA (T) Anwar A. Saleh being the Director of Finance of People's Bank of Zanzibar Limited hereby acknowledge my responsibility of ensuring that the financial statements for the year ended 31 December 2023 have been prepared in compliance with International Financial Reporting Standards and the requirements of the Companies Act No 15 of 2013 and the Banking and Financial Institutions Act, 2006.

I, thus confirm that the financial statements give a true and fair view of the financial position and results of operations of People's Bank of Zanzibar Limited as on that date and for the period then ended, and that the financial statements have been prepared based on properly maintained financial records.

BY THE ORDER OF THE BOARD

Mr. Joseph A. Meza  
Chairperson of the Board

27/03/2024  
Date

Mr. Said M. Said  
Ag. Managing Director

27/03/2024  
Date



Signed by: CPA (T) Anwar A. Saleh

Position: Director of Finance

NBAA Membership No: GA 5538

Date: 27/03/2024

To: Shareholders,  
People’s Bank of Zanzibar Limited (PBZ),  
PO Box 1173,  
Zanzibar.

**RE: REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF PEOPLE’S BANK OF ZANZIBAR LIMITED (PBZ) FOR THE YEAR ENDED 31 DECEMBER 2023.**

**Report on the financial statements**

**My Opinion**

In my opinion, Bank financial statements give a true and fair view of the Bank’s financial position of People’s Bank of Zanzibar Limited (PBZ) as at 31 December 2023 and its Bank financial performance and Bank cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act, CAP 212 Act No. 12 of 2002, Zanzibar Companies Act No 15 of 2013 and the Banking and Financial Institutions Act, 2006.

**What I have audited**

I have audited the Bank’s financial statements of the People’s Bank of Zanzibar Limited (PBZ) which comprise of:

- The Bank statements of financial position as at 31st December 2023;
- The Bank statement of comprehensive income for the year then ended;
- The Bank statement of changes in equity for the year then ended;
- The Bank statement of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of material accounting information and disclosures and other explanatory information.

**Basis of opinion**

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor’s Responsibilities for the audit of the Bank financial statements section of my report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Independence**

I am independent of the Bank in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the National Board of Accountants and Auditors (NBAA) Code of Ethics, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

**Key Audit Matters**

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

Key Audit Matter	How my audit addressed the key audit matter
<p><b>Impairment of loans and advance and financing to customers.</b></p> <p>As at 31 December 2023, the provision for impairment on loans and financing to customers at Amortized Cost is TZS 8,281,086 (2022: TZS 9,736,020). This represents the estimation of expected losses at the year end.</p> <p>The determination of appropriate provisions for impairment is a key audit matter as it requires management judgement, is subject to estimation uncertainty and relies on available data.</p> <p>Areas which involve judgement and estimates include determination of probability of default (PDs), exposure amount given default (EAD) and ascertaining of future cash flows which the bank will obtain when realizing the assets pledged as collaterals.</p> <p>There is a risk that the provision for impairment of financial assets does not represent a complete and accurate estimate of expected losses and that the carrying value of these items is misstated.</p> <p>This includes the risk that the ECL model is not in compliance with IFRS 9.</p> <p>The accounting policy and key sources of estimation uncertainty in relation to financial asset impairment provisions are disclosed in Note 7 to the financial statements.</p>	<p><b>My audit procedures included:</b></p> <p>I undertook an assessment of the Bank’s provisioning methodology and compared it with the requirements of IFRS 9;</p> <p>I reviewed the application of the business model to existing portfolios and reviewed the results of the Solely Payments of Principal and</p> <p>Interest test for relevant financial instruments.</p> <p>I evaluated the design and operating effectiveness of the Bank’s controls and IT controls around credit management, ECL model and provision assessment.</p> <p>I tested key controls over completeness and accuracy of data inputs to loan loss provisioning.</p> <p>I assessed management’s assumptions in relation ‘significant increase in credit risk’ and the allocation of loans to various categories based on the levels of risks; The management is required to estimate probability and exposures at default. This involves consideration of certain factors including macro-economic variables such as inflation and economic growth.</p> <p>I tested a sample of loans to ensure that they have been included in the correct stage/buckets depending on the risk profiles of the customers in accordance with the Bank’s methodology and IFRS 9; and,</p> <p>I reviewed the IFRS 9 and IFRS 7 disclosures for adequacy and compliance with the amendments relating to IFRS 9.</p>

**Other information**

The directors are responsible for the other information. The other information comprises with List of Abbreviations, Corporate Information, Directors’ Report, Statement of Directors’ Responsibilities and the Declaration by the Head of Finance but does not include the Bank’s financial statements and my auditor’s report thereon.

My opinion on the Bank financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the Bank financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Bank financial statements, or my knowledge obtained in the audit.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

**Responsibilities of the Those charged with governance for the Bank Financial Statements**

Those charged with governance are responsible for the preparation and fair presentation of the Bank financial statements in accordance with International Financial Reporting Standards and the requirements of the Tanzanian

Companies Act, CAP 212 Act No. 12 of 2002, Zanzibar Companies Act No 15 of 2013 and the Banking and Financial Institutions Act, 2006, and for such internal control as the Those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Bank financial statements, the those charged with governance are responsible for assessing 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 Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

**Responsibilities of the Controller and Auditor General**

My objectives are to obtain reasonable assurance about whether the Bank financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Bank financial statements.


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

- Identify and assess the risks of material misstatement of the Bank financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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 Bank’s internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Those charged with governance;
- Conclude on the appropriateness of those charged with governance’ 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 Company’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions.
- May cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the Bank financial statements, including the disclosures, and whether the Bank financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the Bank audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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

  
 .....  
**Dr. Othman Abbas Ali**  
 Controller and Auditor General



**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023**

ASSETS	Notes	2023	2022
		TZS'000	TZS'000
Cash and balance with Bank of Tanzania	11	640,969,430	229,636,909
Placement with other banks	12	188,830,909	220,938,899
Cheques & items for clearing		615,087	579,765
Government securities at amortized cost	13	88,994,762	67,277,259
Loans and advances to customers	14	935,575,786	721,071,142
Islamic Financing and Investment to customer	15	103,345,465	80,635,182
Equity investment at Fair Value -OCI	16.1	3,413,599	5,703,440
Other assets	17	25,918,542	15,720,739
Property, equipment and right-of-use assets	18	40,079,073	37,491,012
Intangible assets	19	13,811,519	13,809,805
Deferred tax asset	25	10,249,548	9,860,850
<b>Total Assets</b>		<b>2,051,803,720</b>	<b>1,402,725,002</b>
<b>Liabilities</b>			
Deposits to customers-conventional	20.1	1,317,492,551	818,053,155
Deposits due to customer-Islamic	20.2	414,420,151	245,179,469
Deposits due to banks		170,475	1,560,885
Other liabilities	21	16,499,556	16,136,013
Debt securities at amortized cost	22	20,418,171	20,418,171
Borrowings	23	90,139,938	153,619,913
Corporate tax payable	42	707,521	864,895
		<b>1,859,848,363</b>	<b>1,255,832,501</b>
<b>Equity</b>			
Share capital	26	31,000,000	31,000,000
Government grant	27	3,275,701	3,293,163
Regulator risk reserve	28	11,485,009	3,484,219
Other reserves	29	146,194,647	109,115,119
		<b>191,955,357</b>	<b>146,892,501</b>
<b>Total Liabilities and Equity</b>		<b>2,051,803,720</b>	<b>1,402,725,002</b>

The financial statements were approved for issue on 27/03/2024 by the Board of Directors and signed on its behalf by:

Mr. Joseph A. Meza  
Chairman of the Board



Mr. Said M. Said  
Acting Managing Director

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023**

		2023	2022
ASSETS	Notes	TZS'000	TZS'000
Interest and similar income	30	121,705,154	89,311,674
Interest and similar expense	31	(21,188,819)	(18,015,521)
<b>Net interest income</b>		<b>100,516,335</b>	<b>71,296,153</b>
Net fees and commissions	32	13,794,492	12,161,901
Income from Islamic financing	33	11,987,055	9,283,230
Net foreign exchange income	34	6,220,469	5,452,396
Other operating income	35	1,076,636	1,467,495
		33,078,652	28,365,022
Net operating income before ECL charge		133,594,987	99,661,175
Charge of ECL - loan and financing	36	(1,337,787)	(4,670,347)
Change of ECL - other assets	36	<b>(3,768,996)</b>	<b>(1,683,150)</b>
Write-off of assets	37	(10,149)	(1,795,309)
<b>Net operating income</b>		<b>128,478,055</b>	<b>91,512,369</b>
Personnel costs	38	(20,948,280)	(16,995,803)
General and Administration Expenses	39	(21,959,078)	(19,552,749)
Other operating expenses	40	(11,508,189)	(10,704,819)
<b>Total operating expenses</b>		<b>(54,415,547)</b>	<b>(47,253,371)</b>
<b>Profit before tax</b>		<b>74,062,508</b>	<b>44,258,998</b>
Income tax expense	41	(22,777,952)	(13,411,037)
Profit for the year		<b>51,284,555</b>	<b>30,847,961</b>
<b>Other Comprehensive income:</b>			
Gain on fair value change on equity instrument measured at FVOCI (net of tax)		381,745	3,862
Total Other comprehensive income for the year, net of tax		<b>381,745</b>	<b>13,862</b>
Total Comprehensive Income for the Year		<b>51,666,300</b>	<b>30,861,823</b>

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023**

		2023	2022
ASSETS	Notes	TZS'000	TZS'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit for the year		74,062,507	44,258,997
Adjustments for:			
Depreciation of Property and Equipment	18	5,152,765	4,947,056
Dividend Income Investment in equity		-	-
Gain or loss on disposal		(2,996)	(629)
Interest expense on Leasing		550,808	674,670
Amortization of intangible assets	19	749,613	704,509
Amortization of government grant		(17,462)	(17,462)
		6,432,727	6,308,144
Changes in working capital:			
Increase in SMR		<b>(36,112,116)</b>	<b>(8,267,178)</b>
Increase in Treasury bills (maturing over 90 days)		(21,717,504)	(28,362,095)
Increase in Loans and Advances		<b>(214,504,644)</b>	<b>(187,404,169)</b>
Increase in Islamic Financing		(22,710,282)	(13,544,188)
Increase in Other Assets		(10,197,803)	(1,882,351)
Increase in Customer's Deposits		668,680,079	305,004,115
Increase/(decrease) in due to the bank		<b>(1,390,410)</b>	<b>155,833</b>
Increase in Other Liabilities		<b>363,542</b>	<b>22,163,112</b>
Cash generated from operations		442,906,095	138,430,320
Income tax paid	42	(23,324,024)	<b>(14,655,052)</b>
Net Cash flows from operating activities (a)		<b>419,582,071</b>	<b>123,775,168</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of Property and equipment	18		(4,665,514)
Acquisition of Intangible Assets	19		(615,488)
Net cash flows used in investing activities (b)			<b>(5,281,002)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Increase in inter-bank borrowing	23		69,759,361
Interest payment on lease liabilities	21.1		(174,371)

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023**

		2023	2022
ASSETS	Notes	TZS'000	TZS'000
Payment of lease liabilities -rent paid	21.1		(1,660,681)
Dividend payment	SCE		(5,817,571)
Net cash flows (used)/ generated from financing activities (c)			<b>62,281,109</b>
Net increase in cash and cash equivalents (a+b+c)			<b>180,775,275</b>
Cash and cash equivalents at beginning of year			234,711,124
Cash and cash equivalents at end of year	43		<b>415,486,399</b>

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023**

2023

	Share Capital	Grants	Regulatory Risk Reserve	Fair Value Reserve	Fixed Assets Re-valuation Reserve	Retained Earnings	TOTAL
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
At 1 January 2023	31,000,000	3,293,163	3,484,219	824,164	1,054,868	107,236,086	146,892,500
Amortization of grants		(17,462)					(17,462)
Transfer to regulatory reserve			8,000,790			(8,000,790)	-
Dividend Paid						<b>(6,585,982)</b>	<b>(6,585,982)</b>
Transfer from fixed asset revaluation reserve					(177,426)	177,426	-
Total comprehensive income for the year				381,745		51,284,555	51,666,300
At 31 December 2023	<b>31,000,000</b>	<b>3,275,701</b>	<b>11,485,009</b>	<b>1,205,909</b>	<b>877,442</b>	<b>144,111,296</b>	<b>191,955,357</b>

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023**

2022

	Share Capital	Grants	Regulatory Risk Reserve	Fair Value Reserve	Fixed Assets Revaluation Reserve	Retained Earnings	TOTAL
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
At January 2022	31,000,000	3,310,625	8,703,829	810,273	1,232,295	76,808,662	121,865,684
Amortization of grants	-	(17,462)	-	-	-	-	(17,462)
Transfer from regulatory reserve	-	-	(5,219,610)	-	-	5,219,610	-
Dividend paid	-	-	-	-	-	(5,817,571)	(5,817,571)
Transfer from fixed asset revaluation reserve	-	-	-	-	(177,426)	177,426	-
Total comprehensive income for the year	-	-	-	13,891	-	30,847,959	30,861,850
<b>At 31 December 2022</b>	<b>31,000,000</b>	<b>3,293,163</b>	<b>3,484,219</b>	<b>824,164</b>	<b>1,054,869</b>	<b>107,236,086</b>	<b>146,892,501</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**1. CORPORATE INFORMATION**

**Principal**

The People's Bank of Zanzibar Limited (the Bank), provides retail and corporate Banking services in Tanzania and beyond through internet Banking and international remittance services registered under the Banking and Financial Institutions Act, 2006. The People's Bank of Zanzibar Limited (the Bank) is a limited liability company incorporated in 1966 under the Zanzibar Companies Decree (Cap. 153) which has been repealed and replaced by Companies Act No.15 of 2013 domiciled in Zanzibar. The Bank is fully owned by the Revolutionary Government of Zanzibar. Its registered office is at Mpirani Street, ZIC Building.

**2. BASIS OF PREPARATION**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The financial statements are prepared on a historical cost basis except where otherwise stated or as required by International Financial Reporting Standards (IFRSs) and Interpretations to those Standards for assets and liabilities to be stated at their fair value as disclosed in the accounting policies hereafter. The financial statements are presented in Tanzania Shillings (TZS) except where explicitly stated. All values are rounded to the nearest thousand (TZS '000).

**3. STATEMENT OF COMPLIANCE**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements also comply with the Tanzanian Companies Act, 2002, Zanzibar Companies Act No.15 of 2013 and the Banking and Financial Institutions Act, 2006.

**4. PRESENTATION OF FINANCIAL STATEMENTS**

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. The Bank analyzed recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current). Financial assets and financial liabilities are generally reported gross in the statement of financial position except when IFRS netting criteria are met.

**5. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES**

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

**5-1 New and amended standards and interpretations.**

The following standards have been adopted by the Bank for the first time for the financial year beginning in 1 January 2023:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**5. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)**

Accounting changes	Effective date	Details
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 (Published May 2017)	<p>The IASB issued IFRS 17, 'Insurance contracts', in the year 2017. IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.</p> <p>Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less.</p> <p>For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.</p> <p><i>Impact to the Bank's financial statements:</i> The standard has no impact to bank's financial statements</p>
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	Annual periods beginning on or after 1 January 2023. (Published May 2021)	<p>The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.</p> <p><i>Impact to the Banks's financial statements:</i> Based on management assessment, the amendment is not expected to have significant impact to the Bank's financial statements. The Bank policy on accounting for deferred taxes on its leases has been in line with the new amendment.</p>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**5. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)**

Accounting changes	Effective date	Details
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice statement 2	Annual periods beginning on or after 1 January 2023. (Published February 2021)	<p>The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.</p> <p><i>Impact to the Bank's financial statements:</i> Based on management assessment, the amendment is not expected to have significant impact of the Bank's financial statements.</p>
International Tax Reform—Pillar Two Model Rules –Amendments to IAS 12	The deferred tax exemption and disclosure of the fact that the exception has been applied, is effective immediately. The other disclosure requirements are effective annual periods beginning on or after 1 January 2023. (Published May 2023)	<p>These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.</p> <p><i>Impact to the Bank's financial statements:</i> Based on management assessment, the amendment is not expected to have significant impact of the Bank's financial statements.</p>

**5–2 New and amended standards issued but not yet effective.**

Accounting changes	Effective date	Details
Disclosures: Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7	Annual periods beginning on or after 1 January 2024 (Published May 2023)	<p>These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.</p> <p><i>Impact to the Bank's financial statements:</i> Based on management assessment, the amendment is not expected to have significant impact of the Bank's financial statements.</p>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)**

Accounting changes	Effective date	Details
Lack of Exchangeability - Amendments to IAS 21	Annual periods beginning on or after 1 January 2025 (Published August 2023)	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.  <i>Impact to the Bank's financial statements:</i> Based on management assessment, the amendment is not expected to have significant impact of the Bank's financial statements.
Classification of Liabilities as Current and Non-current and non-current Liabilities with Covenants – Amendments to IAS 1	Annual periods beginning on or after 1 January 2024 (Published January 2020 and November 2022)	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.  <i>Impact to the Bank's financial statements:</i> Based on management assessment, the amendment is not expected to have significant impact of the Group's financial statements.
Lease Liability in a Sale and Leaseback - Amendment to IFRS 16	Annual periods beginning on or after 1 January 2024 (Published September 2022)	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.  <i>Impact to the Bank's financial statements:</i> Based on management assessment, the amendment is not expected to have significant impact of the Bank's financial statements.

*'For all new standards and interpretations not yet adopted by Bank, these will be adopted on the respective effective dates, if applicable.*

**6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES**

The accounting policies applied by the Bank have been approved by the Board of Directors of the Bank and in accordance with International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Board. The major accounting policies adopted, which are consistent with those used in the previous financial year, except for the amendments to IFRSs effective as of 1 January 2019 as disclosed below and applied by the Bank are summarized below.

**6-1 Foreign currency translation**

**a. Functional and presentation currency**

The financial statements are presented in Tanzania Shillings (TZS). Items included in the financial statements are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

**b. Transactions and balances**

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

**6-2 Recognition of interest income**

**6-2-1 The effective interest rate method**

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortized cost, interest rate derivatives for which hedge accounting is applied and the related amortization/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortized cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognizes 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, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognized at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

### 6-2-2 Interest and similar income and expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the profit or loss for both interest income and interest expense to provide symmetrical and comparable information.

In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out in Note 6.2.1 above.

Other interest income/expense includes interest on derivatives in economic hedge relationships and all financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate.

Interest income/expense on all trading financial assets/liabilities is recognized as a part of the fair value change in 'Net trading income'.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI financial asset.

### 6-3 Fee and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations, as explained further in 6.3.1 and 6.3.2 below.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time (unless otherwise specified in 6.3.1 and 6.3.2 below).

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

#### 6-3-1 Fee and commission income from providing services where performance obligations are satisfied at a point in time

Services provided where the Bank's performance obligations are satisfied at a point in time are recognized once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the nego-

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

### 6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)

tiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, brokerage and underwriting fees.

The Bank typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

Performance obligations satisfied over time include asset management, custody and other services, where the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs.

#### 6-3-2 Contract balances

The following are recognized in the statement of financial position arising from revenue from contracts with customers:

- Fees and commissions receivables included under 'Other assets', which represent the Bank's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). These are measured at amortized cost and subject to the impairment provisions of IFRS 9.
- Unearned fees and commissions included under 'Other liabilities', which represent the Bank's obligation to transfer services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognized when the payment is made or the payment is due (whichever is earlier). Unearned fees and commissions are recognized as revenue when (or as) the Bank performs.

#### 6-4 Net loss on de-recognition of financial assets measured at amortized cost or FVOCI

Net loss on de-recognition of financial assets measured at amortized cost includes loss (or income) recognized on sale or de-recognition of financial assets measured at amortized costs calculated as the difference between the book value (including impairment) and the proceeds received.

## **MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)**

### **6-5 Financial instruments – initial recognition**

#### **6-5-1 Date of recognition**

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., 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. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

#### **6-5-2 Initial measurement of financial instruments**

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 6.9.1.1 and 6.9.1.2. Financial instruments are initially measured at their fair value (as defined in Note 6.8), 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 Bank accounts for the Day 1 profit or loss, as described below.

#### **6-5-3 Day 1 profit or loss**

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in net trading income. In those cases, where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

#### **6-5-4 Measurement categories of financial assets and liabilities**

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in Note 6.9.1
- FVOCI, as explained in Notes 6.9.4 and 6.9.5
- FVTPL, as set out Note 6.9.7.

The Bank classifies and measures its derivative and trading portfolio at FVPL, as explained in Notes 6.9.2 and 6.9.3. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 6.9.7.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 6.9.7.

### **6-6 Financial assets and liabilities**

#### **6-6-1 Deposits from Banks, Loans and advances/IB Financing to customers, Financial investments at amortized cost**

The Bank Measures Due from Banks, Loans and advances to customers and other financial investments at amortized cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. The details of these conditions are outlined below.

#### **6-6-1-1 Business model assessment**

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### **The SPPI test**

As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

#### **Derivatives recorded at fair value through profit or loss**

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

### 6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)

#### 6-6 Financial assets and liabilities (continued)

value is positive and as liabilities when their fair value is negative. Fully collateralized derivatives that are settled net in cash on a regular basis are only recognized to the extent of the overnight outstanding balance. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied.

##### *Embedded derivatives*

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in financial liability or a non-financial host are separated from the host and accounted for as separate derivatives if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative (as defined above); and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

##### **6-6-2 Financial assets or financial liabilities held for trading**

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

##### **6-6-3 Debt instruments at FVOCI**

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in Note 6.2.2. The ECL calculation

for Debt instruments at FVOCI is explained in Note 6.12.4. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On de-recognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

The Bank invested in Debt instruments at FVOCI (Debt security) representing borrowed fund by Government through BOT. The Bank classifies and measured these investments in debt securities; Government bonds and Treasury bonds at amortized cost.

##### **6-6-4 Equity instruments at FVOCI**

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

##### **6-6-5 Debt issued and other borrowed funds**

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

##### **6-6-6 Financial assets and financial liabilities at fair value through profit or loss**

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis
- Or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- Or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate, as explained in Note 6.2.2. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

**6-6-7 Financial guarantees, letters of credit and undrawn loan commitments**

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

Financial guarantees are initially recognized in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the profit or loss, and an ECL allowance.

The premium received is recognized in the profit or loss in Net fees and commission income on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

**6-6-8 Reclassification of financial assets and liabilities**

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

**6-6-9 Derecognition of financial assets and liabilities**

**6-6-9-1 Derecognition due to substantial modification of terms and conditions**

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors

**6-7 Credit losses and Impairment of financial assets**

The Bank recognizes a loss allowance for expected credit losses (ECLs) on the following items:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)**

**6.7 Credit losses and Impairment of financial assets (Continued)**

- financial assets measured at amortized cost (including term loan and IB financing to customers, due from Banks, revolving facilities and financial instruments at amortized cost)
- Guarantee contract and letter of credit commitment.
- Undrawn overdrafts commitments
- debt securities measured at FVOCI
- Other assets in scope of IFRS 9 including Salary advance to staff

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive).

**6-7-1 Overview of the ECL principles**

The Bank records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as ‘financial instruments. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime 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 (12m ECL).

The 12m ECL is the portion of LTECLs that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12m 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 Bank records an allowance for the LTECL Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECL.

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 a credit-adjusted EIR. The ECL allowance is only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

### 6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)

#### 6-7-2 The calculation of ECL

The Bank calculates ECL based on four 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 and the key elements are, as follows:

**PD** The Probability of Default 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 derecognised and is still in the portfolio.

**EAD** The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

**LGD** The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan and not required to be recognized separately, as set out in Note 6.10.2 It is usually expressed as a percentage of the EAD.

When estimating the ECL, the Bank considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 6.10.2 When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 6.12.5, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

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 value. The mechanics of the ECL method are summarized below:

- **Stage 1:** 12m ECL is calculated as portion of LTECL that represent ECL that result from default events on a financial instrument that are possible within 12 months after reporting date. The Bank calculates the 12m ECL allowance based on 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 expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of four scenarios, as explained above.
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- **Stage 3:** For loans considered credit-impaired, the Bank recognizes the lifetime ECL for these loans. The

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

### 6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)

#### 6.7 Credit losses and Impairment of financial assets

##### 6.7.1 Overview of the ECL principles (continued)

method is similar to that for Stage 2 assets, with the PD set at 100%.

- **POCI:** POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.
- **Loan commitments and letters of credit:** When estimating LTECL for undrawn loan commitments, Bank estimates expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on PV of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For revolving facilities that include both a loan and an undrawn commitment, ECL is calculated and presented together with the loan.
- **Financial guarantee contracts:** The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the profit or loss, and the ECL provision. For this purpose, the Bank estimates ECL based on the PV 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 calculation is made using a probability-weighting of the four scenarios.

In the event where the computed ECL provisions as per IFRS 9 are less than those calculated as per BOT regulatory requirements, a Regulatory Risk Reserve (non-distributable reserve) shall be created and credited through Retained Earning to eliminate the shortfall. And where the ECL provisions are higher than provision as per BOT regulations, any credit outstanding in a Regulatory Risk Reserve account shall be liquidated to Retained Earning account.

##### 6-7-2-1 Debt instruments measured at fair value through OCI

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement 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 and loss upon derecognition of the assets.

##### 6-7-2-2 Purchased or originated credit impaired financial assets (POCI)

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

##### 6-7-2-3 Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period that reflects its expectations of customer behavior, the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECL for these products, is five years for corporate and seven years for retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)**

also given to qualitative factors such as changes in usage.

**6–7–3 ECL Provision and Regulatory Risk Reserve**

The interest rate used to discount the ECL for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest.

The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

**6–7–3–1 Forward looking information**

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Central Bank base rates
- House price indices

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

**6–8 Credit enhancements: collateral valuation and financial guarantees.**

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank’s statement of financial position. Cash flows expected from credit enhancements which are not required to be recognized separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

Guarantees held are included in the measurement of loan ECLs when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended.

Guarantees that are not integral to the loan’s contractual terms are accounted as separate units of accounts subject to ECL. Credit default swaps are not considered to be integral to a loan’s contractual terms and are accounted as derivative financial instruments, as set out in Note 6.9.2.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)**

**6–9 Collateral repossessed.**

The Bank’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 value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank’s policy.

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

**6–10 Write-offs**

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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 credit loss expense.

**6–11 Forborne and modified loans**

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower’s financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower’s present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank’s policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognized, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing.
- The probation period of two years has passed from the date the forborne contract was considered performing.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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**6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)**

- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period.
- The customer does not have any contracts that are more than 30 days past due. If modifications are substantial, the loan is derecognized, as explained in Note 6.15.

**6–12 Cash and cash equivalents**

Cash and cash equivalents referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with BOT, deposits held at call with other Banks with an original maturity of three months or less and investments with maturity periods of three months or less in money market instruments.

**6–13 Repurchase and reverse repurchase agreements.**

Securities sold under agreements to repurchase at a specified future date are not derecognized from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction’s economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction’s economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR. If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

**6–14 Securities lending and borrowing**

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized in the statement of financial position, unless they are then sold to third parties, in which case, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

**6–15 Leases**

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)**

**6–15–1 Bank as a lessee**

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

**6–15–2 Bank as a lessor**

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned. The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**6–15–3 Bank as a lessee**

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**6–15–4 Right-of-use assets**

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 18 Property, equipment and right-of-use assets and are subject to impairment in line with the Bank’s policy as described in Note 6.25 Impairment of non-financial assets.

*Lease liabilities*

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)**

**6–16 Property, equipment, and right-of-use assets**

Property and equipment excluding classes of buildings and motor vehicles are 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 amortization period or methodology, as appropriate, and treated as changes in accounting estimates. Class of buildings and motor vehicles are measured at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably. Right-of-use assets are presented together with property and equipment in the statement of financial position – refer to the accounting policy in Note 6.22. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Depreciation of owned assets is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Asset particulars	Useful life
Motor Vehicles and Motorcycles	7 years
Furniture and equipment	5 years
Buildings	33 years
Computers and laptops	3 years
ATMs	7 years
Servers	7 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal (i.e., at the date the recipient obtains control) 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 included in the statement of profit or loss when the asset is derecognized. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Leasehold improvement properties (improvement cost of rented Bank's buildings and offices) are depreciated over the periods of the leases period.

**6–17 Intangible assets**

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities and Computer's software are capitalized if the product or process is technically and commercially feasible and the Bank has sufficient resources and the intention to complete development. The expenditure

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)**

capitalized includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalized costs are stated at cost less accumulated amortization and impairment losses. Other development expenditure is recognized as an expense in the period in which it is incurred. Other intangible assets that are acquired by the Bank are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses. Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

*Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Both the period and method of amortization are reviewed annually.*

*Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives.*

**6–18 Impairment of other non-financial assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- Property, plant and equipment, including right-of-use assets (other than property carried at revalued amounts);
- intangible assets;
- Investments in subsidiaries, associates, and joint ventures in the company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

**Recognition of impairment losses**

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

**Reversals of impairment losses**

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

### 6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

#### 6-19 Employee's benefit and retirement obligation

##### 6-19-1 Short term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Employees of the Bank are members of Social Security Funds scheme (ZSSF and NSSF). Employees contribute 7% of their monthly salary to the Fund while the Bank contributes 14% of basic for each employee to the scheme and the amount is charged to profit or loss when due. For the obligation before the establishment of ZSSF in year 1998, PBZ on behalf of RGZ is liable to pay as gratuity obligation to its employees.

#### 6-20 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the profit or loss net of any reimbursement in other operating expenses.

#### 6-21 Taxes

##### 6-21-1 Current tax

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

Current income tax relating to items recognized directly in equity or other comprehensive income is recognized in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### 6-21-2 Deferred tax

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

### 6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)

- 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.

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

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

Current and deferred taxes are recognized as income tax benefits or expenses in the profit or loss except for tax related to the fair value remeasurement of debt instruments at FVOCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI.

These exceptions are subsequently reclassified from OCI to the profit or loss together with the respective deferred loss or gain. The Bank also recognizes the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Bank's intention to settle on a net basis.

##### 6-21-3 Value Added Tax (VAT)

Expenses and assets are recognized inclusive of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is recoverable from the taxation authority, in which case the value added tax is recognized as an asset or liability in the statement of financial position.

#### 6-22 Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Shareholder. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank.

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

#### 6-23 Equity reserves

The reserves recorded in equity (OCI) on the Bank's statement of financial position include:

- Fair value reserves which comprises:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

### 6. MATERIAL ACCOUNTING INFORMATION AND DISCLOSURES (CONTINUED)

- The cumulative net change in the fair value of debt instruments classified at FVOCI, less the allowance for ECL
- The cumulative net change in fair value of equity instruments at FVOCI
- Foreign currency translation reserve, which is used to record exchange differences arising from the translation of the net investment in foreign operations
- Other capital reserves, which includes regulatory risk reserve and fixed assets revaluation reserve

#### 6–24 Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Bank will comply with the conditions attaching to them. Grants that compensate the Bank for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

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

#### 6–25 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred. The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

#### 6–26 Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed off together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognized at the lower of their carrying amount and fair value less costs to sell. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere. Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognized in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the noncurrent asset is not depreciated or amortized.

### 7. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgments and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the financial statements with substantial management judgment and/or estimates are collated below with respect to judgments/estimates involved.

#### 7–1 Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Bank's definition of default and The Bank's staging criteria
- The Bank's criteria for assessing if there has been a significant increase in credit risk
- Segmentation for Conventional loans
- The Bank's internal credit grading model, which assigns PDs to the individual grades
- Probability of Default (PD) methodology for conventional loans
- Loss Given Default (LGD) methodology
- Exposure at Default (EAD) methodology
- Unutilized facilities of overdrafts were calculated as the difference between the limits and the sum of outstanding exposure. And thereafter applied a CCF to arrive to their exposure at default.
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models. It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

#### 7–2 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**7. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES & ASSUMPTIONS (CONTINUED)**

**7-3 Fair value of financial instruments**

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values.

**7-4 Effective Interest Rate (EIR) method**

The Bank's EIR method, as explained in Note 6.2.1, recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioral life of loans and deposits and recognizes the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgment regarding the expected behavior and life-cycle of the instruments, as well expected changes to country base rate and other fee income/expense that are integral parts of the instrument.

**7. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)**

**7-5 Estimating the incremental borrowing rate**

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

Management has considered adjusted Bank of Tanzania (BOT) bonds rates to be the incremental borrowing rate. Incremental borrowing rate have been arrived after conducting a thorough analysis of the lending rates if the entities were PBZ can borrow to finance construction or acquisition of the leases asset. Our analysis indicated that PBZ can borrow at 12.5% at ZSSF, 12% at TMRC (previous rate for member institutions) and 9.5% at TMRC (current rate for member institutions). Based on best finance of the management, incremental borrowing rate was taken to be 9.5% which represent the rate that Bank can borrow from TMRC. This has been considered to be unbiased and cheaper source of fund to finance acquisition or construction of the leased assets.

**7-6 Taxes**

The Bank subject to compliance with two different tax legislation which is Tanzania revenue Authority and Zanzibar revenue Authority, TRA deal with compliance of Income tax act which contains corporate tax, employment tax (PAYE) and other withholding tax, includes excise duty for Mainland Tanzania services, while ZRA deal VAT, Stamp duty and excise duty and levy on Electronic Money Transfer for Zanzibar consumption services. PBZ as ZRA agent during year 2023 manage to collect TZS 4,965 million (2022, TZS 4,049 million) from various Bank suppliers and paid to ZRA. Also for TRA withholding tax paid for 2023 was TZS 6,607 million (2022, TZS 5,783 million).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**7. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES & ASSUMPTIONS (CONTINUED)**

During the year 2023, Bank paid TZS 23,324 million as corporate tax compared with TZS 14,655 million paid for the year 2022.

The Bank prepares its accounts in accordance with IFRS, however the recognized profit by IFRS requires some adjustments as directed by income tax act, 2014, to arrive at taxable base for 30% corporate tax charge, this will result into differed deferred tax, according to IAS 12, is the amount of tax payable /receivable in future in respect of taxable temporary difference. Temporary differences are defined as being differences between the carrying amount of an asset (or liability) within the Statement of Financial Position and its tax base that is the amount at which the asset (or liability) is valued for tax purposes by the relevant tax authority.

The deferred tax asset recognized as at 31 December 2023 by Bank is TZS 10.308 million compared to the year 2022 which is TZS 9,861 million.

**7-7 Provisions**

The Bank use IFRS 9 tools for calculating impairment charges for their financial assets, during year 2023 loan and advance estimated to TZS 8,281 million (2022, TZS 9,736 million) Islamic financing TZS 842 million (2021, TZS 1,354 million), Government Securities TZS 999 million (2022 TZS 491 million), Other assets estimated TZS 13,059 million (2022, TZS 13,146 million) and TZS 2,000 million was changed for impairment on Equity investment during the year which make total provision in equity investment to be TZS 5,000 million.

Regulatory provision as specified by BOT for loan and advance was estimated TZS 19,150 million (2022, TZS 12,591 million), Islamic financing was TZS 1,457 million (2022 TZS 1,983 million).

**7-8 Property and equipment and intangible assets**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**
**8. FINANCIAL INSTRUMENTS BY CATEGORY**

At 31 December 2023	Amortized cost	Fair value through OCI	Total
	TZS'000	TZS'000	TZS'000
<b>Financial assets</b>			
Cash and Balances with Bank of Tanzania	640,969,430	-	640,969,430
Placement with other Banks	188,830,909	-	188,830,909
Cheques & Items for Clearing	615,087	-	615,087
Investment in Debt Securities	88,994,762	-	88,994,762
Loans and Advances to customers	935,575,786	-	935,575,786
Islamic Financing to customers	103,345,465	-	103,345,465
Equity Investment		3,413,599	3,413,599
Other assets in scope of IFRS 9	17,279,439	-	17,279,439
<b>Total Financial Assets</b>	<b>1,975,610,898</b>	<b>3,413,599</b>	<b>1,979,024,477</b>
<b>Financial liabilities</b>			
<i>Deposits due to customers</i>	1,731,912,702	-	1,731,912,702
<i>Deposits due to Banks</i>	170,475	-	170,475
<i>Borrowings</i>	90,139,938	-	90,139,938
<i>Corporate Bond</i>	20,418,171	-	20,418,171
<b>Total Financial Liabilities</b>	<b>1,842,641,286</b>		<b>1,842,641,286</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**
**8. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)**

At 31 December 2022	Amortized cost	Fair value through OCI	Total
	TZS'000	TZS'000	TZS'000
<b>Financial assets</b>			
Cash and Balances with Bank of Tanzania	229,636,909	-	229,636,909
Placement with other Banks	220,938,899	-	220,938,899
Cheques & Items for Clearing	579,765	-	579,765
Investment in Debt Securities	67,277,259	-	67,277,259
Loans and Advances to customers	721,071,142	-	721,071,142
Islamic Financing to customers	80,635,182	-	80,635,182
Equity Investment		5,703,440	3,413,599
	5,703,440	-	17,279,439
Other assets in scope of IFRS 9	6,988,444	-	6,988,444
<b>Total Financial Assets</b>	<b>1,327,127,600</b>	<b>5,703,440</b>	<b>1,332,831,040</b>
<b>Financial liabilities</b>			
<i>Deposits due to customers</i>	1,063,232,624	-	1,063,232,624
<i>Deposits due to Banks</i>	1,560,885	-	1,560,885
<i>Borrowings</i>	153,619,913	-	153,619,913
<i>Corporate Bond</i>	20,418,171	-	20,418,171
<b>Total Financial Liabilities</b>	<b>1,238,831,593</b>		<b>1,238,831,593</b>

**9. FAIR VALUE MEASUREMENT**

This note describes the fair value measurement of both financial and non-financial instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique. In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained below.

**9-1 Assets and liabilities by fair value hierarchy**

The following table presents the fair value of the Bank’s properties measured at the end of the reporting period categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e., unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e., observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs
- 9. FAIR VALUE MEASUREMENT (CONTINUED)

Amount under property and equipment represent categories of buildings and motor vehicles for which measured at revaluation model. Other categories in the PPE are carried at cost model.

**9-2 Valuation techniques and methods**

**Equity Investments at FVOCI**

The AFREXIM Bank equity investment is actively traded on Stock Exchange of Mauritius with readily available active prices per Depository Receipt. Further, the Bank published recently Net Asset Value (NAV) which is the Bank used as fair value. Thus, the Bank classified the asset as Level 1.

The NAV serves as the basis for subscription and redemption transactions for investors in the entity. If the investment is required to be measured at fair value, and does not have a readily determinable fair value, it may qualify for a practical expedient (that is not available under IFRS) to determine the fair value of investments using NAV, without adjustment, in certain defined circumstances. This practical expedient can be applied on an investment-by-investment basis, but should be applied consistently to the entire investment in that entity. Further, it is an accounting policy election and should be applied consistently from period to period, unless a change is preferable.

Other investments (TMRC, UMOJA SWITCH and SWIFT) categorized as level 2 since by the price quoted are exist in active market with no significant unobservable inputs.

Other assets under scope of IFRS 9 and non-financial assets

All other assets as shown above, the Bank classified in level 3 since there are no quoted price in active market with significance unobservable input.

**10. FINANCIAL RISK MANAGEMENT**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10.2 Risk management structure (continued)**

**10-1 Introduction and risk profile**

Whilst risk is inherent in the Bank’s activities, it is managed through an integrated risk management framework, including ongoing identification, measurement and monitoring, and subject to risk limits and other controls. This process of risk management is critical to the Bank’s continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank mainly is exposed to credit risk, market risk, currency risk, liquidity risk, operational risk and interest risk. The Bank’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Bank’s financial performance.

**10-2 Risk management structure**

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board Audit and Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Board Audit and Risk Management Committee is responsible for managing risk decisions and monitoring risk levels and reports to the Board of Directors.

The Risk and Compliance Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with and reports to The Board Audit and Risk Management Committee to ensure that procedures are compliant with the overall framework.

The Risk and Compliance Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. Each business unit has responsible for the control of risks, including monitoring the actual risk of exposures against authorised limits and the assessment of risks of new products and structured transactions. It is the Bank’s policy that this unit also ensures the complete capture of the risks in its risk measurement and reporting systems. The Bank’s policy also requires that exceptions are reported on a daily basis, where necessary, to the Board Audit and Risk Management Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

The Bank’s Treasury is responsible for managing its assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank. The Bank’s policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank’s compliance with them. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit and Risk Management Committee.

**10-3 Risk measurement and reporting systems**

The Bank’s risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank’s policy is to measure and monitor the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10-4 Credit risk**

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. Credit risk is monitored by the credit department. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The Board of Directors approves limits on the level of credit risk.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

**10-4-1 Credit risk measurement**

In measuring credit risk of loans and advances to customers and to Banks at a counterparty level, the Bank reflect two components (i) the 'probability of default' by the client or counterparty on its contractual obligations and (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'. These credit risk measurements, which reflect expected loss (the 'expected credit loss model'), are embedded in the daily operational management and are in line with IFRS 9.

The Bank 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.

**Bank's internal rating scale**

The Bank has its internal credit rating tools tailored in accordance with the Bank of Tanzania guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

Bank's rating	Description of the grade	Number of days outstanding
1.	Current	0-30
2.	Especially mentioned	31-90
3.	Sub-standard	91-180
4.	Doubtful	181-360
5.	Loss	361 - Above

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10-4-1-1 Significant increase in credit risk**

The Bank monitors all financial assets that are subject to assess whether there has been a significant increase in credit risk since initial recognition. When there is a significant increase in credit risk (SICR) since initial recognition is identified, a financial asset is moved from stage 1 to 'Stage 2' but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

The table below summarises the 'three-stage' model for impairment based on changes in credit quality since initial recognition.

	Stage 1 (performing loans)	Stage 2 (under performing loans)	Stage 3 (non-performing loans)
<b>Credit risk</b>	Financial instruments with low credit risk at the reporting date or which have not had SICR	Financial instruments which have had a significant increase in credit risk since initial recognition but do not have objective evidence of a credit loss event.	Financial assets that have objective evidence of impairment at the reporting date
<b>Recognition of expected credit losses</b>	12 Month expected credit losses are recognized.	Lifetime expected credit losses are recognized.	Lifetime expected credit losses are recognized.
<b>Recognition of interest</b>	Interest revenue is calculated on the gross carrying amount of the asset.	Interest revenue is calculated on the gross carrying amount of the asset.	Interest revenue is calculated based on the amortized cost net of the loss provision, (net carrying amount).

The Bank considers a debt instrument asset, loan commitments and financial guarantee contracts to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Loans and advances/financing to customers

**i. Quantitative criteria**

Based on quantitative review for the purpose of the expected credit losses calculations, loans and advances, loan commitments and financial guarantees shall be classified as follows;

- 0 – 30 days to be classified as Stage 1; Loans and advances, loan commitments and financial guarantees which are performing according to contracted terms and conditions with low credit risk at the reporting date with 12-month expected credit losses being recognised.
- 31 – 90 days to be classified as Stage 2; Loans and advances, loan commitments and financial guarantees which have had significant increase in credit risk since initial recognition but do not have objective evidence of credit loss event with lifetime expected credit losses being recognized.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

- 91 days or more to be classified as Stage 3; Loans and advances, loan commitments and financial guarantees which have objective evidence of impairment at the reporting date with lifetime expected credit losses being recognized (credit-impaired assets).

**ii. Qualitative criteria**

For Personal Loans/financing, if the borrower meets one or more of the following criteria:

- Short-term forbearance or restructuring.
- Adverse changes of external data from credit references agencies.

For Commercial loans/financing, if the borrower is on the Watch list and/or the instrument meets one or more of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates.
- Actual or expected forbearance or restructuring.
- Actual or expected significant adverse change in operating results of the borrower.
- Significant change in collateral value which is expected to increase risk of default.
- Early signs of cash flow/liquidity problems such as delay in servicing of loans/financing.
- Adverse changes of external data from credit references agencies

*Balances due from other Banks*

*Below are qualitative factors considered as indicators of significant increase in credit risk;*

- Significant counterparty management restructuring due to continues bad performance of the company.
- Significant adverse change in the regulatory, economic or technology of the borrower that results in a significant change in the borrower’s ability to meet its debt obligations.
- Significant reductions in financial support from a parent company that resulted to significant adverse change of operating results of the counterparty.

*Government securities*

*Below are qualitative factors considered as indicators of significant increase in credit risk;*

- The Government has initiated debt restructuring process.

**Grouping of instruments for losses measured on a collective basis**

For expected credit loss provisions modelled on a collective basis, a Grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a Bank are homogeneous. The characteristics used to determine Grouping are product type, Industry, collateral type etc.

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10.4 Credit risk (continued)**

**10-4-1-2 Definition of default and credit-impaired assets**

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

*Loans and advances/financing to customers*

**Quantitative criteria**

The borrower is more than 90 days past due on its contractual payments.

**Qualitative criteria**

The borrower meets unlikelihood 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; and,
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

*Balances due from other Banks*

For balances from other Banks, below are considered as default when they occur

- When repayment of interest and principal are not done on time as per contractual schedules to the extent of 30 days delay;
- When a counterparty is taken under management by Statutory Manager;
- When a counterparty licence has been revoked by the Central Bank; and,
- When the counterparty is declared Bankrupt by responsible bodies like Registration, Insolvency or court.

*Government securities*

For Government securities, below are considered as default when they occur;

- When repayments of interest and principal are not done on time as per contractual schedules and that such delays considered are not those caused by operational issues

The default definition has been applied consistently to model the probability of default (PD), exposure at default (EAD) and loss given default (LGD) throughout the Bank’s expected loss calculations.

**10-4-1-3 Forward looking information incorporated in the ECL model**

The forward-looking information that has been incorporated in the ECL Model including:

- Macro factor, such as foreign exchange rate, Consumer price index and Real and Nominal GDP has been used to

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

ascertain associated with stress factor on economic sector, presence of covid-19

**10-4-1-4 Economic variable assumptions**

The economic variables used during ECL Model calculation include

- Foreign Exchange Rate
- Consumer price Index
- Nominal and Real GDP.

**10-4-2 Risk limit control and mitigation policies**

This policy focus on management of risk associate with price movement in market, that interest rate and foreign exchange rate. The People’s Bank of Zanzibar’s operations among others, include taking of foreign exchange deposits and borrowings as well as issuance of foreign currencies loans. Likewise, the Bank takes interest bearing local currency deposits and borrowings for investment in interest earning assets like loans/advances, inter-Bank lending and government securities. These activities expose the Bank to foreign exchange rate and interest rate fluctuations. This market risk policy provides guidance for managing foreign exchange risk and interest rate risks in the Bank.

Some other specific control and mitigation measures are out lined below;

**a. Collateral**

- Landed Mortgage Collateral
- Debenture and Chattel Mortgage
- Corporate Guarantee
- Government Guarantee
- Cash Cover
- Unsecured

**b. Credit-related commitments**

These are the off-balance sheet item which comprises guarantees of different nature, letter of credit and undrawn balances. These credit related issues are extended to customers who are either entered to Government tender or import goods from abroad. For undrawn balances comprises the unutilised overdraft facilities.

**10-4-3 Loss allowance**

The loss allowance recognized in the period is impacted by a variety of factors, as described below:  
As per regulatory requirement these are financial position which remain unpaid for more than 91 days the underlined factors which lead to increase or decrease financial risk are the effect of COVID-19, cash flow failure which resulted from market stress and competition.

**10-4-3-1 Loss allowance change**

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to above mentioned factors under note 10.4.5:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10.4 Credit risk (continued)**

**10.4.3.1 Loss allowances change**

	Stage 1	Stage 2	Stage 3	Total
31 December 2023	TZS '000'	TZS '000'	TZS '000'	TZS '000'
At 1 January 2023	6,136,132	694,145	2,905,743	9,736,020
Movement between stages:				
Transfer from stage 1 to stage 2	(1,549,146)	1,549,146		-
Transfer from stage 1 to stage 3	(182,579)		182,579	-
Transfer from stage 2 to stage 1	3,076	(3,076)		-
Transfer from stage 2 to stage 3		(125,517)	125,517	-
Transfer from stage 3 to stage 1	30,858		(30,858)	
Transfer from stage 3 to stage 2		5,579	(5,579)	-
New loans	4,035,702	740,445	1,859,083	6,635,230
Decrease in allowance on the same stage due to contracts	(2,817,908)	(1,773,669)	(520,374)	(5,111,951)
Settled loans (write off)			(2,653,322)	(2,653,322)
Settled loans (normally)	(26,372)	(79,500)	(219,019)	(324,891)
Balance at 31 December 2023	5,629,764	1,007,552	1,643,770	8,281,086

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10.4 Credit risk (continued)**

**10.4.3.1 Loss allowances change**

	Stage 1	Stage 2	Stage 3	Total
31 December 2022	TZS '000'	TZS '000'	TZS '000'	TZS '000'
At 1 January 2022	6,136,132	694,145	2,905,743	9,736,020
Movement between stages:				
Transfer from stage 1 to stage 2	(266,940)	266,940	-	-
Transfer from stage 1 to stage 3	(856,895)		856,895	-
Transfer from stage 2 to stage 1	152,881	(152,881)		-
Transfer from stage 2 to stage 3		(198,591)	198,591	-
Transfer from stage 3 to stage 1	25,413		(25,413)	-
Transfer from stage 3 to stage 2		17,632	(17,632)	-
New loans issued during the year	1,388,286	551,504	680,463	2,620,254
Increment allowance on the same stage due to contracts	4,589,591	475,257	544,861	5,609,708
Settled loans (write off)		-	(3,193,938)	(3,193,938)
Settled loans (normally)	(584,506)	(1,601,583)	(1,345,807)	(3,531,896)
<b>Balance at 31 December 2022</b>	<b>6,136,132</b>	<b>694,145</b>	<b>2,905,743</b>	<b>9,736,020</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10.4 Credit risk (continued)**

**10.4.3.1 Loss allowances change**

**Islamic Financing**

	Stage 1	Stage 2	Stage 3	Total
	TZS '000'	TZS '000'	TZS '000'	TZS '000'
<b>At 1 January 2023</b>	<b>780,050</b>	<b>700,981</b>	<b>(126,976)</b>	<b>1,354,055</b>
Movement between stages:				
Transfer from stage 1 to stage 2	(89,893)	89,893		-
Transfer from stage 1 to stage 3	(305,541)		305,541	-
Transfer from stage 2 to stage 1				-
Transfer from stage 2 to stage 3		(439,495)	439,495	-
Transfer from stage 3 to stage 1				-
Transfer from stage 3 to stage 2		7,324	(7,324)	-
Increment allowance				-
New financing		98,687	590,603	689,290
Written off			(1,201,339)	(1,201,339)
<b>Balance at 31 December 2023</b>	<b>384,616</b>	<b>457,390</b>	<b>-</b>	<b>842,007</b>

	Stage 1	Stage 2	Stage 3	Total
	TZS '000'	TZS '000'	TZS '000'	TZS '000'
At 1 January 2022	79,178	741,906	692,704	1,513,788
Movement between stages:				
Transfer from stage 1 to stage 2	(89,893)	89,893		-
Transfer from stage 1 to stage 3	(305,541)		305,541	-
Transfer from stage 2 to stage 1				-
Transfer from stage 2 to stage 3		(439,495)	439,495	-
Transfer from stage 3 to stage 1				-
Transfer from stage 3 to stage 2		7,324	(7,324)	-
Increment allowance				-
New financing		98,687	590,603	689,290
Written off			(1,201,339)	(1,201,339)
<b>Balance at 31 December 2023</b>	<b>384,616</b>	<b>457,390</b>	<b>-</b>	<b>842,007</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10-4-3-2 Changes in gross carrying amount**

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

Changes in gross carrying amount was associated with the increasing trend in issuing of new personal loan to TPDF and some corporate customers in both PBZ Convention and PBZ Islamic. List the factors which led to change in gross carrying amount of loans such as high volume of new Salaried Workers Loans and other consumer's loans originated during the period.

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

**Convention loans:**

	Stage 1	Stage 2	Stage 3	Total
	TZS '000'	TZS '000'	TZS '000'	TZS '000'
<b>At 1 January 2023</b>	<b>678,129,169</b>	<b>40,121,307</b>	<b>16,004,089</b>	<b>734,254,564</b>
Movement between stages:				
Transfer from stage 1 to stage 2	(95,814,673)	95,814,673		-
Transfer from stage 1 to stage 3	(613,319)		613,319	-
Transfer from stage 2 to stage 1	21,495,526	(21,495,526)		-
Transfer from stage 2 to stage 3		(3,238,901)	3,238,901	-
Transfer from stage 3 to stage 1	421,067		(421,067)	-
Transfer from stage 3 to stage 2		8,330,349	(8,330,349)	-
New loans	163,437,390	46,808,985	11,560,502	221,806,877
Settled loans (write off)			(2,653,322)	(2,653,322)
Settled loans (normally)	(3,241,050)	(548,086)	(2,217,677)	(6,006,813)
<b>Balance at 31 December 2023</b>	<b>763,814,110</b>	<b>165,792,801</b>	<b>17,794,396</b>	<b>947,401,306</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

	Stage 1	Stage 2	Stage 3	Total
	TZS '000'	TZS '000'	TZS '000'	TZS '000'
At 1 January 2022	<b>478,509,774</b>	<b>51,204,892</b>	<b>13,622,729</b>	<b>543,337,395</b>
Movement between stages:				
Transfer from stage 1 to stage 2	(9,587,293)	9,587,293		
Transfer from stage 1 to stage 3	(5,055,787)		5,055,787	-
Transfer from stage 2 to stage 1	15,009,441	(15,009,441)		-
Transfer from stage 2 to stage 3		(5,530,027)	5,530,027	-
Transfer from stage 3 to stage 1	8,531,337		(8,531,337)	-
Transfer from stage 3 to stage 2		1,534,681	(1,534,681)	-
New loans issued during the year	154,932,045	6,094,587	3,604,330	164,630,962
Settled loans (write off)			(3,193,938)	(3,193,938)
Loan remain on the same stage	47,487,339	1,967,237	8,196,878	57,651,454
Settled loans (normally)	<b>(11,697,687)</b>	<b>(9,727,916)</b>	<b>(6,745,706)</b>	<b>(28,171,309)</b>
<b>Balance at 31 December 2022</b>	<b>678,129,169</b>	<b>40,121,307</b>	<b>16,004,089</b>	<b>734,254,564</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Islamic financing:**

*Movements*

	Stage 1	Stage 2	Stage 3	Total
	TZS '000'	TZS '000'	TZS '000'	TZS '000'
At 1 January 2023	38,695,307	44,225,627	12,112,147	95,033,081
Movement between stages:				
Transfer from stage 1 to stage 2	(3,476,217)	3,476,217		-
Transfer from stage 1 to stage 3	(852,659)		852,659	-
Transfer from stage 2 to stage 1	2,337,827	(2,337,827)		-
Transfer from stage 2 to stage 3		(387,810)	387,810	-
Transfer from stage 3 to stage 1	318,409		(318,409)	-
Transfer from stage 3 to stage 2		266,528	(266,528)	-
New financings	66,079,331	1,772,265	126,212	67,977,808
Settled financings	(2,687,458)	(30,268,372)	(7,122,928)	(40,078,758)
<b>Balance at 31 December 2023</b>	<b>100,414,540</b>	<b>16,746,628</b>	<b>5,770,963</b>	<b>122,932,131</b>

	Stage 1	Stage 2	Stage 3	Total
	TZS '000'	TZS '000'	TZS '000'	TZS '000'
At 1 January 2022	38,765,103	38,240,532	8,474,108	85,479,743
Movements	(7,409,004)	7,409,004		-
Transfer from stage 1 to stage 3	(3,038,348)		3,038,348	-
Transfer from stage 2 to stage 1	824,218	(824,218)		-
Transfer from stage 2 to stage 3		(599,691)	599,691	-
Transfer from Stage 3 to Stage 2	9,553,338		-	9,553,338
<b>Balance at 31 December 2022</b>	<b>38,695,307</b>	<b>44,225,627</b>	<b>12,112,147</b>	<b>95,033,081</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10-4-4 Write-off**

The Bank may write-off financial assets that are still subject to enforcement activity while the Bank still seeks to recover amounts it is legally owed in full. According to BOT regulations the Bank required to charge off credit accommodation and other assets that has been remained in loss category for four (4) consecutive quarters. Total of TZS 3,978 million was written off during the year ended 31 December 2023.

**10-4-5 Loan restructuring**

There was no loan restructuring during the reporting period due to the decreasing on bank's liquidity caused by the impact of COVID-19.

**10-4-6 Investment securities**

The investment securities held by Bank comprise of private corporate bonds, and treasury bills and bonds issued by the Government Tanzania, refer Note 13. All these investments were considered to be under Stage 1. These investment securities are held with the Government or institutions with good financial standing and no history of default. They are not rated

**10-4-7 Repossessed collateral**

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

**a. Geographical Sector**

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

**10-4-8 Concentration of risks of financial assets with credit risk exposure (continued)**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

	Tanzania	Europe	America	Other	Total
At 31 December 2023	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Balances with the Bank of Tanzania	569,891,740	-	-	-	569,891,740
Placement and balances with other Bank	188,830,909	-	-	-	188,830,909
Government securities at Amortized cost	88,994,762				88,994,762
<b>A. Sub Total</b>	<b>847,717,411</b>				<b>847,717,411</b>
Loan and Advances to customers:					
<i>Personal loans</i>	847,078,369	-	-	-	847,078,369
<i>Staff Loans</i>	9,835,314	-	-	-	9,835,314
<i>Mortgage loans</i>	669,571	-	-	-	669,571
<i>Commercial loan and over-draft</i>	68,749,062	-	-	-	68,749,062
<i>Others loans and advances</i>	15,785,902	-	-	-	15,785,902
Islamic Financing Loan: -					
<i>Murabaha Personnel</i>	83,964,818	-	-	-	83,964,818
<i>Murabaha Commercial</i>	10,973,452	-	-	-	10,973,452
<i>Murabaha SME</i>	88,474				88,474
<i>Murabaha Staff</i>	402,973	-	-	-	402,973
<i>Murabaha Smida Financing</i>	60,000				60,000
<i>Salam Financing</i>	110,363	-	-	-	110,363
<i>Advance Car-soft loan</i>	3,083				3,083
<i>Ijara Services</i>	208,191	-	-	-	208,191
<i>Old Ijarah</i>	20,597,771				20,597,771
<i>Tawarruq</i>	1,791,084				1,791,084
<i>Commodity Murabah Staff</i>	314,242				314,242
<i>Bai Muajjal Personal</i>	10,971	-	-	-	10,971
<i>Qard Hassan-Corporate</i>	39,780				39,780

<i>Istisna Personal</i>	55,556	-	-	-	55,556
<i>Istisna Commercial</i>	2,454,997	-	-	-	2,454,997
<i>Qard Hassam</i>	1,823,726	-	-	-	1,823,726
<i>Un authorized OD</i>	29,028				29,028
Total loan and financing	<b>3,621</b>				<b>3,621</b>
ECL amount	1,048,044,343				1,048,044,343
B. Net Loan and financing	<b>(9,123,093)</b>				<b>(9,123,093)</b>
C. Other assets excluding prepayments)	<b>1,038,921,250</b>	-	-	-	<b>1,038,921,250</b>
<b>Total (A+B+C)</b>	<b>17,279,439</b>	-	-	-	<b>17,279,439</b>
	1,903,918,100				1,903,918,100
<b>Off-balance sheet assets:</b>					
Guarantees and indemnities (Note 45)	12,418,095	-	-	-	12,418,095
Undrawn commitments (Note 45)	1,439,771	-	-	-	1,439,771
Acceptances and letters of credit (Note 45)	858,681	-	-	-	858,681
	<b>14,716,547</b>				<b>14,716,547</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**a. Geographical Sector (continued)**

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

	Tanzania	Europe	America	Other	Total
At 31 December 2022	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Balances with the Bank of Tanzania	162,869,345	-	-	-	162,869,345
Placement and balances with other Bank	220,938,899	-	-	-	220,938,899
Government securities at Amortized cost	67,277,258				67,277,258
<b>A. Sub Total</b>	<b>451,085,502</b>				<b>451,085,502</b>
Loan and Advances to customers:					
<i>Personal loans</i>	675,341,582	-	-	-	675,341,582
<i>Staff Loans</i>	6,410,142	-	-	-	6,410,142
<i>Mortgage loans</i>	1,126,572	-	-	-	1,126,572
<i>Commercial loan and overdraft</i>	22,553,771	-	-	-	22,553,771
<i>Others loans and advances</i>	12,331,251	-	-	-	12,331,251
Islamic Financing Loan: -					
<i>Murabaha Personnel</i>	75,587,992	-	-	-	75,587,992
<i>Murabaha Commercial</i>	11,710,516	-	-	-	11,710,516
<i>Murabaha SME</i>	49,130				49,130
<i>Murabaha Staff</i>	155,915	-	-	-	155,915
<i>Murabaha Smida Financing</i>	462,608				462,608
<i>Salam Financing</i>	30,989	-	-	-	30,989
<i>Advance Car-soft loan</i>	1,227,340				1,227,340
<i>Ijara Services</i>	-	-	-	-	-
<i>Old Ijarah</i>	171,547				171,547

<i>Tawarruq</i>	3,285,310				3,285,310
<i>Commodity Murabah Staff</i>	8,131				8,131
<i>Bai Muajjal Personal</i>	-	-	-	-	-
<i>Qard Hassan-Corporate</i>	27,514				27,514
<i>Istisna Personal</i>	150,125	-	-	-	150,125
<i>Istisna Commercial</i>	818	-	-	-	818
<i>Qard Hassam</i>	2,165,002	-	-	-	2,165,002
<i>Un authorized OD</i>	144				144
Total loan and financing	<b>812,796,399</b>				<b>812,796,399</b>
ECL amount	(11,090,075)				(11,090,075)
B. Net Loan and financing	<b>801,706,324</b>				<b>801,706,324</b>
C. Other assets excluding prepayments)	<b>6,988,444</b>	-	-	-	<b>6,988,444</b>
<b>Total (A+B+C)</b>	<b>1,259,780,270</b>	-	-	-	<b>1,259,780,270</b>
<b>Off-balance sheet assets:</b>					
Guarantees and indemnities (Note 45)	6,996,274	-	-	-	6,996,274
Undrawn commitments (Note 45)	1,684,298	-	-	-	1,684,298
Acceptances and letters of credit (Note 45)	12,626,011	-	-	-	12,626,011
	<b>21,306,583</b>				<b>21,306,583</b>

**b. Industry sectors**

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of its counterparties. (Amounts are in TZS '000'):

	Financial institutions	Man-ufacturing	Trading and commercial	Transport and communication	Agriculture	Individuals	Construction	Others	Total
Balances with the Bank of Tanzania	569,891,740								569,891,740
Placement and balances with other Banks	188,830,909								188,830,909
Government securities at Amortised cost	88,994,762								88,994,762
Loan and Advances									
Personal loans	-					847,078,369			847,078,369
Staff Loans	-						9,835,314		9,835,314
Mortgage loans	-						669,571		669,571
Commercial loan and overdraft	-	63,869,566		778,344			3,703,131	398,021	68,749,062
Others loans and advances	-				3,834,972			11,950,930	15,785,902
Islamic Financing loan									
Murabaha Personnel	-					83,964,818			83,964,818
Murabaha Commercial	-	28,225	7,145,177	3,599,406	200,644	-			10,973,452
Murabaha-SME	-		88,474						88,474
Murabaha Staff	-					402,973			402,973
Salam Financing	-				60,000				60,000
Old Ijara	-					113,446			113,446

	Financial institutions	Man-ufacturing	Trading and commercial	Transport and communication	Agriculture	Individuals	Construction	Others	Total
Istisna Personal	-					208,191			208,191
Tawarruq	-							20,597,771	20,597,771
Commodity Murabah Staff	-					1,791,084			1,791,084
Commodity Murabah Corporate			314,242.00						314,242
CM- Corporate arrears								10971	10,971
CM - Staff NPF								39780	39,780
Qard Hassan	-							4,307,751	4,307,751
Qard Hassan-Corporate	-							55,556	55,556
Un authorized OD	-							3,621	3,621
ECL loan and financing								(9,123,093)	(9,123,093)
Other assets (excluding prepayments)	17,279,439								17,279,439
	<b>864,996,850</b>	<b>28,225</b>	<b>71,417,459</b>	<b>4,377,750</b>	<b>4,095,616</b>	<b>933,558,881</b>	<b>14,208,016</b>	<b>28,241,308</b>	<b>1,920,924,105</b>
<b>Off-balance sheet assets:</b>									
Guarantees and indemnities (Note 45)	12,418,095	-	-	-	-	-	-	-	12,418,095
Undrawn Commitments (Note 45)	1,439,771	-	-	-	-	-	-	-	1,439,771
Acceptances and letter of credits	858,681	-	-	-	-	-	-	-	858,681
	<b>14,716,547</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,716,547</b>

At 31 December, 2022

	Financial institutions	Man-ufac-turing	Trading and com-mercial	Transport and com-munica-tion	Agricul-ture	Individuals	Construc-tion	Others	Total
Balances with the Bank of Tanzania	162,869,345								162,869,345
Placement and balances with other Banks	220,938,899								220,938,899
Government securities at Amortised cost	67,277,258								67,277,258
Loan and Advances									
Personal loans	-					687,911,858			687,911,858
Staff Loans	-						6,410,142		6,410,142
Mortgage loans	-						1,126,572		1,126,572
Commercial loan and overdraft	-		17,674,275	778,344			3,703,131	398,021	22,553,771
Others loans and advances	-				380,452			11,950,930	12,331,382
Islamic Financing loan									
Murabaha Personnel	-					75,587,992			75,587,992
Murabaha Commercial	-	24,542	9,772,583	1,156,972	656,338	100,081			11,710,516
Murabaha-SME	-		49,130						49,130
Murabaha Staff	-					462,608			462,608
Murabaha Smida Financing	-		30,989						30,989

	Financial institutions	Man-ufac-turing	Trading and com-mercial	Transport and com-munica-tion	Agricul-ture	Individuals	Construc-tion	Others	Total
Salam Financing	-		1,227,340						1,227,340
Old Ijara	-					8,131			8,131
Istisna Personal	-					150,125			150,125
Istisna Commercial	-		818						818
Tawarruq	-							3,285,310	3,285,310
Commodity Murabah Staff	-					155,915			155,915
Qard Hassan	-							2,165,002	2,165,002
Qard Hassan-Corporate	-							27,514	27,514
Un authorized OD	-							144	144
ECL								(11,090,075)	(11,090,075)
Other assets (excluding prepayments)	6,988,444								6,988,444
	458,073,946	24,542	28,755,135	1,935,316	1,036,790	764,376,710	11,239,846	6,736,846	1,272,179,131
<b>Off-balance sheet assets:</b>									
Guarantees and indemnities (Note 44)	6,996,274	-	-	-	-	-	-	-	6,996,274
Undrawn Commitments (Note 44)	1,684,298	-	-	-	-	-	-	-	1,684,298
Acceptances and letter of credits	12,626,011	-	-	-	-	-	-	-	12,626,011
	<b>21,306,583</b>	-	-	-	-	-	-	-	<b>21,306,583</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10-5 Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Bank classifies exposures to market risk into either trading (the Trading book) or non-trading (the Banking book) portfolios and manages each of those portfolios separately.

Market risk – trading (trading book) includes financial assets and financial liabilities designated at fair value through profit or loss. Market risk (Banking book) is the Bank’s primary business model to collect deposits, and use these funds to provide loans and other funding products and debt instruments to its customers. Interest rate risk is the impact that changes in interest rates could have on the Bank’s margins, profit or loss, and equity. Interest risk arises from the mismatch of interest payable on the Bank’s liabilities and the interest earned on its assets.

The market risk for the trading portfolio is managed and monitored using value at risk (VaR) that reflects the inter-dependency between risk variables. The Bank’s risk management strategy for its Banking book is different for each of the following categories of market risk as Interest rate risk and Currency risk.

All trading instruments are subject to market risk, i.e. the risk that future changes in market conditions may make an instrument less valuable. The instruments are evaluated on daily basis at fair value and all changes in market conditions directly affect trading income. The Bank manages its portfolios in response to changing market conditions. Exposure to market risk is managed in accordance with limits formally set for managing foreign currency assets.

**10-5-1 Interest rate risk**

The Bank is exposed to various risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position cash flows. The table below summarizes the exposure to interest rate risks. Included in the table are the Bank’s assets and liabilities at carrying amounts, categorized by the earlier of contractual reprising or maturity dates. The Bank does not bear an interest rate on off balance sheet items. All figures are in millions of Tanzania Shilling.

**10.5.1 Interest Rate Risk (continued)**  
(Amounts are in TZS '000')

Assets At 31 December 2023	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non - interest bearing	Total
Cash and balances with BOT	-	-	-	-	-	541,002,450	541,002,450
Balance with other Banks (gross)	-	-	-	-	-	189,675,430	189,675,430
Inter Bank Placements	99,509,128	-	-	-	-	-	99,509,128
Government securities at amortized cost	-	-	6,000,000	8,000,000	73,738,228	-	87,738,228
Cheques and Items for Clearing	615,087	-	-	-	-	-	615,087
Loan and advances (Gross amount)	325,002,868	1,153,641	8,954,416	359,473,444	252,816,938	-	947,401,306
Islamic Financing (Gross amount)	88,667,173	5,396,610	1,352,868	8,904,384	-	-	104,321,035
Equity investment at FVOCI Other assets*	17,279,439	-	-	-	-	-	17,279,439
<b>Total assets</b>	<b>531,073,694</b>	<b>6,550,251</b>	<b>16,307,284</b>	<b>376,377,828</b>	<b>329,968,764</b>	<b>730,677,880</b>	<b>1,990,955,732</b>
Liabilities							
Deposits to customers	1,381,702,023	10,536,424	52,217,868	33,602,543	134,355,961	-	1,612,414,819
Special deposits						119,497,883	119,497,883
Other liabilities						12,696,002	12,696,002
Borrowings	90,139,938						90,139,938
<b>Total liabilities</b>	<b>1,471,841,961</b>	<b>10,536,424</b>	<b>52,217,868</b>	<b>33,602,543</b>	<b>134,355,961</b>	<b>132,193,885</b>	<b>1,834,748,642</b>
<b>Total interest sensitivity gap</b>	<b>(940,768,267)</b>	<b>(3,986,173)</b>	<b>(35,910,584)</b>	<b>342,775,285</b>	<b>195,612,803</b>	<b>598,483,995</b>	<b>156,207,090</b>

\*Other assets exclude prepayments and stock

10.5.1 Interest Rate Risk (continued)

(Amounts are in TZS '000')

Assets At 31 December 2022	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non- inter- est bearing	Total
Cash and balances with BOT						229,636,909	229,636,909
Balance with other Banks (gross)						134,304,931	134,304,931
Inter Bank Placements	180,184,618						180,184,618
Government securities at amor- tized cost		4,000,000	6,000,000	5,000,000		51,468,389	66,468,389
Cheques and Items for clearing	579,765						579,765
Loan and advances (Gross amount)	27,937,427	2,831,823	17,353,608	75,719,177	610,412,527		734,254,562
Islamic Financing (Gross amount)	72,379,347	6,649,551	2,395,651	336,982	286,973		82,048,504
Equity investment at FVOCI	-	-	-	-	7,703,440		7,703,440
Other assets*	23,858,395						23,858,395
<b>Total assets</b>	<b>306,251,725</b>	<b>13,481,374</b>	<b>25,749,259</b>	<b>81,056,159</b>	<b>618,402,940</b>	<b>415,410,229</b>	<b>1,459,039,513</b>
Liabilities							
Deposits to customers	817,707,631	85,509,219	21,478,757	26,129,444		107,716,112	950,825,051
Special deposits						12,696,002	107,716,112
Other liabilities							12,696,002
Borrowings	153,619,913	-					153,619,913
<b>Total liabilities</b>	<b>971,327,544</b>	<b>85,509,219</b>	<b>21,478,757</b>	<b>26,129,444</b>	<b>-</b>	<b>120,412,114</b>	<b>1,24,857,078</b>
<b>Total interest sensitivity gap</b>	<b>(665,075,819)</b>	<b>(72,027,846)</b>	<b>4,270,502</b>	<b>54,926,715</b>	<b>618,402,940</b>	<b>294,998,115</b>	<b>234,182,435</b>

\*Other assets exclude prepayments and stock

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

10.5. Market Risk (continued)

10-5-2 Currency risk

The Bank takes on exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposures by currency and these limits are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange as at 31 December. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency. All figures are in thousands of Tanzania Shilling.

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10.5. Market Risk (continued)**  
**10.5.2 Currency risk (Continued)**

(Amounts are in TZS '000'):  
**At 31 December 2023**

Assets	USD	GBP	EURO	KES	UGX	AED	ZAR	SAR	OMR	TOTAL
Cash	17,189	194	1,598	18,648	155,396	20	4,675	7	12	197,739
Balance with Bank of Tanzania	160,961	-	-	7,664	4,938	-	-	-	-	173,563
Deposits from other Bank	31,972	280	3,023	-	-	-	-	-	-	35,275
Cheque and items for clearing	11	-	-	-	-	-	-	-	-	11
Inter Bank placement	9,500	-	-	-	-	-	-	-	-	9,500
Loans and advances	30,514	-	-	-	-	-	-	-	-	30,514
Equity investment at FVOCI	742	-	44	-	-	-	-	-	-	786
Other assets	331,313	313	4,420	-	-	-	-	-	-	336,046
	<b>582,202</b>	<b>787</b>	<b>9,085</b>	<b>26,312</b>	<b>160,334</b>	<b>20</b>	<b>4,675</b>	<b>7</b>	<b>12</b>	<b>783,434</b>
<b>Liabilities</b>										
Customers' Deposits	272,735	460	4,949	-	-	-	-	-	-	278,144
Other Liabilities	338,703	326	4,129	-	-	-	-	-	-	343,158
<b>Total Foreign Currency Liabilities</b>	<b>611,438</b>	<b>786</b>	<b>9,078</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>621,302</b>
<b>Net Balance Sheet Position</b>	<b>(29,236)</b>	<b>1</b>	<b>7</b>	<b>26,312</b>	<b>160,334</b>	<b>20</b>	<b>4,675</b>	<b>7</b>	<b>12</b>	<b>162,132</b>
<b>Off balance sheet exposure</b>	<b>858,681</b>									<b>858,681</b>
<b>Letter of credit</b>										

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10.5. Market Risk (continued)**  
**10.5.2 Currency risk (Continued)**

(Amounts are in TZS '000'):  
**At 31 December 2022**

Assets	USD	GBP	EURO	KES	UGX	AED	ZAR	SAR	OMR	TOTAL
Cash	15,289	99	1,340	18,752	106,838	190	3,105	126,775	136	272,524
Balance with Bank of Tanzania	11,631	-	-	3,266.00	6,053	-	-	-	-	20,950
Deposits from other Bank	51,682	338	4,701	-	-	-	-	-	-	56,721
Cheque and items for clearing	9	-	-	-	-	-	-	-	-	9
Inter Bank placement	34,300	-	-	-	-	-	-	-	-	34,300
Loans and advances	7,445	-	728	-	-	-	-	-	-	8,173
Equity investment at FVOCI	658	-	44.00	-	-	-	-	-	-	702
Other assets	49,766	438	4,602	-	-	-	-	-	-	54,806
	<b>170,780</b>	<b>875</b>	<b>11,415</b>	<b>22,018</b>	<b>112,891</b>	<b>190</b>	<b>3,105</b>	<b>126,775</b>	<b>136</b>	<b>448,185</b>
<b>Liabilities</b>										
Customers' Deposits	129,081	462	1,549	-	-	-	-	-	-	131,092
Other Liabilities	160,035	413	9,138	-	-	-	-	-	-	169,586
<b>Total Foreign Currency Liabilities</b>	<b>289,116</b>	<b>875</b>	<b>10,687</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>300,678</b>
<b>Net Balance Sheet Position</b>	<b>(118,336)</b>	<b>0</b>	<b>728</b>	<b>22,018</b>	<b>112,891</b>	<b>190</b>	<b>3,105</b>	<b>126,775</b>	<b>136</b>	<b>147,507</b>
<b>Off balance sheet exposure</b>	<b>2,189,864</b>	<b>-</b>	<b>10,436,146</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>342,596</b>
<b>Letter of credit</b>										

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10-6 Liquidity risk**

Liquidity risk is defined as the risk that the Bank does not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances.

Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis.

**10-6-1 Liquidity risk management process**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from financial liabilities. The Assets and Liabilities Committee (ALCO), a management committee is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due, and that the Bank will not encounter difficulty in meeting obligations from its financial liabilities as they occur. ALCO relies substantially on the Bank’s Treasury section to coordinate and ensure discipline across the Bank, certify sufficient liquidity under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank’s reputation.

**10-6-2 Funding approach**

The Bank’s major source of funding is customer deposits. To this end, the Bank maintain a diversified and stable funding base comprising current/demand, savings and time deposits. The Bank places considerable importance on the stability of these deposits, which is achieved through the operations Banking activities and by maintaining depositor confidence in the Bank’s business strategies and financial strength.

The Bank borrows from the inter-Bank market through transactions with other Banks for short term liquidity requirements. As part of the contingency funding plan, the Bank has also long-term funding as bond from pension funds for long term liquidity assurance.

**10-6-3 Financial Assets and liability held for managing liquidity risk**

The Bank’s assets held for managing liquidity risk comprise:

- Cash and balances with the Bank of Tanzania (excluding SMR);
- Investment in government securities; and
- Placements with other Banks:

In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

<b>Assets At 31 December 2023</b>	<b>Up to 1 month</b>	<b>1 - 3 months</b>	<b>3 - 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
	<b>TZS '000'</b>	<b>TZS '000'</b>	<b>TZS '000'</b>	<b>TZS '000'</b>	<b>TZS '000'</b>
Cash	71,077,690	-	-	-	<b>71,077,690</b>
Balance with Bank of Tanzania	469,924,760	-	-	-	<b>469,924,760</b>
Investment in Debt Securities	189,675,430-	-	6,000,000	81,738,228	<b>87,738,228</b>
Interbank Loans Receivable	-	99,509,128	-	-	<b>99,509,128</b>
<b>Total assets</b>	<b>730,677,880</b>	<b>99,509,128</b>	<b>6,000,000</b>	<b>81,738,228</b>	<b>917,925,236</b>
<b>Liabilities</b>					
Deposits from customers	1,381,702,023	10,536,424	52,217,868	167,958,504	<b>1,612,414,819</b>
Deposits from Banks	170,475				<b>170,475</b>
Lease liability			1,803,830	6,277,880	<b>8,081,710</b>
Other liabilities (excluding non-financial liabilities)	-	-	-	8,813,082	<b>8,813,082</b>
<b>Total liabilities</b>	<b>1,381,872,498</b>	<b>10,536,424</b>	<b>54,021,698</b>	<b>183,049,466</b>	<b>1,629,480,086</b>
<b>Net liquidity position</b>	<b>(651,194,618)</b>	<b>88,972,704</b>	<b>(48,021,698)</b>	<b>(101,311,238)</b>	<b>(711,554,850)</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

Assets At 31 December 2022	Up to 1 month	1 - 3 months	3 - 12 months	Over 1 year	Total
	TZS' 000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'
Cash	66,767,564	-	-	-	<b>66,767,564</b>
Balance with Bank of BOT	162,869,345	-	-	-	<b>162,869,345</b>
Balance with other Banks and Financial Institutions	134,304,931	-	-	-	<b>134,304,931</b>
Investments in Debt Securities	-	4,000,000	6,000,000	56,468,389	<b>66,468,389</b>
Interbank Loans Receivable	-	180,184,618	-	-	<b>180,184,618</b>
<b>Total assets</b>	<b>730,677,880</b>	<b>184,184,618</b>	<b>6,000,000</b>	<b>56,468,389</b>	<b>610,594,847</b>
Liabilities					
Deposits from customers	817,707,631	85,509,219	21,478,757	26,129,444	<b>950,825,051</b>
Deposits from Banks	1,560,885	-	-	-	<b>1,560,885</b>
Other liabilities (excluding non-financial liabilities)	-	-	-	16,136,013	<b>16,136,013</b>
<b>Total Liabilities</b>	<b>819,268,516</b>	<b>85,509,219</b>	<b>21,478,757</b>	<b>42,265,457</b>	<b>968,521,949</b>
<b>Net liquidity position</b>	<b>(455,326,676)</b>	<b>98,675,399</b>	<b>(15,478,757)</b>	<b>14,202,932</b>	<b>(357,927,102)</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10-7 Off-balance sheet items**

**a. Undrawn commitments, outstanding letters of credit, guarantee and indemnities**

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 44) are summarised in the table below.

**b. Financial guarantees and other financial facilities**

Financial guarantees (Note 45) are also included below based on the earliest contractual maturity date.

At 31 December 2023	No later than 1 year	1 – 5 years	Total
	TZS' 000'	TZS '000'	TZS '000'
Guarantee and indemnities	12,418,095	-	<b>12,418,095</b>
Undrawn commitments	1,439,771	-	<b>1,439,771</b>
Acceptance and letter of credit	858,681	-	<b>858,681</b>
<b>Total</b>	<b>14,716,547</b>	<b>-</b>	<b>14,716,547</b>

At 31 December 2022	No later than 1 year	1 – 5 years	Total
	TZS' 000'	TZS '000'	TZS '000'
Guarantee and indemnities	6,996,274	-	<b>6,996,274</b>
Undrawn commitments	12,626,011	-	<b>12,626,011</b>
Acceptance and letter of credit	1,684,298	-	<b>1,684,298</b>
<b>Total</b>	<b>21,306,583</b>	<b>-</b>	<b>21,306,583</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**10–8 Fair value of financial assets and liabilities**

**10–8–1 Fair value estimation**

IFRS 13 requires the Bank to classify fair value measurements using a fair value hierarchy that rejects the significance of the inputs used in making the measurements.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

There were no transfers between the levels during the year.

**Fair value of financial assets and liabilities that are not measured at fair value**

**Cash and balances with Bank of Tanzania**

The carrying amount of cash and balances with Bank of Tanzania is a reasonable approximation of fair value.

**Investment in government securities**

Investment in government securities includes treasury bonds and treasury bills. The fair value of government securities has been determined by discounting the estimated future cash flows expected cash flows at current market yields as observed from rates of similar bills and bonds traded by Bank of Tanzania.

**Loans and advances to banks**

Loans and advances to Banks include inter-Bank placements and items in the course of collection. The carrying amount of floating rate placements and overnight advances is a reasonable approximation of fair value. The estimated fair value of fixed interest-bearing advances is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

**Deposits from Banks and customers**

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity

**Borrowings**

Significant portion of borrowing is benchmarked to LIBOR and therefore reprices at balance sheet date. Management has considered the impact of borrowings with fixed interest rate as insignificant to the total fair value of borrowings. The fair value of borrowings therefore approximates its carrying value.

Financial Assets	Hierarchy level	Carrying amount	
		2023 TZS'000'	2023 TZS'000'
Cash and balances with Bank of Tanzania	Level 2	640,969,430	229,636,909
Government securities at amortised cost (Treasury bonds)	Level 1	83,006,670	58,067,751
Government securities at amortised cost (Treasury bills)	Level 2	4,731,557	8,400,638
Placement and balances with other Banks	Level 2	188,830,909	220,938,899
Loans and advances to customers	Level 3	935,575,786	721,071,142
Other assets (excluding prepayment)	Level 3	17,279,439	25,170,568
		<b>1,870,393,791</b>	<b>1,263,285,907</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**10. FINANCIAL RISK MANAGEMENT (CONTINUED)**

Financial Liabilities	Hierarchy level	Carrying amount	
		2023 TZS'000'	2023 TZS'000'
Deposits from customers	Level 3	1,731,912,702	1,063,232,624
Deposits from Banks	Level 2	170,475	1,560,885
Subordinated debt	Level 3	20,418,171	20,418,171
Borrowings	Level 3	90,139,938	153,619,913
Other liabilities (Excluding non-financial other liabilities)	Level 3	16,499,556	16,136,013
Other assets (excluding prepayment)	Level 3	1,859,140,842	1,254,967,606
		<b>1,870,393,791</b>	<b>1,263,285,907</b>

Fair value of financial assets and liabilities that are measured at fair value through other comprehensive income is as follows:

Debt Instrument at Fair Value through OCI	Level 1 TZS'000'	Level 2 TZS'000'	Level 3 TZS'000'	Total TZS'000'
Treasury bonds	85,263,034	-	-	85,263,034
Equity investment	3,413,598	-	-	3,413,598
Total Assets	88,676,632	-	-	88,676,632

Reconciliation of Level 3 - Equity investments	2023 TZS'000'	2022 TZS'000'
At January	5,703,440	6,982,171
Revaluation gain		-
Revaluation Loss	(2,289,842)	(1,278,731)
Purchases		-
<b>At 31 December</b>	<b>3,413,598</b>	<b>5,703,440</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**11. CASH AND BALANCE WITH BANK OF TANZANIA**

	2023 TZS'000'	2022 TZS'000'
Local and foreign cash in hand	71,077,690	66,767,564
Current account with BOT	489,566,398	120,416,869
Deposit with BOT (SMR balance)	80,614,362	42,479,575
	<b>641,258,450</b>	<b>229,664,008</b>
Less Allowance for ECL	289,020	27,099
<b>TOTAL</b>	<b>640,969,430</b>	<b>229,636,909</b>

Deposit with the BOT represents mandatory Statutory Minimum Reserve (SMR) reserve deposits which is not available for use in the Bank's Day-to-day operations.

In accordance with Sections 4 and 71 of the Banking and Financial Institutions Act, 2006; the Bank is required to maintain SMR on its total deposit liabilities and funds borrowed from the general public. The SMR deposit should be at least 10% of customers' total deposits and borrowings from the general public and 40% of government's deposits. The SMR deposit is therefore excluded from cash and cash equivalents for the purpose of the statement of cash flows (Note 42). Balances with Central Banks are non-interest-bearing assets.

Movement of Expected Credit Loss allowance:	Stage 1	Total TZS'000'
ECL allowance as at 1 January 2023	27,099	27,099
Net recovery through P&L during the year	261,921	261,921
<b>ECL allowance as at 31 December 2023</b>	<b>289,020</b>	<b>289,020</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**12. PLACEMENTS WITH OTHER BANKS**

	2023 TZS'000'	2022 TZS'000'
Balance with local banks	1,284,023	3,009,165
Foreign Banks - Nostro accounts	88,135,387	37,568,166
Conventional Inter-Bank placements	99,509,128	180,184,618
Sub total	<b>188,928,538</b>	<b>220,761,949</b>
Add Interest receivable	22,401	345,150
Sub total	<b>188,950,939</b>	<b>221,107,099</b>
Less: Allowance for ECL	120,030	168,200
	<b>188,830,909</b>	<b>220,938,899</b>

**Movement of ECL allowance:**

	Stage 1 12-month ECL TZS'000'	Stage 2 Lifetime ECL TZS'000'	Stage 3 Lifetime ECL TZS'000'	Total TZS'000'
ECL Allowance as at 1 January 2023	168,200	-	-	168,200
Net charge through profit or loss during the year	(48,170)	-	-	(48,170)
ECL allowance as at 31 December 2023	120,030	-	-	120,030

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**13. GOVERNMENT SECURITIES AT AMORTISED COST**

	2023 TZS'000'	2022 TZS'000'
Treasury bills	5,000,000	8,500,000
Treasury bonds	83,006,670	58,067,751
Total Treasury bill and bonds	88,006,670	66,567,751
Discount earned not due on treasury bills	(268,443)	(99,362)
Interest Receivable on treasury bonds	2,256,364	1,300,323
Sub Total	<b>89,994,591</b>	<b>67,768,712</b>
Less: Allowance for ECL	999,829	491,453
Net Investment in securities	<b>88,994,762</b>	<b>67,277,259</b>

**Movement of ECL allowance:**

	Stage 1 12-month ECL TZS'000'	Stage 2 Lifetime ECL TZS'000'	Stage 3 Lifetime ECL TZS'000'	Total TZS'000'
ECL Allowance as at 1 January 2023	491,453	-	-	491,453
Net charge through profit or loss during the year	508,376	-	-	508,376
ECL allowance as at 31 December 2023	999,829	-	-	999,829

**Investment in debt securities by maturity:**

(a) Treasury bills	2023 TZS'000'	2022 TZS'000'
Maturing within 3 months	-	-
Maturing after 3 months but within 12 months	5,000,000	8,500,000
	<b>5,000,000</b>	<b>8,500,000</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**13. GOVERNMENT SECURITIES AT AMORTISED COST (CONTINUED)**

(a) Treasury bonds	2023 TZS'000'	2022 TZS'000'
Maturing within 3 months	-	-
Maturing after 3 months but within 12 months	83,006,670	58,067,751
Maturity after 1 year but within 5 years	-	-
	<b>83,006,670</b>	<b>58,067,751</b>

The maturity analysis is based on the remaining periods to contractual maturity from year end.

**14. LOAN AND ADVANCES TO CUSTOMERS**

	2023 TZS'000'	2022 TZS'000'
Personal Loans	847,078,369	687,911,858
Staff Loan	9,835,314	6,410,142
Mortgage Loans	669,571	1,126,573
Commercial loan and overdraft	68,749,062	22,553,772
Other Loan and Advance	15,785,902	12,331,251
Sub total	<b>942,118,218</b>	<b>730,333,596</b>
Add: Accrued interest	5,283,088	3,920,968
<b>Less: Interest in Suspense</b>	3,544,434	3,447,402
	<b>943,856,872</b>	<b>730,807,162</b>
<b>Less: Allowance for ECL</b>	8,281,086	9,736,020
	<b>935,575,786</b>	<b>721,071,142</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**13. GOVERNMENT SECURITIES AT AMORTISED COST (CONTINUED)**

**Analysis by geographical location**

	2023 TZS'000'	2022 TZS'000'
Zanzibar (Unguja)	373,641,206	262,157,066
Zanzibar (Pemba)	69,902,300	55,645,649
Dar es Salaam	359,797,602	319,302,637
Mtwara	67,893,876	58,213,684
Dodoma	70,883,234	35,014,560
<b>Total gross loans and advances</b>	<b>942,118,218</b>	<b>730,333,596</b>

**Movement of ECL allowance:**

	Stage 1 12-month ECL TZS'000'	Stage 2 Lifetime ECL TZS'000'	Stage 3 Lifetime ECL TZS'000'	Total TZS'000'
ECL allowance as at 1 January 2023	6,136,132	694,145	2,905,743	9,736,020
Write off during the year	-	-	(2,653,322)	(2,653,322)
Recovery of loan and Advances	(12,925)	-	-	(12,925)
Additional provision during the year	-	-	1,211,313	1,211,313
ECL allowance as at 31 December 2023	<b>6,123,207</b>	<b>694,145</b>	<b>1,463,734</b>	<b>8,281,086</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**15. ISLAMIC FINANCING AND INVESTMENT TO CUSTOMERS**

	2023 TZS'000'	2022 TZS'000'
Murabaha Personnel Financing	83,964,818	75,587,992
Murabaha Staff Financing	402,974	462,608
Commodity Murabah Corporate	314,242	-
CM- Corporate arrears	10,971	-
CM - Staff NPF	37,231	-
CM - Staff Arrears- NPF	2,549	-
Tawarruq	20,597,771	3,285,310
<b>Ijarah Personnel Financing</b>	110,363	171,547
Commodity Murabaha Staff	1,791,084	155,915
<b>Istisna Financing Commercial</b>	-	818
Murabaha Smida Financing	-	30,989
Murabaha-SME	88,474	49,130
Salam Financing	60,000	1,227,340
Istisna Personnel	208,191	150,125
Qard Hassan-Corporate	55,556	27,514
Murabaha Commercial Financing	10,973,452	11,710,516
Old Ijarah	3,083	8,131
Qard Hassan-Staff	2,454,997	2,165,002
Qard Hassan-SME	1,823,726	-
Qard Hassan- SMIDA arrears	29,028	-
Unauthorized OD	3,621	144
<b>Total Islamic Financing</b>	<b>122,932,131</b>	<b>95,033,081</b>
Sukuk Investment	8,000,000	7,000,000
Profit receivable (sukuk)	116,158	68,372
Total Sukuk Investment	8,116,158	7,068,372
Less: Deferred profit	26,727,253	20,052,950
Less: Unearned profit receivable	133,564	59,266
<b>Gross financing and investment</b>	<b>104,187,472</b>	<b>81,989,237</b>
Less Allowance for ECL	842,007	1,354,055
<b>Net Islamic Financing and Investment</b>	<b>103,345,465</b>	<b>80,635,182</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**15. ISLAMIC FINANCING AND INVESTMENT TO CUSTOMERS (CONTINUED)**

**Analysis by geographical location**

	2023 TZS'000'	2022 TZS'000'
Zanzibar (Unguja)	85,297,161	61,857,701
Zanzibar (Pemba)	16,174,902	12,394,388
Dar es Salaam	16,148,969	14,840,659
Mtwara	2,095,209	4,386,995
Dodoma	3,215,890	1,553,338
<b>Total gross loans and advances</b>	<b>122,932,131</b>	<b>95,033,081</b>

**16. EQUITY INVESTMENT**

**16-1 INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	BANK	
	2023 TZS'000'	2022 TZS'000'
Afrexim Bank (Headquarter in Egypt)	2,169,887	1,542,619
TMRC Company	1,013,750	1,013,750
UMOJA SWITCH	100,831	38,200
SWIFT Company	129,131	108,871
Mucoba Bank Plc	5,000,000	5,000,000
<b>Sub-Total</b>	<b>8,413,599</b>	<b>7,703,440</b>
Allowance for Equity impairment	(5,000,000)	(2,000,000)
<b>Net Equity investment at fair value</b>	<b>3,413,599</b>	<b>5,703,440</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**16. EQUITY INVESTMENT (CONTINUED)**

**16.1 INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)**

**Impairment charge movement**

	2023 TZS'000'	2022 TZS'000'
At start of the year	2,000,000	-
Charge for the year	3,000,000	2,000,000
<b>At end of year</b>	<b>5,000,000</b>	<b>2,000,000</b>

- The Bank interest in AFREXIM Bank is of 37 Class B ordinary shares at cost of USD 489,810 (TZS 1,228 million) called up at 2 out of 5 instalments had been paid. The NAV per share published in audited financial statement as at 31st December, 2022 was USD 58,495.80 per share. The AFREXIM Bank is actively traded on Stock Exchange of Mauritius with readily available active prices per Depository Receipt (DR). The Equity investment is measured at FVOCI, within 2023 the bank makes additional 4 new shares at cost of USD 20,824.35 per share resulted to aggregate revalued investment amount of TZS 2,170 million that make additional gain of TZS 311million as shown in statement of comprehensive income and statement of change in equity.
- Investment in TMRC Co Ltd. (Tanzania Mortgage Refinancing Company) was made in year 2012 and during year 2019 the Bank invested additional 125,000 share ordinary through right issue. As at 31 December 2023, the Bank total investment was 625,000 shares valued at TZS 1,622 per share each fully paid up.
- Investment UMOJA SWITCH Company was made in year 2012. This company established and incorporated in Tanzania owned by member Banks in UMOJA SWITCH network. The Bank invests 39 shares each TZS 1,000,000 per value and fully paid up. The value of share at end of year 2023 was TZS 2,605,916 per share resulting to gain of share valuation of TZS 63 million.
- Investment in SWIFT Company was made in April year 2018. The Bank invests 6 shares each EURO 4,665 per value and fully paid up. The share valuation made at the end of year 2023 was EURO 7,760 per share. The valuation gain was TZS 8 million.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**17. OTHER ASSETS**

	2023 TZS'000'	2022 TZS'000'
Dividend Receivable	-	24,760
Staff Advances	170,059	272,444
Imprest	17,317	9,300
Stationery Stock	68,775	20,917
Writing matters stock	263,420	122,752
Computers Items stock	195,837	90,933
Murabaha Advance payment for stock	13,942,817	3,906,968
<b>Tawarruq Advance</b>	-	8,480
Float Postal Corporation	100,000	100,000
<b>PG MNO customer to Bank</b>	131,794	362,429
Cash shortage, misappropriation & forgery	222,405	229,813
Salam Goods-Corporate	74,614	74,431
MNO's for GePG Receivable	715	4,592
UBX Future investment account	800,399	507,564
Suspense Miscellaneous	12,132,044	12,629,513
Entries in transit Local	215,284	-
Treasury spot sale	138,672	748,156
Prepayments (Note 17.1)	1,532,115	1,269,689
Accounts Receivables (Note 17.2)	5,127,135	2,763,131
MNO Receivables (Note 17.3)	3,844,541	5,721,181
<b>Sub total</b>	<b>38,977,943</b>	<b>28,867,053</b>
Less: Allowance for ECL	13,059,401	13,146,314
<b>Total</b>	<b>25,918,542</b>	<b>15,720,739</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**17. OTHER ASSETS (CONTINUED)**

**17-1 PREPAYMENTS**

	2023 TZS'000'	2022 TZS'000'
Prepaid insurance	724,041	733,864
Prepaid service contract	781,439	481,772
Prepaid expenses	19,806	54,053
Prepaid Rent	6,829	-
<b>Total Prepayments</b>	<b>122,932,131</b>	<b>95,033,081</b>
<b>Account Receivables</b>	<b>2,730,466</b>	<b>1,250,478</b>
Western Union Receivable	30,967	72,642
World Remit Receivable	70	64,328
Selcom (mobile Banking) Receivable	960,965	1,081,683
XM Receivable	57	20,492
Vat Control Account	279,497	184,844
Commission Receivables	32,022	32,191
OA - EFT inward transfer	235,836	-
VISA Collateral Receivable	856,715	-
TRA Receivable	-	56,473
Visa Commission Receivable	540	-
<b>Total Account Receivables</b>	<b>5,127,135</b>	<b>2,763,131</b>
<b>17.2 MNO Receivables</b>		
Ezypesa e Money	-	7,374
Halopesa e-Money	651,622	1,097,266
Halopesa/Tigopesa Super-Agent receivable	200,851	100,417
Selcom Super dealer receivables	10,000	-
M Pesa e Money	1,760,270	844,874
Government Ezypesa receivable	4,688	4,688

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**17. OTHER ASSETS (CONTINUED)**

	2023 TZS'000'	2022 TZS'000'
Airtel money super dealer	37,126	669,587
PBZ Pos merchant receivable	140,149	40,055
Tigo pesa Money	1,039,835	2,956,920
<b>Total MNO's receivables</b>	<b>3,844,541</b>	<b>4,971,820</b>
<b>At start of the year</b>	<b>13,146,314</b>	<b>14,153,265</b>
<b>(Charge) /recovery for the year</b>	<b>(86,913)</b>	<b>(1,006,951)</b>
<b>At end of year 2023</b>	<b>13,059,401</b>	<b>13,146,314</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**18. PROPERTIES AND EQUIPMENT AND RIGHT-OF-USE ASSETS**

2023

Particulars	Land and Building	Leasehold Property	Furniture	Equipment and Other Office Machinery	Computers	Right on use asset	Motor Vehicles and Cycles	Capital WIP*	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cost / Valuation:									
At 1.1.2023	16,390,571	9,550,939	1,634,715	15,845,299	2,428,286	-	2,903,446	911,528	62,805,629
Transfer from WIP	8,071	669,279	-	-	-	13,140,847	-	(677,351)	-
Disposal	-	-	(45,921)	(651,586)	(123,906)	-	-	-	(821,414)
Additions (Cost)	950,000	126,709	179,653	1,711,607	237,745	1,733,450	15,000	2,969,876	7,924,040
Adjustment								(8,654)	(8,654)
<b>At 31.12.2023</b>	<b>17,348,642</b>	<b>10,346,927</b>	<b>1,768,447</b>	<b>16,905,319</b>	<b>2,542,125</b>	<b>14,874,297</b>	<b>2,918,446</b>	<b>3,195,400</b>	<b>69,899,602</b>
Depreciation:									
At 1.1.2023	1,194,510	4,559,731	1,102,336	10,299,419	1,943,393	5,130,858	1,232,997	-	25,314,617
Disposal	-	-	(43,160)	(631,075)	(121,244)	-	-	-	(795,479)
Charge for the year	318,088	710,720	196,707	1,844,510	263,717	1,489,414	329,608		5,152,765
<b>At 31.12.2023</b>	<b>1,512,598</b>	<b>5,270,451</b>	<b>1,255,883</b>	<b>11,512,854</b>	<b>2,085,866</b>	<b>6,620,272</b>	<b>1,562,605</b>		<b>29,820,529</b>
<b>Carrying amount At 31.12.2023</b>	<b>15,836,044</b>	<b>5,076,476</b>	<b>512,563</b>	<b>5,392,465</b>	<b>456,259</b>	<b>8,254,025</b>	<b>1,355,841</b>		<b>40,079,073</b>

**Note:** Capital Work in progress (WIP) relates to investment in fixed assets projects includes buildings which are in construction process. Adjustments related to the amount of fixed assets over accruing for the previous years.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**18. PROPERTIES AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)**

2022

Particulars	Land and Building	Leasehold Property	Furniture	Equipment and Other Office Machinery	Computers	Right on use asset	Motor Vehicles and Cycles	Capital WIP*	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cost / Valuation:									
At 1.1.2022	16,242,956	6,274,663	1,513,501	14,087,716	2,161,579	2,026,105	11,411,756	4,444,826	58,163,102
Transfer from WIP	147,616	3,235,658	-	-	46,196	759,547	-	(4,189,017)	-
Disposal	-	-	-	(4,970)	(8,450)	(2,806)	-	(6,760)	(22,986)
Additions (Cost)	-	40,617	121,213	1,762,554	228,962	120,600	1,729,090	662,478	4,665,514
<b>At 31.12.2022</b>	<b>16,390,572</b>	<b>9,550,938</b>	<b>1,634,714</b>	<b>15,845,300</b>	<b>2,428,287</b>	<b>2,903,446</b>	<b>13,140,846</b>	<b>911,527</b>	<b>62,805,630</b>
Depreciation:									
At 1.1.2022	878,643	3,991,121	915,219	8,537,022	1,673,402	952,258	3,422,485	-	20,370,150
Transfer to Disposal	-	-	-	-	-	(2,588)	-	-	(2,588)
Charge for the year	315,868	568,610	187,117	1,762,396	269,991	283,327	1,559,747	-	4,947,056
<b>At 31.12.2022</b>	<b>1,194,511</b>	<b>4,559,731</b>	<b>1,102,336</b>	<b>10,299,418</b>	<b>1,943,393</b>	<b>1,232,997</b>	<b>4,982,232</b>	<b>-</b>	<b>25,314,618</b>
<b>Carrying amount At 31.12.2022</b>	<b>15,196,061</b>	<b>4,991,207</b>	<b>532,378</b>	<b>5,545,882</b>	<b>484,894</b>	<b>1,670,449</b>	<b>8,158,614</b>	<b>911,527</b>	<b>37,491,012</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**19. INTANGIBLE ASSETS**

2023

	Swift software	K-Printer Checker Module	AML Solution for CBS	Mobile Bank Solution	ICSF Financial system (Banks)	Interface between BR and Swift system (SSTP)	Soft Net (Call Centre)	Auto backup software	Cheque Clearing Software	Others	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
At 01.01.2023	32,594	17,821	198,870	65,050	6,396,615	171,647		59,569	80,021	6,787,618	13,809,805
Transfer from WIP int	-	-	-	-	-	-	46,445	-	-	(46,445)	-
Adjustment									-	(149,193)*	(149,193)
Additions for the year		-			146,256	-	-	-		754,264	900,520
<b>At 31.12.2023</b>	<b>32,594</b>	<b>17,821</b>	<b>198,870</b>	<b>65,050</b>	<b>6,542,871</b>	<b>171,647</b>	<b>46,445</b>	<b>59,569</b>	<b>80,021</b>	<b>7,346,244</b>	<b>14,561,132</b>
Amortization At 01.01.2023	2,037	1,114	12,429	4,066	395,474	10,728	1,355	3,723	5,001	313,686	749,613
Charge for the year											
<b>Balance as 31.12.2023</b>	<b>2,037</b>	<b>1,114</b>	<b>12,429</b>	<b>4,066</b>	<b>395,474</b>	<b>10,728</b>	<b>1,355</b>	<b>3,723</b>	<b>5,001</b>	<b>313,686</b>	<b>749,613</b>
Net book value At 31.12.2023	30,557	16,707	186,441	60,984	6,147,397	160,919	45,090	55,846	75,020	7,032,558	13,811,519

\*Adjustment figure related to refund from MasterCard for overcharging licence cost.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**19. INTANGIBLE ASSETS (CONTINUED)**

2022

	Swift software	K-Printer Checker Module	Mobile Bank Solution	ICSF Financial system (Banks)	Interface between BR and Swift system (SSTP)	Soft Net (Call Centre)	Auto backup software	Cheque Clearing Software	Others	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
At 01.01.2022	34,631	18,935	211,299	69,116	6,536,183	182,375	63,292	85,022	6,929,415	14,130,268
Transfer from WIP int	-	-	-	-	243,982	-	-	-	(243,982)	-
Adjustment	-	-	-	-	-	-	-	-	(231,441)	(231,441)
Additions for the year		-					--		615,488	615,488
<b>At 31.12.2022</b>	<b>34,631</b>	<b>18,935</b>	<b>211,299</b>	<b>69,116</b>	<b>6,780,165</b>	<b>182,375</b>	<b>63,292</b>	<b>85,022</b>	<b>7,069,479</b>	<b>14,514,314</b>
Amortization At 01.01.2022	2,037	1,114	12,429	4,066	383,550	10,728	3,723	5,001	281,861	704,509
Charge for the year										
<b>Balance as 31.12.2022</b>	<b>2,037</b>	<b>1,114</b>	<b>12,429</b>	<b>4,066</b>	<b>383,550</b>	<b>10,728</b>	<b>3,723</b>	<b>5,001</b>	<b>281,861</b>	<b>704,509</b>
Net book value At 31.12.2022	32,594	17,821	198,870	65,050	6,396,615	171,647	59,569	80,021	6,787,618	13,809,805

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**20. DEPOSITS TO CUSTOMERS**

	2023 TZS'000'	2022 TZS'000'
<b>20-1 Conventional Banking</b>		
Current Accounts Deposits	840,612,867	467,959,174
Savings Deposits	156,411,502	138,458,239
Time Deposits	196,356,415	99,248,866
Matured time deposit	420	176,223
Accrued Interest on Time Deposits	73	4,494,461
Accrued Interest on Saving Deposits	4,613,392	79
	<b>1,197,994,669</b>	<b>710,337,043</b>
<b>Special Deposits</b>		
Letter of credit & Guarantees Cash Cover	12,695,346	12,431,517
Special deposit account	748,540	70
CASH MARGIN SPECIAL DEPOSIT	103,751,529	94,267,404
KYC does not comply deposits	2,302,467	1,017,121
<b>Total Special Deposits</b>	<b>119,497,882</b>	<b>107,716,112</b>
<b>Total conventional deposits</b>	<b>1,317,492,551</b>	<b>818,053,155</b>
<b>20-2 Islamic Banking</b>		
Current Account Deposits		
Al wadiah	243,134,189	126,475,826
Mudharaba	9,099	27,427
Qard Current	21,778	2,506
Total current deposit	<b>243,165,066</b>	<b>126,505,759</b>
<b>Savings Deposits</b>		
Al wadiah	140,619,449	105,753,345
Total saving deposit	<b>140,619,449</b>	<b>105,753,345</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**20. DEPOSITS TO CUSTOMERS (CONTINUED)**

	2023 TZS'000'	2022 TZS'000'
<b>Fixed Deposits</b>		
Mudharaba	843,099	764,493
Islamic time deposit intermediate	29,244,599	11,958,952
Profit payable Mudharaba	547,938	196,920
<b>Fixed Deposit</b>	<b>30,635,636</b>	<b>12,920,365</b>
<b>Total Islamic Deposits</b>	<b>414,420,151</b>	<b>245,179,469</b>

**Deposit by maturity**

	2023 TZS'000'	2022 TZS'000'
Repayable on demand	1,258,230,772	978,154,250
Maturing within 3 months	258,666,960	36,413,637
After 3 months but within 6 Months	52,217,868	27,185,980
Maturing after 6 months	162,797,102	21,478,757
Total deposit	<b>1,731,912,702</b>	<b>1,063,232,624</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**21. OTHER LIABILITIES**

	2023 TZS'000'	2022 TZS'000'
Payment Order Outwards & transfers payable	144,509	-
Accrual Expenses Payable	1,161,807	1,615,870
Provisions	2,536,348	413,632
Employee Retirement Benefit Provision	1,546,671	1,571,151
Employee Leave Provisions	-	400
Accounts and other Payable	166,628	951,653
Cheques & Drafts Issued	438,165	284,890
Clearing room-cheque	83,563	102,813
Lease Liability (Note: 21.1)	8,081,710	8,047,117
Treasury Spot deal payable	138,692	750,437
Entries In Transit ( Local)	-	398,559
Withholding tax	1,267,206	818,446
Other Islamic financing	297,180	891,759
Master card clearing ATM	17,318	5,104
Master card clearing POS	4,492	677
Western Union payable	215,958	-
Visa Clearing - POS	1,479	2,603
World remit payable	24,558	277,486
Pg MNO TOPUPS	356,126	-
Currency Position-Spot	-	37
EDC Payment order suspense	2,842	2,799
Miscellaneous Suspense (Liability)	14,304	581
	<b>16,499,556</b>	<b>16,136,013</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**21. OTHER LIABILITIES (CONTINUED)**

**21-1 LEASE LIABILITIES**

	2023 TZS'000'	2022 TZS'000'
At start of the year	8,047,117	7,325,222
Additions	1,881,951	1,707,906
Finance cost	550,808	674,670
Payment during the year-Principal	(2,146,359)	(1,486,310)
Payment during the year-Interest	(251,807)	(174,371)
<b>At the end of year</b>	<b>8,081,710</b>	<b>8,047,117</b>

**22. DEBT SECURITIES AT AMORTIZED COST**

	2023 TZS'000'	2022 TZS'000'
16.53%, 7 years Corporate Bond to ZSSF	10,000,000	10,000,000
12%, 7 years Corporate Bond to ZSSF	10,000,000	10,000,000
Accrued interest on bond	418,171	418,171
	<b>20,418,171</b>	<b>20,418,171</b>

**23. BORROWING**

	2023 TZS'000'	2022 TZS'000'
Balance 1 January	153,108,903	83,349,542
Loans received during the year	-	69,759,361
Loan repaid during the year	(63,479,975)	-
Accrued interest on borrowing	511,010	511,010
	<b>90,139,938</b>	<b>153,619,913</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**24. DEBT RECONCILIATION**

The analysis and movement of the Bank net debt is as follows.

	2023 TZS'000'	2022 TZS'000'
Cash and cash equivalents	753,779,789	415,486,399
Borrowings repayable within one year	(90,127,198)	(153,619,913)
Borrowings repayable after one year	(20,418,171)	(20,418,171)
Lease liabilities due after 1 year	(5,683,544)	(6,386,435)
Lease liabilities due within 1 year	(2,398,166)	(1,660,681)
<b>Net debt</b>	<b>635,152,710</b>	<b>233,401,199</b>
Cash and cash equivalents	753,779,789	415,486,399
Gross debt – fixed interest rate	(118,627,079)	(182,085,200)
<b>Net debt</b>	<b>635,152,710</b>	<b>233,401,199</b>

**25. DEFFERED TAX ASSET**

	2023 TZS'000'	2022 TZS'000'
As at beginning	(9,860,850)	(8,525,943)
(Charge)/release for the year	(388,698)	(1,334,907)
<b>Deferred tax asset at year end</b>	<b>(10,249,548)</b>	<b>(9,860,850)</b>

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The movement on the deferred income tax account is as follows:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**25. DEFFERED TAX ASSET (CONTINUED)**

	1st January 2023 TZS'000'	Current year TZS'000'	Prior years TZS'000'	31st December 2023 TZS'000'
<b>Deferred tax assets</b>				
Property, Plant and Equipment	465,902	(169,158)	-	296,744
Provision for loan impairment	(3,327,023)	590,095	-	(2,736,928)
Other Provision	(4,749,920)	409,436	-	(4,340,484)
Other temporary difference	(1,204,544)	1,181,166	-	(23,378)
Regulatory Reserves	(1,045,266)	(2,400,237)	-	(3,445,503)
<b>Deferred tax Asset</b>	<b>(9,860,850)</b>	<b>(388,698)</b>	<b>-</b>	<b>(10,249,548)</b>

**26. SHARE CAPITAL**

	2023 TZS'000'	2022 TZS'000'
<b>Authorised share capital</b> 600,000,000 Ordinary Share of TZS 100 each	60,000,000	60,000,000
<b>Issued and fully paid-up share capital</b> 310,000,000 Ordinary Shares TZS 100 each	31,000,000	31,000,000

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**27. GOVERNMENT GRANT**

	2023 TZS'000'	2022 TZS'000'
ChakeChake building	340,160	340,160
Forodhani Building	139,160	139,160
Motor Trade building (Malindi)	2,160,000	2,160,000
Wete Hotel Building (Wete Pemba)	158,400	158,400
Makunduchi Building	206,689	206,689
Kiembe samaki (Mazizini) Land	396,000	396,000
Makunduchi Land	21,225	21,225
<b>Sub total</b>	<b>3,421,634</b>	<b>3,421,634</b>
Amortization as at 1 January 2023	(128,471)	(111,009)
Amortization during the year	(17,462)	(17,462)
<b>Sub total</b>	<b>(145,933)</b>	<b>(128,471)</b>
<b>Carrying amount</b>	<b>3,275,701</b>	<b>3,293,163</b>

Government grant represents asset assisted by the Revolutionary Government of Zanzibar.

**28. REGULATORY RISK RESERVE**

Provision for non-performing assets is computed using both IFRS 9 (ECL) approach and BOT regulatory approach. ECL provision is charged to the profit or loss. Where the ECL provision is less than BOT provision, then the excess over ECL provision is taken to a non-distributable reserve known as Regulatory Risk Reserve. During the period under review the provisions using both approaches were as follows:

	2023 TZS'000'	2022 TZS'000'
Opening balance of reserve	3,484,219	8,703,829
Increase/(Decrease) of reserve during the year	9,212,103	(5,219,610)
	<b>11,485,009</b>	<b>3,484,219</b>
<b>Analysed as:</b>		
Provision per BOT regulations	20,608,102	14,574,295
ECL Provision	(9,123,093)	(11,090,076)
<b>Excess over ECL provision impact to Regulatory risk reserve</b>	<b>11,485,009</b>	<b>3,484,219</b>

The Regulatory Risk Reserve is not part of the Bank's core capital.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**29. OTHER RESERVES**

	2023 TZS'000'	2022 TZS'000'
<b>Other reserves comprise of the following:</b>		
Fixed assets revaluation reserve	877,442	1,054,868
Fair value reserve	1,205,909	824,164
Retained earnings	144,111,296	107,236,087
	<b>146,194,647</b>	<b>109,115,119</b>

**Fixed Assets Revaluation Reserve**

The Bank maintains a Fixed Assets Revaluation Reserve to account for revaluation surpluses. If an asset carrying amount increases as a result of revaluation, the increase is credited directly to Fixed Asset Revaluation Reserve. However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset's carrying amount decreases as a result of revaluation, the decrease is recognized in profit or loss. However, the decrease is debited directly to Fixed Assets Revaluation Account to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The Fixed Assets Revaluation Reserve is not part of the Bank's core capital. The Bank opted revaluation model in measurement of building and motor vehicle categories in the PPE.

Fixed assets Revaluation Reserve movement during the year is shown below:

	2023 TZS'000'	2022 TZS'000'
<b>Particulars:</b>		
Opening balance	1,054,868	1,232,294
Revaluation surplus on derecognized assets transferred to retained earnings	(177,426)	(177,427)
<b>Closing balance</b>	<b>877,442</b>	<b>1,054,868</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**30. INTEREST AND SIMILAR INCOME**

	2023 TZS'000'	2022 TZS'000'
<b>Interest on loan and advances</b>		
Interest on commercial loan and overdrafts	4,564,331	2,839,045
Interest on personal Loan	104,683,244	80,227,014
<b>Sub total</b>	<b>109,247,575</b>	<b>83,066,059</b>
<b>Interest on other Investment</b>		
Income on Treasury Bills	242,900	732,109
Income on Treasury Bonds	8,476,857	3,359,672
Interest on Foreign Placements	259,999	9,014
Interest on Inter-Bank Lending	3,477,823	2,144,820
<b>Sub total</b>	<b>12,457,579</b>	<b>6,245,615</b>
<b>Total</b>	<b>121,705,154</b>	<b>89,311,674</b>

**31. INTEREST AND SIMILAR EXPENSES**

	2023 TZS'000'	2022 TZS'000'
<b>Interest on deposit from customers</b>		
Savings Deposits	3,124,864	2,768,505
Time Deposits – Local	8,342,513	9,222,688
Trust current account – Local	1,369,028	1,169,897
	<b>12,836,405</b>	<b>13,161,089</b>
<b>Interest on borrowing</b>		
Interest on Corporate Bond	2,340,000	1,539,658
Interest on borrowings	5,461,606	2,640,104
	<b>7,801,606</b>	<b>4,179,762</b>
Interest on leasing (IFRS 16)	550,808	674,670
<b>Total interest expenses</b>	<b>21,188,819</b>	<b>18,015,521</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**32. FEES AND COMMISSIONS (NET)**

	2023 TZS'000'	2022 TZS'000'
Fees and commission income (Note 32.1)	19,045,215	16,243,768
Fees and Commission expenses	(5,250,723)	(4,081,867)
	<b>13,794,492</b>	<b>12,161,901</b>

**32-1 Fees and commission income**

	2023 TZS'000'	2022 TZS'000'
Bank Commissions	12,233,477	10,633,773
Ledger Fees	662,894	527,581
Sales of Cheque Books	191,921	202,778
Loans application and authorization fees	5,956,923	4,879,636
	<b>19,045,215</b>	<b>16,243,768</b>

**33. INCOME FROM ISLAMIC FINANCING**

	2023 TZS'000'	2022 TZS'000'
Personal Murabaha	8,396,312	7,196,111
Commercial Murabaha	1,196,062	1,716,766
Staff Murabaha	21,845	25,158
Educational (Personal)	21,393	20,759
Salam Income/loss individuals	-	6,528
Ijarah Personal (Old)	78,477	59,304
Istisna Personal	-	1,009
Profit Rcvd Tawarruq	1,048,878	41,030
Cm- Profit Received-Staff	42,901	37
Cm- Profit Received-Corporate	13,022	-
Profit Rcvd-Murabaha-Smida	34,010	238
Profit income received intebank lending	518,870	125,000
Profit received from SUKUK	615,285	91,290
	<b>11,987,055</b>	<b>9,283,230</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**34. FOREIGN CURRENCY EXCHANGE INCOME**

	2023 TZS'000'	2022 TZS'000'
Foreign exchange gain	6,656,340	5,572,444
Revaluation loss	(435,871)	(120,048)
	<b>6,220,469</b>	<b>5,452,396</b>

**35. OTHER OPERATING INCOME**

	2023 TZS'000'	2022 TZS'000'
Sundry Income	390,179	132,907
Dividend Income (Equity Investment)	79,414	29,521
Gain on disposal of fixed assets	2,996	629
Recovery from Charged off Debtors	586,585	1,286,976
Amortization of Grants	17,462	17,462
	<b>1,076,636</b>	<b>1,467,495</b>

**Note:** Item of sundry income mostly comprised of realization of long term unclaimed (liability) suspense accounts, over-the-counter withdrawal charge and disbursement fee.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**36. MOVEMENT AND RECOVERY OF ECL**

2023

	Exposure (31 Dec. 2023) TZS'000	ECL Provisions (1 Jan 2023) TZS'000	Write off/ad-justment during the year TZS'000	ECL provision after write off TZS'000	ECL Provisions (31 Dec 2023) TZS'000	Profit & Loss impact
<b>Conventional Loans</b>						
Conventional Loans- Term Loans	944,217,621	9,527,761	(2,054,016)	599,083	8,072,827	599,083
Current and saving - Unauthorized						
Conventional loans- Drawn Overdrafts	8,806,394	170,250			170,250	
Conventional loans- Undrawn OD	8,795,227	13,518			13,518	
Conventional loans- Guarantees		24,482			24,482	
Conventional loans- Letter of Credit		9			9	
	<b>961,819,242</b>	<b>9,736,020</b>	<b>(2,054,016)</b>	<b>599,083</b>	<b>8,281,086</b>	<b>599,083</b>
<b>Islamic Financing</b>						
Islamic Financing	106,431,929	1,353,695	(1,250,753)	738,704	841,647	738,704
Islamic LGs	7,478,684	360			360	
	<b>113,910,613</b>	<b>1,354,055</b>	<b>(1,250,753)</b>	<b>738,704</b>	<b>842,007</b>	<b>738,704</b>
<b>Charge/(Recovery) of ECL – Advance loan and Islamic financing</b>	<b>1,075,729,855</b>	<b>11,090,075.00</b>	<b>(3,304,769)</b>	<b>1,337,787</b>	<b>9,123,093</b>	<b>1,337,787</b>

36. MOVEMENT AND RECOVERY OF ECL (CONTINUED)

2023

	Exposure (31 Dec. 2023)	ECL Provisions (1 Jan 2023)	Write off/ad-justment during the year	ECL provision after write off	ECL Provisions (31 Dec 2023)	Profit & Loss impact
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
<b>Other Assets</b>						
Other assets	17,279,439	13,146,314	(133,780)	46,867	13,059,401	46,867
Mucoba Plc	-	2,000,000	-	3,000,000	5,000,000	3,000,000
	<b>17,279,439</b>	<b>15,146,314</b>	<b>(133,780)</b>	<b>3,046,867</b>	<b>18,059,401</b>	<b>3,046,867</b>
<b>Placements and Investments</b>						
Current balances with other Banks	189,675,430	38,126		76,056.00	114,182	76,056
Placements with other Banks	23,827,761	130,073		(124,225.00)	5,848	(124,225)
Balances with Bank of Tanzania	390,250,020	27,099		261,922.00	289,021	261,922
Government securities	88,398,286	491,453		508,376	999,829	508,376
<b>Sub total</b>	<b>692,151,497</b>	<b>686,751</b>	<b>-</b>	<b>722,129</b>	<b>1,408,880</b>	<b>722,129</b>
<b>Change/(Recover) of ECL - other assets</b>	<b>709,430,936</b>	<b>15,833,065</b>	<b>(133,780)</b>	<b>3,768,996</b>	<b>19,468,281</b>	<b>3,768,996</b>

36. MOVEMENT AND RECOVERY OF ECL (CONTINUED)

2022

	Exposure (31 Dec. 2022)	ECL Provisions (1 Jan 2022)	Write off/ad-justment during the year	ECL provision after write off	ECL Provisions (31 Dec 2022)	Profit & Loss impact
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
<b>Conventional Loans</b>						
Conventional Loans- Term Loans	720,674,528	7,935,461	(2,325,682)	3,917,982	9,527,761	3,917,982
Current and saving - Unauthorized	2,302	-	-	-	-	-
Conventional loans- Drawn Overdrafts	13,577,734	292,144	(246,005)	124,111	170,250	124,111
Conventional loans- Undrawn OD	1,198,645	4,286	-	9,232	13,518	9,232
Conventional loans- Guarantees	2,207,877	-	-	24,482	24,482	24,482
Conventional loans- Letter of Credit	12,636,708	-	-	9	9	9
	<b>750,297,794</b>	<b>8,231,891</b>	<b>(2,571,687)</b>	<b>4,075,816</b>	<b>9,736,020</b>	<b>4,075,816</b>
<b>Islamic Financing</b>						
Islamic Financing	74,980,131	1,513,787	(754,263)	594,171	1,353,695	594,171
Islamic LGs	7,478,684	-	-	360	360	360
	<b>82,458,815</b>	<b>1,513,787</b>	<b>(754,263)</b>	<b>594,531</b>	<b>1,354,055</b>	<b>594,531</b>
<b>Charge/(Recovery) of ECL – Advance loan and Islamic financing</b>	<b>832,756,609</b>	<b>9,745,678</b>	<b>(3,325,950)</b>	<b>4,670,347</b>	<b>11,090,075</b>	<b>4,670,347</b>

36. MOVEMENT AND RECOVERY OF ECL (CONTINUED)

2022

	Exposure (31 Dec. 2022)	ECL Provisions (1 Jan 2022)	Write off/ad-justment during the year	ECL provision after write off	ECL Provisions (31 Dec 2022)	Profit & Loss impact
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
<b>Other Assets</b>						
Staff advance	272,444	270,959		(270,959)	-	(270,959)
Murabaha						
Other assets	28,594,609	13,882,306	(105,868)	1,369,876	13,146,314	1,369,876
	<b>28,867,053</b>	<b>14,153,265</b>	<b>(105,868)</b>	<b>1,098,917</b>	<b>13,146,314</b>	<b>1,098,917</b>
<b>Placements and Investments</b>						
Current balances with other Banks	40,577,331	2,568	-	35,558	38,126	35,558
Placements with other Banks	180,529,768	7,262	-	122,812	130,073	122,812
Balances with Bank of Tanzania	162,896,443	32,283	-	-5,184	27,099	-5,184
Government securities	67,768,712	60,406	-	431,047	491,453	431,047
<b>Sub total</b>	<b>451,772,254</b>	<b>102,519</b>	<b>-</b>	<b>584,233</b>	<b>686,751</b>	<b>584,233</b>
<b>Change/(Recover) of ECL - other assets</b>	<b>480,639,307</b>	<b>14,255,784</b>	<b>(105,868)</b>	<b>1,683,150</b>	<b>13,833,065</b>	<b>1,683,150</b>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

37. **ASSETS WRITTEN OFF**

	2023 TZS'000'	2022 TZS'000'
Loan and advance	(10,149)	(1,795,309)
<b>Total</b>	<b>(10,149)</b>	<b>(1,795,309)</b>

38. **PERSONNEL/STAFF COSTS**

	2023 TZS'000'	2022 TZS'000'
Salaries and Allowances to staff	16,976,561	13,429,442
Pension Contribution (14%)	1,327,400	1,051,130
Skills and Development Levy	689,266	653,179
Training Expenses	712,239	671,494
Long-term Service Award	53,327	-
Employees Vacation Leave	49,100	50,896
Employees Medical Care (Medical Insurance)	1,140,388	1,139,662
<b>Total</b>	<b>20,948,280</b>	<b>16,995,803</b>
<b>Total</b>	<b>(10,149)</b>	<b>(1,795,309)</b>

39. **GENERAL AND ADMINISTRATION EXPENSES**

	2023 TZS'000'	2022 TZS'000'
Administrative expenses	8,488,880	6,889,356
Depreciation(PPE,LHP and ROU asset)	5,152,765	4,947,056
Amortization of Intangible Assets	749,612	704,509
Travelling Expenses and Allowance	1,121,835	1,017,076
Repair and maintenance	2,976,221	2,701,847
Audit fees	342,652	191,617
Board Directors fees & allowances	513,160	529,441
Insurance expense	959,120	1,144,780
Security expenses	1,654,833	1,427,067
<b>Total</b>	<b>21,959,078</b>	<b>19,552,749</b>
<b>Total</b>	<b>(10,149)</b>	<b>(1,795,309)</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**40. OTHER OPERATING EXPENSES**

	2023 TZS'000'	2022 TZS'000'
Sundry expenses (Note 40.1)	7,566,159	7,453,368
Office expenses	1,690,499	1,283,243
Currency Transportation Expenses	76,788	61,530
Contribution to Deposits Insurance Fund	1,381,994	1,078,269
Stationeries expenses	792,749	828,409
<b>Total</b>	<b>11,508,189</b>	<b>10,704,819</b>

**40-1 Sundry Expenses**

	2023 TZS'000'	2022 TZS'000'
Gratuity expense	59,981	77,194
Other Expenses	6,559,086	7,000,650
Cheques Printing Expense	115,988	86,163
ATM Card/PIN Mailer Printing (Instant Issuing)	831,104	289,361
<b>Total</b>	<b>7,566,159</b>	<b>7,453,368</b>

**41. PROVISION FOR TAX EXPENSE**

	2023 TZS'000'	2022 TZS'000'
Current tax charge for the current year	23,166,651	14,695,235
Current tax charges for prior year	-	50,709
Deferred tax asset for the year (note 25)	(388,698)	(1,334,907)
<b>Income Tax Expense for the year</b>	<b>22,777,952</b>	<b>13,411,037</b>

The tax in the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**41. PROVISION FOR TAX EXPENSE (CONTINUED)**

	2023 TZS'000'	2022 TZS'000'
Accounting profit before income tax	74,062,508	44,258,997
Tax calculated on statutory income tax rate of 30%	22,218,752	13,277,699
<b>Tax effect of:</b>		
Expense not deductible for tax purpose	559,200	82,629
Current tax charges for prior year	-	50,709
<b>Income Tax Expense</b>	<b>22,777,952</b>	<b>13,411,037</b>

**42. CORPORATE TAX PAYABLE**

	2023 TZS'000'	2022 TZS'000'
Tax payable brought forward	864,895	824,712
Current tax charge for the year 2023	23,166,651	14,695,235
Tax paid for the year 2023	(23,324,024)	(14,655,052)
<b>Tax Payable at the end of the Year</b>	<b>707,521</b>	<b>864,895</b>

**43. CASH AND CASH EQUIVALENTS**

	2023 TZS'000'	2022 TZS'000'
Local and foreign currencies (11)	71,077,690	66,767,564
Current account with BOT (Note 11)	489,566,398	120,416,868
Placements with Other Banks (Note 12)	188,830,909	220,938,899
Cheques & Items for Clearing	615,087	579,765
Mobile money balance	3,689,705	6,783,303
<b>Cash and cash equivalents</b>	<b>753,779,789</b>	<b>415,486,399</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**44. RELATED PARTY DISCLOSURES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The bank is controlled by the revolutionary government of Zanzibar, which owns 100% of ordinary shares. All transactions with the Government Ministries and Government owned institutions are considered transactions with related parties. A number of banking transactions were entered with related parties in the normal course of business. These included loans, deposits and foreign currency transactions. The volume of related party transactions, outstanding amounts and related expense and income for the period ended 31st December were as follows: -

Zanzibar Government and its institutions deposits, loans and other transactions.

	2023 TZS'000'	2022 TZS'000'
<b>Deposits:</b>		
Local currency deposits	177,664,808	200,464,085
Foreign currency deposits	246,010,908	168,880,421
	<b>423,675,716</b>	<b>369,344,506</b>
<b>Loan and advances</b>		
Local currency overdraft	28,151,368	2,700,317
<b>Interest</b>		
Interest on loans earned by the Bank	3,756,407	1,251,345
Interest paid by the bank	-	-
<b>Other transactions:</b>		
Rent paid to Ministry of Finance		
Rent paid to Zanzibar Social Security Fund (ZSSF)	21,591	132,784
Rent paid to Zanzibar Port Corporation (ZPC)	-	-
Rent paid to Zanzibar Revenue		
Boad (ZRB)	-	41,580
Rent paid to Zanzibar Airport Association (ZAA)	-	28,678
Rent paid to Zanzibar Insurance Corporation (ZIC)	188,832	230,677

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**44. RELATED PARTY DISCLOSURES (CONTINUED)**

**Director's remuneration**

A list of members of the Board of Directors is shown on note 6. For the period ended 31st December 2023, the director's fee paid TZS 19 million (2022: TZS. 19 million).

**Key Management Personnel Benefits**

For the period ended 31st December 2023 key management personnel as indicated in page 13 above, were advantaged for short term benefit of TZS 593 million (2022: TZS 662 million)

**45. CONTINGENT LIABILITIES AND COMMITMENTS**

	2023 TZS'000'	2022 TZS'000'
Local and foreign guarantees	12,418,095	6,996,274
Letter of credit	858,681	12,626,011
Undrawn unexpired overdraft facilities	1,439,771	1,684,298
<b>Total</b>	<b>14,716,547</b>	<b>21,306,583</b>

**Uncalled Capital in Afrexim Bank**

As at 31st December, 2023, the Bank had a commitment of USD 1,299 million in respect of uncalled and unpaid 37 share compared to USD 1,111 million for 33 unpaid share attached to its shareholding in the Afrexim Bank. The value of paid-up shares is shown under Note 16.

**46. CHEQUES AND ITEMS FOR CLEARING**

As at 31st December 2023 the Cheque and items for clearing is TZS 615 million as compared to TZS 580 million for the ended December 2022.

**47. CAPITAL ADEQUACY**

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at a weighted amount to reflect their relative risk. The Bank maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements as per BOT supervision. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the BOT. The Bank has complied in full with all its externally imposed capital requirements over the reported period.

**47-1 Capital management**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**47. CAPITAL ADEQUACY (CONTINUED)**

- To comply with the capital requirements set by the Bank of Tanzania (BoT);
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania (BoT), for supervisory purposes. The required information is filed with the BoT on a quarterly basis.

The Bank of Tanzania requires each Bank to:

- Hold a minimum level of core capital of TZS 15 billion.
- Maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets or above the required minimum of 10%; and
- Maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

Maintain a capital conservation buffer of 2.5% of risk-weighted assets and off-balance sheet exposures from August 2018. The capital conservation buffer is made up of items that qualify as tier 1 capital.

When the Bank is holding capital conservation buffer of less than 2.5% of risk-weighted assets and off-balance sheet exposures but is meeting its minimum capital requirements that Bank:

- Shall not be distribute dividends to shareholders or bonuses to senior management and other staff members until the buffer is restored to at least 2.5%.
- Shall submit a capital restoration plan to Bank of Tanzania within a period specified by BoT, indicating how the Bank is going to raise capital to meet its minimum requirement including capital conservation buffer within a specified period of time; and
- In the event that BoT does not approve the capital restoration plan, it may direct the Bank to raise additional capital within a specified time period in order to restore its capital conservation buffer.
- The Bank's regulatory capital as managed by its Finance Department is divided into two tiers:
- Tier 1 capital: means permanent shareholders' equity in the form of issued and fully paid ordinary shares, and perpetual non-cumulative preference shares, capital grants and disclosed reserves less year to date losses, goodwill organization, pre-operating expenses, prepaid expenses, deferred charges, leasehold rights and any other intangible assets.
- Tier 2 capital: means general provisions, which are held against future, presently unidentified losses and are freely available to meet losses, which subsequently materialize, subordinated debts, cumulative redeemable preferred stocks and any other form of capital as may be determined and announced from time to time by the Bank.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

**47. CAPITAL ADEQUACY (CONTINUED)**

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2023 and year ended 31 December 2022.

	2023 TZS'000'	2022 TZS'000'
<b>Tier 1 capital</b>		
Share capital	31,000,000	31,000,000
Retained earnings	92,826,741	76,388,127
Qualify year to date profit	51,284,555	30,847,960
Capital grant	3,275,701	3,293,163
Less: Prepaid expenses	1,532,115	1,269,689
Less: Intangible assets		-
Less: Deferred tax assets		-
<b>Total qualifying Tier 1 capital (A)</b>	<b>176,854,883</b>	<b>140,259,561</b>
<b>Tier 2 capital</b>		
Subordinated debt	16,000,000	18,000,000
Accrued interest		-
General risk reserve		-
Fair valuation reserve		-
<b>Total qualifying Tier 2 capital (B)</b>		
Maximum Tier 2 capital allowed (2% of Risk weighted assets) – (C) (c)	16,000,000	18,000,000
<b>Total regulatory capital (D) = [(A) + Lower of (B) or (C)]</b>	<b>191,438,545</b>	<b>158,259,561</b>
<b>Risk-weighted assets</b>		
On-balance sheet(d)		
Off-balance sheet	653,508,104	922,147,477
Market risk	8,306,347	4,007,217
Operational risk(e)	67,368,647	56,231,776
<b>Total risk-weighted assets (E)</b>	<b>729,183,097</b>	<b>982,386,469</b>
	<b>Bank's (%)</b>	<b>Bank's (%)</b>
Tier 1 capital	<b>24.25</b>	<b>14.28</b>
Tier 1 + Tier 2 capital	<b>26.25</b>	<b>16.11</b>





PBZ BANK

**PBZ BANK** MBEYA



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