AKIBA COMMERCIAL BANK PLC

benki kwa maendeleo yako

2017 | AKIBA COMMERCIAL BANK PLC
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

acb_tanzania

Akiba Commercial Bank

info@acbtz.com

AKIBA COMMERCIAL BANK PLC

HEAD OFFICE
Amani Place, Ohio Street, P. O. Box 669, Dar es Salaam.
Phone: +255 22 2118340 Fax: +255 22 2114173
Email: info@acbtz.com

BRANCHES
Main | Temeke | Ubungo Plaza | Kariakoo | Buguruni | Kijitonyama | Tegeta
Kinondoni | Mbagala | Ukonga | Aggrey | Ilala | Tandale
Dodoma | Arusha | Moshi | Mbeya | Mwanza

CONTENTS

Letter of Transmittal

Dear Shareholders,

It is my pleasure, on behalf of Board of Directors, to present to you the Bank's Annual Report for the year 2017. The report contains the Audited Financial Statements, major events that happened during the year, achievements and future business prospects for the bank. It is my hope that this report will meet your approval.

Yours faithfully,

Mr. Ernest Massawe
Chairman

OUR MISSION

To provide inclusive, innovative financial solutions in the most efficient and sustainable manner.

OUR VISION

To be the preferred banking partner for micro, small and medium enterprises

COMPANY PROFILE

Akiba Commercial Bank Plc (ACB) commenced banking operations in August 1997 as an initiative of over 300 Tanzanian entrepreneurs who were inspired overall to move into micro-finance, by the moral and economical concern for the plight of Tanzanians. These founder members were bound together by a strong conviction that in Akiba, they would have the vehicle with which they would reach and touch the lives of previously unbanked and commercially undeserved men and women of Tanzania The bank vision and mission was to support the emergence of down to earth Tanzanian businesses through the provision of financial services at all levels, by a Tanzanian owned commercial bank, which understood Tanzanians and was committed to Tanzania. This was the original, very firm and deep rooted vision of founder members of Akiba in Tanzania. In order to strengthen the resource base of the bank, the founder members over time invited like-minded local institutional investors namely, Inter-consult Ltd, PPF, TDFL, and NIC, and foreign institutions such as Triodos Hivos, Triodos Fonds, FMO, Rabo Bank, (all of The Netherlands), SIDI of France, and INCOFIN of Belgium. All these institutions were invited because they share the same vision; and were willing to participate actively without being driven by profits as their main objective; rather they were also committed to uplift the economic status of Tanzanians, irrespective of their socio economic positions in life, so long as they have entrepreneurial skills that can be nurtured. ACB's target markets are small and medium sized entrepreneurs, companies and community banks

Our Core Values

- Team work
- Integrity
- Commitment
- Respect
- Socially Responsible

As a commited bank, we are guided by the above mentioned Core Values in all activities we undertake.

CHAIRMAN'S STATEMENT

Introduction

Distinguished Shareholders,

It is my pleasure to present to you the Bank's Annual Report and Financial Statements for 2017.

The year under review was quite an eventful one, as the Bank also celebrated its 20th anniversary since its inception in 1997. And yet, it was a rather challenging year that saw our overall financial outcomes eroded due to both internal and external factors. We have, however, taken significant steps to address the challenges, especially those which are within our reach, to ensure that we get back on track in delivering the sterling performance we have recorded over prior years.

Economic Trends

According to World Bank estimates, Tanzania's gross domestic product (GDP) growth was seen slowing in 2017, hurt by cuts in government spending, reduction in credit to private sector and hence slowdown of private sector outputs. Despite these challenges, the country has remained the second fast growing in East Africa and the fourth in Africa.

The Bank of Tanzania (BoT) Monetary Policy Statement for February 2018 showed that the economy sustained strong real GDP growth at 6.8 percent in the first three quarters of 2017. The fastest growth rates were recorded in mining and quarrying, information and communication, transport and storage, water, manufacturing and construction. Further, improvement in infrastructure, stability of power supply and favorable weather condition stimulated agricultural outputs.

Tanzania inflation rate continued to ease, with headline inflation declining from 7% in January 2017 to 4% in December 2017. This was supported by improved food supply, stability in the value of Tanzanian shilling against the major currencies, improvement in domestic power supply and sustained prudence in monetary and fiscal policies.
During the first half of 2017, the Central Bank maintained an accommodative monetary policy stance, using an array of instruments such as; reduction of discount rates from 12 per cent to 9 per cent, injecting liquidity through purchase of foreign exchange in the market and foreign exchange swap deals, provision of short term loans to banks and reverse repos operations. All these was meant to provide adequate liquidity to banks to stimulate growth of credit to the private sector and economic activities. These monetary policy measures, coupled with the cumulative effect of the measures taken in the second half of 2016/17, helped to boost liquidity among banks and maintained moderate money market interest rates.

Overnight interbank cash market interest rate declined to 2.95 percent in December 2017 from 13.69 percent in December 2016. The overall Treasury bill rate also declined to 8.19 percent in December 2017 from 15.12 in December 2016. Meanwhile, commercial banks' lending rates remained high, reflecting increased risk premium, associated with the rise in non-performing loans and other structural rigidities in the financial sector.

2017 Financial Performance

The Bank recorded losses attributable to the difficult macroeconomic environment, which resulted in a high number of non-performing loans (NPLs) and a substantial increase in loan loss provisions. The bank recorded a significant decrease in balance sheet size; declining by 14% to TZS 183 Billion from TZS 211 Billion in 2016. Operating income also declined to TZS 44 billion; a 16.18% drop over previous year's figure of TZS 53 billions. As a result of the aforementioned, the Bank recorded a loss of TZS 10.9 Billion, compared to a profit of TZS 12.3 Billion recorded in 2016.

Remedial Measures

By half year 2017, the Board took note of the Bank's deteriorating performance trend and decided to engage an independent consultant, Inspiring Development GmBH (ID) to undertake a review of our credit operations and advise the next course of action to remedy the situation. From a presentation of their findings, the Board decided to enter into a Management Service Agreement with the Consultant to strengthen Akiba's management team and systems, to turnaround its performance by improving underwriting, credit risk management and loan recovery functions among other things. As part of the engagement, Inspiring Development seconded two candidates to hold the positions of Managing Director and General Manager Risk and Compliance to lead and work with the other Senior Management team to turnaround the performance of the Bank.

Inspiring Development GmBH is a Frankfurt-based specialist management consultancy company for banks and microfinance institutions serving micro, small and medium-sized enterprises in Eastern Europe & Central Asia, South East Asia, Africa and Latin America. The Company has vast practical experiences and expertise in providing management services to banks.

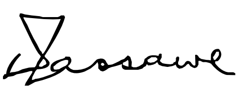
Directorship

The year under review also saw the re-appointment of Mr. Joseph Ruguyamheto (LSF), Celestine Some (PPF), Brian Kuwik and John Fisher (Accion) to continue their Directorship on the Board for the next three years. The Board will continue to harness their talents, competences and experience in steering the Bank's strategic direction.

Conclusion & Outlook

Despite the challenges in 2017 notwithstanding, our Bank still has a commendable brand in the market, and we are keen to leverage on this as well as the expected improvements in the economic environment, to turnaround the Bank's performance in 2018. We remain optimistic about the opportunities to build a sustainable future for Akiba and continuing to pursue and execute our strategic priorities across business segments to drive profitability, and create superior value for all stakeholders, whilst aggressively pursuing recovery of the impaired portfolio.

In conclusion, Ladies and Gentlemen, on behalf of the Board, I thank you sincerely for your unreserved supports and continued trust and confidences in Akiba. Our profound thanks also go to our loyal customers who have remained with us along our 20-year journey, as well as our Regulators and all other stakeholders. Finally, I thank the management team and our staff for their hard work throughout the year, albeit a very challenging one. I continue to count on your commitment to improve the fortunes of the Bank in years ahead. I thank you all and wish you well in 2018.



Mr. Ernest Massawe,
Chairman.

BOARD OF DIRECTORS AND ALTERNATIVE DIRECTORS

Mr. Ernest Massawe
Chairman

Mr. Brian Kuwik
Director

Mr. Selestine J. Some
Director

Ms. Liesbeth Soer
Director

Dr. Richard Kasungu
Director

Mr. Joseph Rugumyamheto
Director

Mr. John Fischer
Director

Mr. Jean - Marie Pre'vost
Director

Mellisa Lumpkin Baez
Alternate Director

Frank Streppel
Alternate Director

AKIBA COMMERCIAL BANK PLC

benki kwa maendeleo yako

"Nafanya Kazi ya Maua (Florist) Nimeanza kutumia Benki ya Akiba kuanzia 1998. Nimefaidika kupata mtandao mkubwa wa biashara kutoka Akiba Commercial Bank."

Pearl Ephrem,
+255 (656) 216 899,
Florist,
Dar Es Salaam.

Akiba, Benki Kwa Maendeleo Yako

Tunakuhudumia, Kukushauri kwa nia ya kufanikisha Ndoto na Mipango yako.
Ahsante kwa kuichagua Benki yako pendwa ya Akiba.

acb_tanzania | Akiba Commercia Bank | info@acbtanzania.co.tz | www.acbtz.com

MANAGING DIRECTOR'S REPORT

Juliana Swai
Acting Managing Director

Introduction

In the 2016 annual report published last year, I mentioned the initial indication points to a challenging 2017, and indeed, it has been a most tough year for the Bank. Despite a promising start of the year, the Bank was unable to meet our level of performance delivered in the past few years, requiring us to review our operational tactics, whilst the core strategic focus remains unchanged.

Significant challenges in economic development largely resulted in the Bank recording a decrease in total assets, and having to take significant impairment charges for the year.

Economic Highlights

According to the quarterly Bank of Tanzania (BOT) Economic Bulletin for the quarter ending December 2017, annual growth of credit to the private sector slowed to 1.7 percent from 7.2 percent in 2016, apparently due to persistent caution by banks in provision of credit in the wake of relatively high non-performing loans and portfolio diversification by banks in favour of low risk government securities.

Interest rates charged on loans and those offered on deposits by banks increased slightly in quarter ending December 2017 compared with the corresponding quarter in 2016. Overall deposit rate rose to an average of 9.66 percent from 8.86 percent, suggesting increasing competition among banks in mobilizing deposits. Likewise, overall lending rate rose somewhat faster than that of deposits, to an average of 17.78 percent from 15.69 percent. This is associated with a rising risk premium following an increase in non-performing loans.

According to Tanzania Financial Stability Report as of March 2018, Asset quality recorded some improvement and the level of which loans are declining, reducing future credit risk. These may increase banks' profitability going forward coupled with banks efforts to increase credit intermediation. However, implementation of IFRS 9, which became effective January 2018 and clean-up of banks' balance sheet, may limit this expectation in the short run.
The highlighted developments in our operating environment culminated in a tough business environment, with attendant impact on our asset quality. We continue to work to achieve our strategic objective to be strongly positioned in the first quartile group of medium banks in Tanzania. Our commitment to this objective is underpinned by our focus on four thematic areas of people, products, processes, and profitability. We continued to take important steps to improve Bank's customer experience by enhancing our service offerings, in order to make them more competitive and current to the needs and expectations of our customers.

This will be complemented with a recovery approach, employing all legal means available to us, and where necessary a non-litigation approach to recover our non-performing risk assets. This, we believe will greatly enhance our stakeholder value going forward.

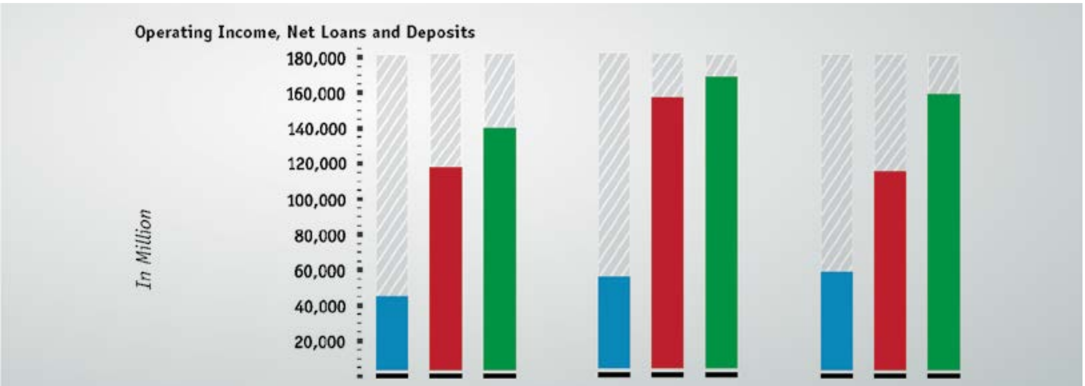
Financial Performance

Following a significant and exceptional impairment charge of TZS 13.8 billion for the period, the Bank recorded a loss of TZS 7 billion. The challenges in our risk asset portfolio resulted in total assets of the Bank decreasing by 15% during the year, from TZS 211 billion in 2016 to TZS183 billion. Customer deposits went down by 9.26% to a total of TZS 15.7 billion, largely due liquidation of expensive time deposits. The non-performing loan ratio at the

Managing Director's Report Continued

end of the period was 24.74% compared to 3.94% at the end of 2016, reflecting the challenges in our risk assets portfolio during the review period for which we have put in place measures to ensure recovery. We continue to focus on enhancing the quality of credit underwriting, relationship management and monitoring to effectively manage the quality of our loan book. Our core capital adequacy ratio reduced to 10.28% from 19.39% in 2016, a reflection of the significant reduction in earnings over the review period. With our low capital adequacy, we are likely to initiate actions during the next year to raise further capital in order to comply with the minimum capital requirements by the Bank of Tanzania.

The bar chart below summarises the trend of the three key indicators (deposits, Loans & Income) as narrated above



	2015	2016	2017
Operating Income	37,894	52,973	44,405
Net Loans & Advances	107,295	144,663	101,778
Customer Deposits	134,383	169,105	153,441

Operational Performance

During the year we undertook a number of initiatives to ensure easy access of banking services by the customers, most important being deployments of Instant account opening processes. This facilitates easy recruitment in the field through an account opening application that sits on either a tablet or smartphone.

In accordance with International Financial Reporting Standards and Guidance by the Bank of Tanzania, we commenced the implementation of International Financial Reporting Standards 9 (IFRS 9) effective 1 January 2018. This framework seeks to ensure Banks take cognizance of the inherent risks associated with all aspects of their operations and ensure adequate capital is provided for the operations of Banks.

Conclusion

Distinguished shareholders, our profitability challenge in 2017 is surmountable and I would like to reassure you that your board and management are fully committed to a turnaround. We have reassessed our risk management processes, re-invigorated our credit delivery and recovering processes to ensure we do not suffer the bane of 2017 again. However more importantly, we assure you that the fundamentals of your Bank are still strong and with a positive outlook in the economy, a refocus on the private sector, a stronger relationship building with our clients and off course, a very dedicated and focused staff. We look forward to better prospects in 2018 and the years ahead and count on the support of you our valued shareholders.

Thank you,

Juliana Swai,
Ag, Managing Director

SENIOR MANAGEMENT TEAM

Juliana Swai
Ag MD / General Manager - Operations

Bertha Simon
General Manager - Finance

Felician Girambo
General Manager - Commerce

Hamis Malipula
General Manager - ICT

Dora Saria
Head of Marketing & Communications

Robert Masala
Head of Human Resources

Leynnette Machibya
Head of Risk and Compliance

Chemo Mutami
Chief Internal Auditor

Niwaeli Mziray
Company Secretary

LSF

The vision of establishing Akiba Commercial Bank was conceived by a discussion group which established itself in the late 80s comprising of individuals with varied interests and background brought together by a unified vision to see indigenous Tanzanians empowered economically.

The group realized that to achieve genuine economic uplift an institution would need to be established on a sound, reliable foundation to serve this paramount purpose.

In that period, the very idea of an indigenous owned and operated financial institution seemed to many a far-fetched dream, thus galvanizing faith and support in such a venture proved but a mountain to move.

Even the international community represented in the country at the time didn't harbor interest in addressing the challenges that such an institution would ultimately help solve among ordinary citizens.

Nevertheless, the group's determination persevered and from that strand of adamancy Akiba Commercial Bank Plc was born. Following its registration as a company, the group proceeded to seek prospective investors in Dar es Salaam, Mwanza, Arusha, Moshi, Mbeya, and Dodoma. This effort didn't yield much fruit as a consequence of skepticism borne out the belief that local citizens couldn't establish, own, and operate their own bank. It was then decided to pursue local public corporations to own the bank and share its vision with the group. Only three corporations, NIC, PPF, and TDFL responded proactively, however their subscriptions couldn't satisfy the required capital threshold, leaving the entire effort still wanting.

This unique situation eventually compelled the group to invite foreign entities into ownership of the bank but with conditions favourable to the interests of indigenous investors first. A few institutions accepted the arrangement, and these were FMO and Triodos Bank of the Netherlands, and later INCOFIN of Belgium, and SIDI of France. It was this partnership that served as the bedrock for the successful rise of Akiba Commercial Bank, a bank that has since grown from strength to strength and is now focusing on becoming a significant institution in the banking sector in Tanzania.

ACCION

In 2012, the shares held by ACCION International in Akiba Commercial Bank were purchased by ACCION International after receiving appropriate approvals by Akiba's shareholders and the Bank of Tanzania. This purchase by ACCION International, a significant minority investor of Accion International, was completed due to ACCION's strategic desire to increase its commitment to Akiba by taking direct ownership in the bank so as to be more actively involved in the Tanzanian microfinance market.

ACCION International is a private, nonprofit organization with the mission of giving people the financial tools they need - microenterprise loans, business training and other financial services -to help work their way out of poverty. A world pioneer in microfinance, ACCION was founded in 1961 and issued its first microloan in 1973 in Brazil. Over time, ACCION has helped build 62 microfinance institutions in 31 countries on four continents. Those institutions are currently reaching millions of clients. In the United States, the U.S. ACCION Network is the largest microfinance lending network in the country and has served tens of thousands of clients with over $275 million in loans since the inception of its pilot program in 1991.

ACCION is an innovator in financial access, pioneering many of the best practices and emerging standards in the industry. The organization provides a full range of management duct and delivery channel ACCION also provides institutions, helping them to build upon ACCION's other services and linking them commercial banks and capital markets. Through equity and quasiequity investments, as well as loan guarantees, systems, access innovations, attract deposits, become independent of donor funds and establish financial leverage.

For more information visit www.accion.org

Erncon Holdings Limited

Erncon Holdings Limited is a family investment company established by Mr. Ernest S. Massawe and his family. It was established in 1993 for the sole purpose of managing the family's various investment activities as well as holding the family's assets. The initial directors of the company are Mr. Ernest Massawe, Mrs. Consolata Massawe, Ms. Maryanne Massawe, Mr. Andrew Massawe and Mr. Justin Massawe.

To-date the company has experienced strong growth and has diversified a portfolio covering a number of sectors, including: Tourism, Industrial gases, Insurance, Assurance, Banking, Real Estate, Stock Broking, Fund Management, Leasing, Mining, Mining Services and Logistics Solutions, Transportation and Telecoms.

FMO

Entrepreneurial Development Bank

FMO is the Dutch development bank. FMO supports sustainable private sector growth in developing markets by investing in ambitious entrepreneurs and projects. FMO believes a strong private sector leads to economic and social development, empowering people to employ their skills and improve their quality of life. FMO specializes in sectors where its contribution can have the highest long-term impact: Financial institutions, Energy, Housing and Agribusiness, food & water. When financing companies and projects in other sectors such as telecoms and infrastructure, we work with a worldwide network of partners with thorough expertise in that area. With an investment portfolio of EUR 5.9 bn, FMO is one of the largest European bilateral private sector development banks. Inter-consult Ltd 2014 Annual Report and audited financial statements. Founded in 1970, FMO is a public-private developmen bank. The Dutch government is our major shareholder, holding a 51% stake. Other shareholders include large Dutch banks, employers' associations, trade unions and individual investors. We comply with internationallyac cepted banking standards and are supervised by the Dutch Central Bank. FMO is rated triple-A by Standard & Poor's. FMO's solid profile and high quality portfolio allows us to invest in higher risk markets, either with our own capital or on behalf of the Dutch government. We principally provide long-term finance, although we also offer shorter-term project financing. We work with clients to understand their specific needs, tailoring the financial package to fit. Our participation often acts as a catalyst – attracting interest from other suitable investors who would otherwise avoid what are still considered higher-risk projects.

inter-consult ltd.

inter-consult ltd.

From a humble beginning in 1978 in a small Dar es salaam office offering Civil and Structural Engineering services to an ISO 9001-2008 certified multi-disciplinary consultancy firm, Inter Consult Ltd has successfully delivered a full spectrum of services that bring infrastructure projects to life.

For three decades of consistent growth, we have worked with clients in virtually all industries, in both the public and private sectors, to identify, define and deliver innovative solutions to complex problems with exceptional commitment, excellence and results that inspire confidence.

Having been involved with over 400 projects ranging from a few hundred thousand to multi-million US Dollars in value, Inter-Consult has become a leading independent Tanzania based multi-disciplinary consultancy that is fully owned and managed by Tanzanians.

At the core of our mission is a pledge to our clients to provide the highest quality consulting services on time and for fair market value in all aspects of the construction industry including Architecture and Town Planning, Quantity Surveying, Structural, Mechanical and Electrical Engineering. We also offer services in Highway Engineering, Water Supply and Sanitation, Geotechnical and Materials Engineering, ICT and Project Management.

By positioning ourselves as a dynamic and growing business with a turnover of TZS 5 billion, focused on meeting the clients changing needs, we have attained good performance standards. We effectively handle all stages of project management - from feasibility studies, planning and design to construction supervision that extends to commissioning. We have also invested in companies like Akiba Commercial Bank Plc, Inter Press Ltd whose vision is towards poverty alleviation.

PPF Pensions Fund was established by the Parastatal Pensions Act, No. 14 of 1978 to provide pensions and other related terminal benefits to all employees from Parastatal and private sectors. The current operations of the Fund are guided by Parastatal Organization Pensions Scheme Act [CAP 372 R. E. 2002]. The PPF Pensions Fund as a social security scheme has the responsibility of registering members, collecting and administering members' contributions, investing members' fund and granting benefits to members depending on different contingencies as specified in the Act.

The vision of the Fund is focused towards freeing members from hardships arising out of loss of income due to old age, disability, death and therelated risks. In order to ensure that our members are provided with the effective and efficient services PPF established a number of zonal offices close to the members. By the year 2010, PPF had established zone offices in the following regions:- Arusha, Mwanza, Morogoro, Mbeya, Mtwara, and Dar es salaam, which also include, Ilala office, Kinondoni office and Temeke office. PPF Pensions

Fund has also established liaison offices in the following regions; Mafinga-Iringa, Tabora, Dodoma, Kahama, Tanga and Moshi. Apart from opening offices close to members' vicinity, PPF had also made it possible for members to access information relating to their contribution, pension and claims by using PPF TAARIFA. Through PPF TAARIFA, PPF members can obtain information regarding their contribution, pension and claims by using their mobile phones. This can simply be done by sending the word(s) 'Michango', 'Pensheni' or 'Dai' to number 15553.

For more information please visit PPF website, www.ppftz.org

Since 1992 IncofinCVSO grew into a specialist in microfinance, enjoying recognition both nationally and internationally. Incofin CVSO currently cooperates with 30 partner institutions in 21 countries, reaching out to 1.8 million micro entrepreneurs.

After 20 years Incofin CVSO strives more than ever to achieve a double (financial and social) return. This balanced vision on investing convinced almost 200 new shareholders to join during 2011.

Incofin invests in MFIs that make a real difference to the quality of life of their stakeholders, their staff and their customers. Through the monitoring of a number of key social parameters, including the level and quality of service and the treatment of the environment and contribution to society, it manages to quantify an MFI's social performance. For its investments, Incofin adopts a set of well-defined criteria, taking into account the impact of the microfinance institution on the local economy, the quality of its management, its financial situation, its track record, and the company's outlook. For each investment dossier a thorough due diligence is executed of the microfinance institution on site. After the investment, the investment file is carefully followed up. Incofincvso is a shareholder in Akiba since 2003 and has, since the beginning, also taken up an active role in the board. MFIs can find in Incofin a partner who actively works together with them to find a solution that suits them best. The fund is managed by Incofin Investment Management, a manager of 6 microfinance investment funds with EUR 300 million assets under management.

Incofin Investment Management is taking care of this job with an international and multilingual team of 37 experts who are at the MFIs' disposal.

More information on Incofin is available on our website www.incofin.com

Triodos Investment Management

Triodos-Doen Foundation (Triodos-Doen) and Hivos-Triodos Fund Foundation (Hivos-Triodos Fund) are microfinance funds managed by Triodos Investment Management, a 100% subsidiary of Triodos Bank, one of the world's leading sustainable banks. Triodos Investment Management has been a pioneering provider of capital to the microfinance sector since 1994. As an investor it wants to contribute to the development of a sustainable financial sector in developing countries that is based on fair pricing, transparency, access for all and care for the earth.

Triodos Investment Management manages four funds that provide finance for around 95 MFIs in Latin America, Africa, Asia and Eastern Europe and hold equity stakes in 19 leading and innovative microfinance institutions and vehicles worldwide. At year-end 2011 the total assets under management in microfinance amounted to EUR 365 million.

Triodos-Doen and Hivos-Triodos Fund both started in 1994. Triodos-Doen is a joint initiative of DOEN Foundation and Triodos Bank; Hivos-Triodos Fund is joint-initiative of Dutch development organisation Hivos and Triodos Bank. In 2011, both funds sharpened their strategy by including the sustainability themes Foods & Agriculture and Energy & Climate within the financial sector in developing countries as an additional focus. Investment Management BV, a 100% subsidiary of Triodos Bank, the leading values-driven bank in Europe.

Triodos Investment Management has been a pioneering provider of capital to the microfinance sector since 1994. As an investor it wants to contribute towards the development of a sustainable financial sector in developing countries, based on the pillars of fair pricing, transparency, poverty alleviation and care for the earth. Triodos Investment Management manages four funds that provide finance for around 80 MFIs in Latin America, Africa, Asia and Eastern Europe. They hold equity stakes in 19 prominent microfinance institutions. At year-end 2009 the total assets under management in microfinance amounted to EUR 236 million.

FEFISOL

FEFISOL fund (Fonds Européen de Financement Solidaire pour l'Afrique) was set up on July 12th, 2011 at the initiative of SIDI/France to leverage additional funds to increase the supply of financial services in developing regions of Africa. It is registered as a Specialised Investment Fund (SIF) in Luxembourg under the legal form of a "Société d'Investissement à Capital Variable" (SICAV).

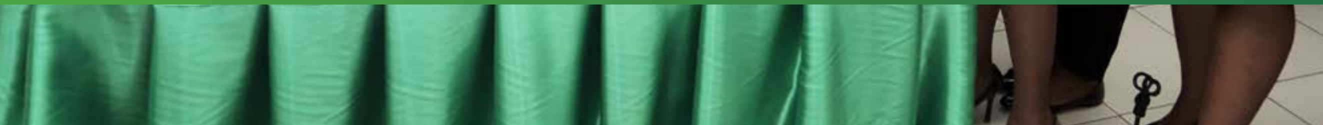
Apart from SIDI, FEFISOL main shareholders are the European Investment Bank (EIB), FISEA (French Development Agency/PROPARCO), Norwegian Microfinance Initiative (NMI), the BOAD (West African Bank for Development), ALTERFIN / Belgium, ETIMOS / Italy.

SIDI was set up in 1983 as a private company limited by shares, on the initiative of the Catholic Committee against Hunger and for Development (CCFD). SIDI is the Investment Adviser and the Manager of FEFISOL.

FEFISOL is entirely dedicated to the African continent and benefits from the in-depth knowledge of SIDI in this region. At least 75% of FEFISOL portfolio is to be invested in Sub-Saharan Africa and the Indian Ocean. The remaining 25% will be invested in North Africa. FEFISOL investment strategy is to support African organisations with high social and environmental added value and with a strong focus on rural and underserved areas. To do so FEFISOL finance Microfinance institutions but also producers' organisations and rural SMEs those are selling on fair trade and organic markets. FEFISOL positions itself as a knowledgeable investor, with a medium term time frame, giving priority to the institutional strengthening of its partners and the economic development of their beneficiaries. At end of 2015, FEFISOL has invested EUR 24 million in 50 organisations in 21 countries.

Main branch and Ag. MD (Centre) during customer service week

Customer Service Week at Main Branch; Ag. MD cutting the cake for sharing with customers



DIRECTORS	Mr. Ernest S. Massawe	Tanzanian Chairperson
	Mr. Brian Kuwik	American
	(Alternate: Ms. Melissa Baez)	American Director
	Mr. Selestine Some	Tanzanian Director
	Ms Liesbeth Soer	Dutch
	(Alternate: Mr. Frank Streppel)	Dutch Director
	Dr. Richard Kasungu	Tanzanian Director
	Mr. Joseph Rugumyamheto	Tanzanian Director
	Mr. John Fischer	American Director
	Mr. Jean-Marie Prevost	French Director
MANAGING DIRECTOR	Mr. Israel Chasosa (up to 28 November, 2017) Acting: Juliana Swai (from end of November – to date)	
COMPANY SECRETARY	Niwaeli Mziray 3rd Floor, Amani Place, Ohio Street, P. O. Box 669 Dar es Salaam, Tanzania	
AUDITORS	PricewaterhouseCoopers Ltd Pemba Houses, 369 Toure Drive, Oysterbay P. O. Box 45, Dar es Salaam, Tanzania	
LEGAL ADVISORS	Nexlaw Advocates P. O. Box 75578 Dar es Salaam, Tanzania Tan Africa Law Chambers G.A.K Patel Building, 4th Floor, Off Maktaba Street Dar es Salaam Law Guide Attorneys P. O. Box 13021 Arusha, Tanzania	

1 The Directors are pleased to present their report together with the audited financial statements of Akiba Commercial Bank Plc (the "Bank") for the year ended 31 December 2017 which show the Bank's state of affairs.

2 INCORPORATION

The Bank is incorporated in Tanzania under Companies Act 2002 as a Public Company Limited by shares and is domiciled in Tanzania.

3 PRINCIPAL ACTIVITIES

The Bank is engaged in the business of banking and provision of related services and is licensed under the Banking and Financial Institutions Act 2006.

4 BANK'S VISION

To be the preferred banking partner for micro, small and medium enterprises

5 BANK'S MISSION

To provide inclusive, innovative financial solutions in the most efficient and sustainable manner.

6 BOARD OF DIRECTORS

The Directors of the Bank at the date of this report, who held office since 1 January 2017, except where otherwise stated, are as listed on page 1.

7 CAPITAL STRUCTURE AND SHAREHOLDING OF THE BANK

As at 31 December 2017, the Bank had 276 shareholders (2016: 280 shareholders).

Directors' holding shares at the Bank are listed below:

Name	Nationality	Ordinary Shares of TZS 1,000 each	Nominal value TZS 000	Ordinary Shareholding %
Dr. Richard Kasungu	Tanzanian	5,917	5,917	0.069%
Mr. Joseph Rugumyamheto	Tanzanian	6,255	6,255	0.073%
		12,172	12,172	0.142%

7 CAPITAL STRUCTURE AND SHAREHOLDING OF THE BANK (CONTINUED)

The Capital structure and shareholding position of the Bank as at 31 December 2017 is as follows:

	2017		2016	
	Number of ordinary shares	Percentage %	Number of ordinary shares	Percentage %
Shareholder				
Accion International	**1,721,456**	**20**	1,721,456	20
PPF Pensions Fund	**963,957**	**11**	963,957	11
StichtingHivos – TriodosFonds	**683,335**	**8**	683,335	8
INCOFIN CVSO	**617,850**	**7**	617,850	7
FMO	**595,443**	**7**	595,443	7
Inter Consult Limited	**472,229**	**6**	472,229	6
FEFISOL	**434,022**	**5**	434,022	5
Sustainable Finance Foundation	**430,798**	**5**	430,798	5
ErnconHoldings Limited	**802,302**	**9**	426,684	5
Tanzania Development Finance	**-**	**-**	275,235	3
Others	**1,885,743**	**22**	1,986,126	23
	8,607,135	**100**	8,607,135	100

8 RESULTS AND DIVIDEND

The Bank recorded a loss before tax of TZS 10.9 billion for the year under review (2016: Profit before tax of TZS 12.3 billion). The loss for the year is mainly attributed due to increases in non-performing loans and the bank's strategy to slow down in lending activities as result of changes in economic environment.

The Directors do not recommend payment of dividend.

9 CORPORATE GOVERNANCE

The Bank's Board of Directors is composed of eight (8) Directors (2016: 8). All directors are non-executive. The Board takes overall responsibility for the Bank including: responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board is required to meet at least four (4) times a year. The Board delegates the day to day management of the business to the Managing Director assisted by Senior Management. Senior Management is invited to attend Board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units.

9 CORPORATE GOVERNANCE (CONTINUED)

The Bank is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. During the year, the Board of Directors of the Bank had the following Board sub-committees to ensure a high standard of corporate governance throughout the Bank.

Board Audit Committee

Name	Position	Nationality
Mr. Selestine Some	Chairperson	Tanzanian
Mr. Jean Marie Prevost	Member	French
Mr. John Fischer	Member	American
Dr. Richard Kasungu	Member	Tanzanian

The Audit Committee reports to the main Board. The committee had 5 meetings during the year.

Board Governance and Human Resources Oversight Committee

Name	Position	Nationality
Mr. JosephRugumyamheto	Chairperson	Tanzanian
Mr. Brian Kuwik	Member	American
Dr. Richard Kasungu	Member	Tanzanian
Mr. Jean Marie Prevost	Member	French

The Governance and Human Resources Oversight Committee reports to the main Board. The committee had 5 meetings during the year.

Board Risk and Compliance Committee

Name	Position	Nationality
Ms. Liesbeth Soer	Chairperson	Dutch
Dr. Richard Kasungu	Member	Tanzanian
Mr. John Fischer	Member	American
Mr. Selestine Some	Member	Tanzanian

Board Credit Committee

Name	Position	Nationality
Mr. Brian Kuwik	Chairperson	American
Mr. Selestine Some	Member	Tanzanian
Mr. Joseph Rugumyamheto	Member	Tanzanian
Ms. LiesbethSoer	Member	Dutch

The Credit Committee reports to the main Board. The committee had 5 meetings during the year.
The main Board of Directors had 6 meetings during the year.

10 RELATED PARTY TRANSACTIONS AND BALANCES

Transactions during the year with related parties were conducted at terms and conditions similar to those offered to other clients and in the normal course of the business. Details of transactions and balances with related parties are included in note 31 to the financial statements.

11 MANAGEMENT

The Management of the Bank is under the Managing Director and is organized in the following departments:

- Finance and Treasury department;
- Operations department;
- Marketing and Communications department;
- Commerce department;
- Human Resources department;
- Information & Communication Technology department;
- Risk & Compliance department;
- Legal department; and
- Internal Audit department.

12 PERFORMANCE FOR THE YEAR

The year ended 31 December 2017 had a loss before tax of TZS 10.9 billion (2016: Profit before tax of TZS 12.3 billion).

Interest income decreased from TZS 41.1 billion during the year 2016 to TZS 35.5 billion in 2017 which is percentage decrease of 14% while total fees and commission income decreased from TZS 10.5 billion in 2016 to TZS 8.2 billion in 2017 which is 22% due to decrease in loans portfolio. Also due to the increase in non- performing loans, the Bank experienced an increase of 513.6% impairment provision charges from TZS 2.2 billion in 2016 to TZS 13.5 billion in 2017.Overall the Bank experienced slowdown in business in the year 2017.

Total general and administrative expenditure was TZS 14.9 billion, an increase of 7% from expenditure of TZS 13.9 billion in 2016 mainly due to provision for fraud happened during the year.

Total assets at year-end stood at TZS 183 billion, a net decrease of 13% or TZS 32.2 billion from TZS 211.2 billion at 31 December 2016.This decrease is mainly due to decrease in loans and advances to TZS 101.8 billion, a net decrease of 30% or TZS 42.9 billion from TZS 144.7 billion at 31 December 2016. The Bank customer deposit volume as at 31 December 2017 stood at TZS 153.4 billion from TZS 169.1 billion which is a decrease of 9%.

13 FUTURE DEVELOPMENT PLANS

The Bank plans to undertake a comprehensive upgrade and modernization of the Bank's IT systems which will reduce operating costs and increase capabilities and digital finance functionality. The Bank will benefit from increased efficiency and productivity as well as ensure benefiting from best practices and continuous improvements to technology production.

The future growth of the Bank will be dependent on its ability to efficiently capture new markets and customers. This will require the Company to broaden its footprint to profitably bank new customers outside its core market by leveraging digital finance solutions. The Bank is therefore developing a digital finance strategy to accelerate the accessibility and affordability of banking services to a wider spectrum of customers that have traditionally been underbanked. The Bank needs to combine innovative technology and alternative distribution channels to create products and services in line with the evolving business model of financial services.

The Bank shall develop an agency banking model to accelerate branchless banking network, enabling the Bank to scale its operations and expand its footprint into new markets, both urban and rural, at a lower cost.

14 RISK MANAGEMENT AND INTERNAL CONTROL

It is the task of management to ensure that adequate internal, financial and operational control systems are developed and maintained in an on-going basis in order to provide reasonable assurance regarding:

- Effectiveness and efficiency of operations;
- Safeguarding of the Bank's assets;
- Compliance with applicable laws and

14 RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

regulations;
- Reliability of accounting records;
- Business sustainability under normal as well as adverse conditions: and
- Responsible behaviours towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance to such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank's systems are designed to provide the Board with a reasonable assurance that procedures in place are operating effectively.

The Board assessed the Bank's internal control systems throughout the financial year ended 31 December 2017 and is of the opinion that they met the generally accepted banking industry criteria. The Board carries out risk management and internal control assessment through Board Audit and Risk and Compliance Committees.

Management and employee relations
The relationship between employees and management continued to be good during the year 2017. There were no unresolved reported complaints from the employees during the year.

Management took measures to build strong workplace relations by ensuring that employees lived up to the standards of the institution's culture and values while maintaining effective communication at all levels. Staff meetings were conducted at branch, departmental and corporate levels whereby staff were able to participate in helping shape the future of the organization. The Bank worked closely with the Trade union, Finance, Industrial, Banking, Utilities, Commercial and Agro Processing Industries Trade Union (FIBUCA) to ensure good labour relations.

Training Activities
During the year, the Bank spent TZS 244 million for staff training (2016: TZS 555 million). A total of 48 members of staff benefited from external courses while 20 internal courses were conducted for portfolio officers, operations and other staff. The acquired new knowledge and skills led to the enhancement of business performance. By the end of the year 2017, a total of 20 members of staff were pursuing studies leading to qualifications such as CPAs, Master's Degrees and others.

Medical Assistance
The Bank, through an insurance scheme, provided medical support to members of staff and their respective dependants, a total of TZS 1,117 million (2016:1,108 million) was paid as insurance premium in 2017.

Occupational Safety, Health and Environment

The Bank took reasonable steps to safeguard the health, safety and welfare of its employees. For example, a safe and conducive working environment was availed to all employees by providing adequate working tools, proper personal protective equipment, hygiene, training and supervision. The Bank's workplaces were visited by labour inspectors and were found to comply with appropriate government regulations.

Financial assistance to employees
The Bank provided different types of financial support to improve the welfare of its employees, including staff loans. The Bank's support was in line with industry best practice.

Persons with disabilities
It is the policy of the Bank to recruit new staff regardless of their physical abilities. What matters is the candidate's merit for the job. In the event that members of staff become disabled, every effort is made to ensure that their employment with the Bank continues and appropriate re-training is arranged, if necessary.

15 EMPLOYEE WELFARE

Employee benefit scheme

The Bank makes contributions to publicly administered pension schemes on a mandatory basis. These schemes are defined contribution plans. A total of TZS 1,258 million was contributed in 2017(2016: TZS 1,097 million).

Gender parity

The Bank is gender sensitive. During the year 2017, it ensured that female employees were given due priorities in all aspects of the Bank The Bank had 543 employees, out of whom 318 were women and 225 were men (2016: 525 employees, out of whom 313 were women and 212 were men). Women represent 60% of the bank's Management group.

16 POLITICAL DONATIONS

The Bank did not make any political donations during the year (2016: Nil).

17 CORPORATE SOCIAL RESPONSIBILITY

The Bank recognizes its role and position in the society by undertaking several Corporate Social Responsibility (CSR) initiatives. These initiatives are geared towards giving back to society as well as looking into people's welfare as a caring companion. In the year 2017, the Bank donated TZS 3.75 million to various orphanage centres.

18 SOLVENCY

The state of affairs of the Bank as at 31 December, 2017 is set out on page 14 of the financial statements. The Directors consider the Bank to be solvent within the meaning ascribed by the Companies Act, 2002.

19 ENVIRONMENTAL CONTROL PROGRAMME

The Bank has a Corporate Social Responsibility Policy, part of which addresses environmental control programmes. The Bank acknowledges the seriousness of global environmental issues and therefore acts voluntarily and affirmatively to protect the environment by seeking to minimize any adverse environmental impact in the way the Bank operates. The Bank is committed to the prevention of environmental pollution and is in compliance with relevant environmental laws in the areas we operate as a minimum standard and seeks to implement best practices wherever possible.

20 AUDITORS

The auditors, PricewaterhouseCoopers have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing their re-appointment as the Bank's auditors for the subsequent year will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

Mr. Ernest Massawe
Chairperson

Mr. Selestine Some
Director

30th April, 2018

STATEMENT OF DIRECTOR'S RESPONSIBILITIES FOR THE YEAR ENDED 31st DECEMBER, 2017

The Companies Act No.12 of 2002 requires directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss for the year. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act No.12 of 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its loss in accordance with International Financial Reporting Standards (IFRS). The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

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

Signed on behalf of the Board of Directors by:

Mr. Ernest Massawe
Chairperson

Mr. Selestine Some
Director

30th April, 2018

DECLARATION OF THE GENERAL MANAGER FINANCE FOR THE YEAR ENDED 31st DECEMBER 2017

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

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors' as per the statement of Directors Responsibility statement on an earlier page.

I, Bertha Simon, being the General Manager Finance of Akiba Commercial Bank Plc hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2017 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No.12 of 2002.

I thus confirm that the financial statements give a true and fair view of the financial performance of Akiba Commercial Bank Plc for the year ended on 31 December 2017 and its financial position as on that date and that they have been prepared based on properly maintained financial records.

Signed by: ________________

Position: General Manager Finance

NBAA Membership no: ACPA 3137

Date: 30th April, 2018

Report on the audit of the Bank financial statements

Our Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Akiba Commercial Bank Plc (the "Bank") as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002.

What we have Audited

The financial statements of Akiba Commercial Bank Plc are set out on pages 35 to 93 comprise:

- statement of financial position as at 31 December 2017;
- statement of profit or loss and other comprehensive income for the year then ended;
- statement of changes in equity for the year then ended;
- statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Bank's financial statements section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements of the National Board of Accountants and Auditors (NBAA) that are relevant to our audit of the financial statements in Tanzania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the NBAA.

Key audit matters

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

Report on the audit of the Bank financial statements
Key audit matters (Continued)

Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Impairment of loans and advances to customers Management exercises judgement during impairment assessment of loans and advances to customers. Because of the significance of the judgement involved and the size of loans and advances which is approximately 56% of the total assets, make this a key audit matter. Judgement and assumptions are usually made on the identification of non-performing loans which is quantitatively determined by the system and how much to record as impairment provisions. Judgement is applied to determine the appropriate parameters and assumptions used to estimate the provision. Impairment for non-performing loans and advances is calculated individually for each loan as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the loan. Judgements are applied in estimating the recoverable amounts of contractual cash flows from realisation of collateral and/or cash flows from the debt servicing and in estimating the recovery period. Unidentified impairment provisions are determined from collective assessment of a group of financial assets with similar credit risk characteristics. Key inputs involving judgement are emergence period and loss ratio. The significant judgments and areas of uncertainty embodied in the impairment assessment are disclosed in Note 6 of the financial statements. Also further details on loans and advances to customers and its provisions have been disclosed in Note 18 of the financial statements	<u>Identification of loans subject to specific impairment provision</u> As the identification of loans subjected to specific impairment testing is reliant on information systems, we understood and tested key information technology general controls, controls over access to data, controls over creation of data and controls over changes to data. We tested that the system appropriately identifies past due loans and accurately calculates the number of days past due. We performed audit procedures to confirm appropriateness of the number of days past due applied by management to determine non-performing loans. In addition, we also performed audit procedures to confirm whether overdue loans which do not meet the entity's criteria for classification as non-performing but whose trend subsequent to year end indicated deterioration were appropriately included in the specific impairment assessment. <u>Impairment assessment</u> Where an impairment assessment was driven by cash flows, we challenged management on the assumptions underlying the expected cash flows to establish their reasonableness and recomputed the discounted cash flows. Where impairment assessment was driven by recovery of collateral: • We tested management's process for selecting the panel of valuers used to value collateral. • For physical assets related collateral, we agreed their forced sale values to collateral valuation reports. • We challenged management assumptions regarding the recovery period used in determining

How Our Audit Addressed the Key Audit Matter (Continued)

Impairment assessment continued

the recoverable amount of collaterals.

For unidentified impairment, we tested the loss ratio used in unidentified impairment comparing it to historical data experience.

We also validated reasonableness of emergence periods applied in the model.

Emphasis of matter – Non-compliance with minimum required capital adequacy ratios

We draw attention to Note 5 of these financial statements, which indicates that the Bank's capital adequacy ratios of 10.28% for Tier I and 10.85% for Tier II as at 31 December 2017 were below the minimum required ratios of 12.5% and 14.5% respectively. The Bank's plans to deal with capital shortfall have also been disclosed in Note 5. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information obtained comprises Corporate information, Directors' Report, Statement of Directors' responsibilities and Declaration of the General Manager Finance but does not include the Bank's financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and Annual report which is expected to be made available to us after that date.

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

In connection with our audit of the Bank's financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Bank's financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance

Responsibilities of the directors for the Bank's financial statements

The directors are responsible for the preparation and fair presentation of the Bank's financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002, and for such internal control as the directors determine is necessary to enable the preparation of Bank's financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Bank's financial statements, the directors 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

Report on the audit of the Bank financial statements (Continued)

no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Bank's financial statements

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

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

- Identify and assess the risks of material misstatement of the Bank's financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

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

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

Report on other legal and regulatory requirements

This report, including the opinion, has been prepared for, and only for, the Bank's members as a body in accordance with the Companies Act No. 12 of 2002 and for no other purposes.

As required by the Companies Act No. 12 of 2002, we are also required to report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Bank has not kept proper accounting records, if the financial statements are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Bank is not disclosed. In respect of the foregoing requirements, we have no matter to report.

Cletus Kiyuga, ACPA-PP
For and on behalf of PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam

Date: 30th April, 2018


AUDIT

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2017	2016
		TZS '000	TZS '000
Interest income	7	**35,478,405**	41,177,476
Interest expense	8	**(8,555,308)**	(7,362,443)
Net interest income		**26,923,097**	33,815,033
Loan impairment charges	18	**(13,489,015)**	(2,210,553)
Net interest income after loan impairment charges		**13,434,082**	31,604,480
	9	**8,187,201**	10,499,242
Fee and commission income	10	**145,544**	217,904
Foreign exchange income	11	**594,689**	1,080,478
Other operating income	12	**(16,797,829)**	(15,670,276)
Employee benefits expenses	13	**(14,869,071)**	(13,926,702)
General and administrative expenses	14	**(1,585,459)**	(1,485,211)
Depreciation and amortization			
(Loss)/profit before income tax		**(10,890,843)**	12,319,915
Income tax credit/(expense)	15	**3,484,353**	(3,956,463)
(Loss)/ profit for the year		**(7,406,490)**	8,363,452
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**(7,406,490)**	8,363,452

FINANCIAL STATEMENT FOR THE YEAR ENDED 31st DECEMBER, 2017

STATEMENT OF FINANCIAL POSITION

	Notes	2017	2016
		TZS '000	TZS '000
Assets			
Cash and balances with The Bank of Tanzania	16	32,199,247	29,881,865
Balances with other Banks	17	6,611,250	7,279,524
Loans and advances to customers	18	101,777,524	144,663,920
Government securities	19	19,177,226	15,906,780
Unquoted equity investment	20	20,000	20,000
Property and equipment	21	2,558,077	2,798,736
Intangible assets	22	267,373	141,631
Leasehold improvements	23	2,301,464	2,639,641
Deferred income tax	24	6,160,721	1,564,348
Current Income tax asset		3,111,881	-
Other assets	25	8,440,704	6,307,922
TOTAL ASSETS		182,625,467	211,204,367
Liabilities			
Deposits from other banks		-	3,162,767
Deposits from customers	26	153,440,939	169,105,208
Other liabilities	27	3,626,950	5,185,867
Current income tax payable	15	-	786,457
Total liabilities		157,067,889	178,240,299
Shareholders' equity			
Share capital	29	8,607,135	8,607,135
Share premium		2,431,917	2,431,917
Retained earnings		12,981,019	20,040,593
Regulatory reserve		694,193	538,090
General risk reserve		843,314	1,346,333
Total equity		25,557,578	32,964,068
TOTAL LIABILITIES AND EQUITY		182,625,467	211,204,367

The financial statements on pages 35 to 93 were approved and authorised for issue by the Board of Directors on 30 April, 2018 and signed on its behalf by:

Mr. Ernest Massawe
Chairperson

Mr. Selestine Some
Director

FINANCIAL STATEMENT FOR THE YEAR ENDED 31st DECEMBER, 2017

STATEMENT OF CHANGES IN EQUITY

At 1 January 2017	Share Capital	Share premium	Retained earnings	Regulatory Reserve	Regulatory Reserve	General risk reserve	Total
	8,607,135	2,431,917	**20,040,593**	**538,090**	**538,090**	**1,346,333**	**32,964,068**
Comprehensive income	-	-	-	-	-	-	-
Loss for the year	-	-	**(7,406,490)**	-	-	-	**(7,406,490)**
Transfer to Regulatory reserve	-	-	**(156,103)**	**156,103**	**156,103**	-	-
Transfer from General risk reserve	-	-	**503,019**	-	-	**(503,019)**	-
Total comprehensive income	-	-	**(7,059,574)**	**156,103**	**156,103**	**(503,019)**	**(7,406,490)**
At 31 December 2017	**8,607,135**	**2,431,917**	**12,981,019**	**694,193**	**694,193**	**843,314**	**25,557,578**
At 1 January 2016	8,607,135	2,431,917	11,107,684	2,174,018	2,174,018	925,397	25,246,151
Comprehensive income	-	-	-	-	-	-	-
Profit for the year	-	-	8,363,452	-	-		8,363,452
Transfer from Regulatory reserve	-	-	1,635,928	(1,635,928)	(1,635,928)	-	-
Transfer to General risk reserve	-	-	(420,936)	-	-	420,936	-
Total comprehensive income	-	-	9,578,444	(1,635,928)	(1,635,928)	420,936	8,363,452
Transactions with owners							
Dividend declared	-	-	(645,535)	-	-	-	(645,535)
At 31 December 2016	8,607,135	2,431,917	20,040,593	538,090	538,090	1,346,333	32,964,068

*Regulatory reserve represents the surplus of provision for credit losses computed in accordance with Bank of Tanzania regulations over the provision for impairment of loans and advances computed in accordance with International Financial Reporting.

**General risk reserve represents 1% provision on loans classified as current including other risk assets in line with regulatory requirements of the Bank of Tanzania.

STATEMENT OF CASH FLOWS

	Notes	2017	2016
Cash flows from operating activities		**(10,890,843)**	12,319,915
(Loss)/Profit before taxation		**1,585,459**	1,485,211
Adjustments for:		**(4,852)**	158,762
Depreciation and amortisation		**271,254**	113,500
Profit from disposal of property and equipment		**(7,130)**	-
Exchange loss in cash and cash equivalent			
Movement in provisions		**(9,046,112)**	14,077,388
Movement in working capital			
Decrease/(increase) in Statutory Minimum Reserve		**4,647,830**	(3,602,586)
Decrease/ (Increase) in loans and advances to customers		**42,886,396**	(37,369,088)
Increase in government securities		**(3,270,446)**	(3,012,904)
Increase in other assets		**8,846**	(283,705)
(Decrease)/increase in deposit from customers		**(15,664,269)**	34,722,442
Increase/(decrease) in balances from other banks		**(3,162,767)**	2,662,589
(Decrease)/Increase in other liabilities		**(1,533,705)**	1,621,892
Cash flows generated from in operations		**14,865,773**	8,816,028
Tax paid	15(c)	**(5,010,358)**	(3,867,168)
Net cash flows generated from in operations		**9,855,415**	4,948,860
Cash flows from investing activities			
Purchase of property and equipment	21	**(783,825)**	(1,324,155)
Purchase of intangible assets	22	**(179,001)**	(97,245)
Purchase of leasehold improvements	23	**(163,400)**	(502,894)
Proceeds from sales of property and equipment		**5,844**	-
Net cash generated from (used in) investing activities		**(1,120,382)**	(1,924,294)
Cash flows from financing activities			
Dividend paid		**(25,212)**	(606,470)
Net cash used in financing activities		**(25,212)**	(606,470)
Net increase in cash and cash equivalents		**8,709,821**	2,418,096
Cash and cash equivalent at the beginning of the year		**24,885,951**	22,581,354
Effect of movement in foreign exchange		**(271,254)**	(113,500)
Cash and cash equivalent at the end of the year	28	**33,324,518**	24,885,950

1 REPORTING ENTITY

Akiba Commercial Bank Plc ("The Bank") is a limited company incorporated in Tanzania under the Companies Act 2002 and is domiciled in Tanzania. The address of its registered office and principal place of business is:

3rd Floor, Amani Place
Ohio Street
PO Box 669
Dar es Salaam, Tanzania

The Bank provides micro finance, retail and corporate banking services. The financial statements of Akiba Commercial Bank Plc for the year ended 31 December 2017 have been approved for issue by the board of Directors on 27 March 2018. Neither the entity owners nor others have the power to amend the financial statements after issue

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets and financial assets and financial liabilities held at fair value through profit or loss, which have been measured at fair value.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 3.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in the assumptions may have significant impact on the financial statements in the period the assumptions change. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 6.

Changes in accounting policy and disclosures

i) New standards, amendments and interpretations adopted by the Bank

The following standards and interpretations became effective in the current year and were relevant to the bank but had no material impact on the amounts reported in these financial statements.

- IAS 12 (Amendments): Recognition of Deferred Tax Assets for Unrealised Losses

Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

IAS 7 (Amendments): Disclosure Initiative

Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

NOTES CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.

The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

Annual improvements 2014-2016 cycle: Amendments to IFRS 12

This standard which became effective during the year have no impact on the Bank.

ii) New standards and interpretations in issue but not yet effective

At the date of authorisation of the financial statements for the year ended 31 December 2017, the following relevant Standards were in issue but not yet effective:

Effective for the financial year commencing 1 January 2018

- IFRS 15 Revenue from Contracts with customers
- IFRS 9 Financial Instruments
- IFRS 2 Share - based payment (Amendment)
- IFRS 4 Insurance contracts (Amendments)
- IFRIC 22 Foreign currency transactions and advance consideration
- IAS 40 Investment property (Amendments)

Effective for the financial year commencing 1 January 2019

FRS 16 Leases

All Standards and Interpretations will be adopted at their effective date except for those Standards and Interpretations that are not applicable to the entity. The directors are in the process of assessing the impact of these new standards some of which may have significant impact on the Bank.

IFRS 15 Revenue from Contracts with Customers

This standard will replace the existing revenue standards and their related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer.

The standard incorporates a five step analysis to determine the amount and timing of revenue recognition.

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

The standard is effective for the annual periods beginning on or after 1st January, 2018.

IFRS 9 Financial Instruments

Financial Instruments

This standard will replace the existing standard on the recognition and measurement of financial instruments and requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in OCI.

All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised within OCI.

The standard has introduced a new expected-loss impairment model that will require more timely recognition of expected credit losses. This new model will apply to financial assets measured at either amortised cost or fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss).

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or full lifetime expected credit losses.

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition as well as for certain contract assets or trade receivables. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses.

The Bank is at advanced stage of finalizing IFRS 9 impairment model. Applicable credit and accounting policies will be amended to incorporate the requirements of IFRS 9. The Bank will adopt the Probability of Default (PD)/Loss Given Default (LGD) approach for the calculation of Expected Credit Losses (ECL) for all loans and advances. In arriving at PD's and LGD's the ECL model incorporated relevant macro-economic development. However, validation of the model by both internal and external auditors is still in progress therefore the assessment at this stage is not conclusive.

IFRS 10 and IAS 28 (amendments)

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The amendments will be applied prospectively and are not expected to have a material impact on the financial statements.

IFRS 16 Leases

Leases

This standard will replace the existing standard IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet.

The most significant change pertaining to the accounting treatment of operating leases is from the lessee's perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 has not changed substantially in terms of this standard and as a result, a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it is currently done in terms of IAS 17.

In addition, the standard requires lessors to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

NOTES (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

The standard is effective for the annual periods beginning on or after 1 January 2019.

IFRS 2 (amendment) Share-based Payment

The amendments are intended to eliminate diversity in practice in three main areas of the classification and Measurement of share based payment transactions which are:

- The effects of vesting conditions on the measurement of a cash-settled share based payment transaction
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments will be applied prospectively. The impact on the annual financial statements has not yet been fully determined.
IFRS 4 (amendment) Insurance Contracts

The amendment to applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard IAS 39.

The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.

The amendments will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

The standard is effective for the annual periods beginning on or after 1 January 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The IFRIC provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The IFRIC will be applied retrospectively or prospectively. The impact on the annual financial statements has not yet been fully determined but is not expected to have a significant impact on the Bank.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The amendments will be applied prospectively and are not expected to have a material impact on the financial statements.

IFRS 16 Leases

Leases

This standard will replace the existing standard IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet.

The most significant change pertaining to the accounting treatment of operating leases is from the lessee's perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 has not changed substantially in terms of this standard and as a result, a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it is currently done in terms of IAS 17.

In addition, the standard requires lessors to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

The standard is effective for the annual periods beginning on or after 1 January 2019.

IFRS 2 (amendment) Share-based Payment

The amendments are intended to eliminate diversity in practice in three main areas of the classification and Measurement of share based payment transactions which are:

- The effects of vesting conditions on the measurement of a cash-settled share based payment transaction
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments will be applied prospectively. The impact on the annual financial statements has not yet been fully determined.
IFRS 4 (amendment) Insurance Contracts

The amendment to applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard IAS 39.

The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.

The amendments will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

The standard is effective for the annual periods beginning on or after 1 January 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
The IFRIC provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the

NOTES CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The IFRIC will be applied retrospectively or prospectively. The impact on the annual financial statements has not yet been fully determined but is not expected to have a significant impact on the Bank.

The standard is effective for the annual periods beginning on or after 1 January 2018.

Annual Improvements 2014 – 2017 cycle.

The IASB has issued various amendments and clarifications to existing IFRS.

The annual improvements are effective on various effective dates, the earliest being for the Bank's 2017 financial year

2.2 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as 'other operating income'.

However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate (EIR) from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(ii) Fees and commission income

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fees income can be divided into the following categories:

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate (EIR) on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses,

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Recognition of income and expenses (continued)

(ii) Fees and commission income (continued)

(b) Fee income from providing transaction services

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

(c) Operating income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

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

2.3 Employees' benefits including post-employment benefits

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

(i) Post-employment benefits

The Bank operates a defined contribution plan whereby each of its employees and the Bank contribute 10% each of the employee's monthly salaries to the state owned and managed (statutory) Funds. The Bank has no further payment obligations once the contributions have been paid. The contributions are recorded as an expense under "Personnel expenses" in the year to which they relate. Unpaid contributions are recognised as a liability.

(ii) Other employee benefits

The Bank provides free medical treatment for existing staff and their dependants. The cost is recorded as an expense under "Personnel expenses". The estimated monetary liability for employees' accrued leave entitlement at the reporting date is recognised as an expense accrual.

(iii) Bonus Scheme

A liability for employee benefits in the form of bonus scheme is recognised when there is a formal scheme and the amounts to be paid are determined before the end of the reporting period or past practice has created a valid expectation in employees that they will receive a bonus subject to satisfactory performance and the amount can be determined before the financial statements are issued. Liabilities for bonus scheme are expected to be settled within 3 months and are measured at the amounts expected to be paid when they are settled.

2.4 Provision

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

2.5 Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, excluding the costs of day-to-day servicing. Costs of replacing part of the property and equipment and major inspection cost are capitalised if the recognition criteria are met as required by IAS 16. Borrowing costs for long-term projects are capitalised if they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other repair and maintenance costs are recognised in profit or loss as incurred. Depreciation is calculated on straight line basis to write down the cost of the asset to its residual value over the estimated useful life as follows:

Description of Assets	Rate (%)
Leasehold improvement	10
Motor vehicles	25
Furniture, fittings and equipment	20
Computer equipment and software	20

NOTES (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property and equipment(continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed at each financial year end, and adjusted prospectively, if appropriate.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. (Refer to accounting policy on impairments of non-financial assets.

2.6 Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

It is technically feasible to complete the software product so that it will be available for use;

- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product including the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

2.7 Leasing

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

Bank as a lessee

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

Bank as a lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Leasing (Continued)

Bank as a Lessor (continued)

Contingent rents are recognised as revenue in the period in which they are earned.

Leasehold Improvements
Leases of leasehold improvements are classified as operating leases; these include improvements made on leased Bank buildings for its head office and branches. The total payments made under operating leases are charged to profit or loss on a straight-line basis over the life of the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leasehold improvements are stated at cost, less accumulated amortisation and accumulated impairment in value. Leasehold improvements amortisations are calculated on straight line basis at annual rates estimated to write down the carrying values of the assets to their residual value over their expected useful lives.

The annual amortisations of operating leasehold in use are:

Leasehold improvements 10 years

No amortisation charge is made to leasehold improvements work in progress under refurbishments.

2.8 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices and other available fair value indicators. Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.9 Financial Instruments - initial recognition and subsequent measurement

The Bank initially recognises loans and advances, deposits, debt securities issued, on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is

NOTES CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial Instruments - initial recognition and subsequent measurement (Continued)

the date on which the Bank becomes a party to the contractual provisions of the instrument.

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

Financial Assets

The Bank classifies its financial assets into one of the following categories: loans and receivables and available-for-sale. Management determines the classification at initial recognition.

Loan and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest rate method.

Available for Sale Financial Assets

Available-for-sale assets are financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity.

Available-for-sale investments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial Liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits and other liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss.

2.10 Reclassification of Financial Assets and liabilities

The bank is permitted to reclassify, in certain circumstances, financial instruments out of the “Available-for-sale” category and into the “Loans and receivables” category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For financial assets reclassified out of the’ Available-for-sale’ category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the Effective Interest Rate (EIR). If the asset is subsequently determined to be impaired then the amount recycled in equity is recycled to profit or loss.

The Bank may reclassify a non-derivative trading asset out of the ‘Held-for-Trading’ category into the ‘Loans and receivables’ category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimate of future cash receipts as a result of increased

NOTES (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Reclassification of Financial Assets and liabilities (Continued)

recoverability of those cash receipts, the effect of that receipt is recognised as an adjustment to the EIR from the date of change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. There are no reclassified financial assets.

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made is as seen here in below:

Financial Assets	*Class*
Cash and balances with Bank of Tanzania	Loans and Receivables
Loans and advances to Banks	Loans and Receivables
Loans and advances to customer	Loans and Receivables
Government securities	Loans and Receivables
Equity investment	Available for Sale
Other assets (excluding prepayment and stationery stock and interest income amortisation adjustment)	Loans and receivables
Financial Liabilities	
Deposits from Banks	Financial liabilities at amortized cost
Deposits from customers	Financial liabilities at amortized cost
Other liabilities (excluding statutory deductions and deferred loan processing fees)	Financial liabilities at amortized cost

NOTES (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 De-recognition of financial assets and financial liabilities

Financial Assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

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

Determination of Fair Value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Impairment of Financial Assets
The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 De-recognition of financial assets and financial liabilities (continued)

Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss and is shown separately. The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

NOTES (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 De-recognition of financial assets and financial liabilities (continued)

Available-for-sale financial investments
For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Renegotiated Loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This 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 and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

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

2.12 Cash and cash equivalents

Cash and cash equivalents referred in the cash flow comprise cash on hand, non-restricted current accounts with Bank of Tanzania, deposits held at call with banks with an original maturity of three months or less, due from banks on demand and investments with maturity periods of three months or less in money market instruments.

2.13 Foreign Currency Translation

a) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency).The financial statements are presented in Tanzanian Shillings and figures are in thousands of Tanzania Shillings.

b) Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other operating income' in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Taxes

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.

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 recognised for all taxable temporary differences.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current tax and deferred tax relating to items recognised directly in equity or other comprehensive income are also recognised in equity or other comprehensive income and not in profit or loss.

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

2.15 Value Added Tax

Revenues, expenses and assets are recognised 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 recognised as an asset or liability in the statement of financial position.

2.16 Dividends on Ordinary Shares

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

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

2.17 Contingent Liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off statement of financial position transactions and disclosed as contingent liabilities. Estimates of the outcome and financial effect of contingent liabilities is made by management based on information available up to the date the financial statements are approved for issue by directors. Any expected loss is charged to the statement of profit or loss.

NOTES (CONTINUED)

3 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are inevitable consequences of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

Risk management is carried out by the Risk and Compliance department under policies approved by the Board of Directors.

The Board provides written principles for overall risk management, as well as written policies covering specific areas. In addition, the Internal Audit department is responsible for the independent review of risk management and the control environment. The most significant risks are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest risk and price risk.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that the counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; Directors therefore carefully manage its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The credit risk management and controls are centralised in Commerce, Risk and Compliance departments of the Bank and reported to the Board of Directors and Heads of Departments regularly.

3.1.1 Credit risk measurement

(a) Loans and Advances

In measuring credit risk of loan and advances to customers and to Banks at a counterparty level, the Bank assesses the financial condition by looking at the trend of key ratios as well as conducting site visits to gauge feasibility of the prospective businesses.

For microfinance loans which form greater part of the Bank's portfolio, the Bank depends on in-built mechanisms like peer pressure, graduated lending and character-based lending to mitigate inherent risk embedded in offering loans to the sector hence little emphasis is stressed in measuring the credit risk at individual level.

Aging analysis is used to give ex-post information on the extent of exposure assumed by the Bank. Below is the continuum used by the Bank in ranking the level of exposure.

	Description of the Grade	Ageing	% Used for Regulatory Provisioning
1.	Current	0 - 30 days	1%
2.	Especially mentioned	31 - 90 days	3%
3.	Sub-standard	91 - 180 days	20%
4.	Doubtful	181 – 270 days	50%
5.	Loss	271 days and above	100%
	Solidarity group loan provisioning		
1.	Current	0 - 5 days	1%
2.	Especially mentioned	6 - 30 days	5%
3.	Sub-standard	31 - 60 days	25%
4.	Doubtful	61 - 90 days	50%
5.	Loss	91 days and above	100%

NOTES (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1) Credit Risk (Continued)

3.11) Credit Risk Measurement (Continued)

(a) Loans and Advances (continued)
For larger loans, qualitative factors are considered along with aging analysis to determine the level of exposure. These include information like the account operation, loan collateral, insurance and tax status of the client and carried on a cost basis.

(b) Debt Securities
Debt securities are Treasury Bills and Bonds issued by the Government of the United Republic of Tanzania. These investments are internally graded as current.

3.1.2 Credit risk Limit Control and Mitigation Policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries.

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 groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower including Banks is further restricted by sub-limits covering on and off balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

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

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

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Credit-related commitments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

NOTES (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.2 Credit risk Limit Control and Mitigation Policies Continued

3.1.3 Impairment and Provisioning Policies (Continued)

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

3.1.3 Impairment and Provisioning Policies

The internal rating systems described in Note 3.1.1 focuses more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the internal rating system that is used for internal operational management and Banking regulation purposes.

The impairment provision shown in the financial statements at the reporting period is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two grading. The table below shows the percentage of the Bank's on and off balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

	31 December 2017		31 December 2016	
Bank's rating	**Loans and advances (%)**	**Impairment provision (%)**	Loans and advances (%)	Impairment provision (%)
1. Current	**68.34**	**5.19**	93.53	28.55
2. Especially mentioned	**4.00**	**0.72**	2.11	4.56
3. Sub-standard	**2.45**	**0.61**	0.67	1.01
4. Doubtful	**11.74**	**8.69**	1.07	7.45
5. Loss	**13.47**	**84.78**	2.63	58.42
	100	**100**	100	100

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions;
- Initiation of Bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed

NOTES (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.3 Impairment and provisioning policies (continued)

accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

	2017 TZS 000	2016 TZS 000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with the Bank of Tanzania	**22,851,981**	20,451,680
Loans and advances to banks	**6,611,250**	7,279,524
Loans and advances to customers	**101,777,524**	144,663,920
Government securities	**19,177,226**	15,906,780
Other assets (excluding prepayments)	**6,003,401**	4,026,662
	156,421,382	192,328,566
Credit risk exposures relating to off-balance sheet items are as follows:		
Unutilised facilities and other commitments to lend	**1,202,703**	2,897,521
Acceptances, guarantees and letters of credit	**3,060,849**	11,142,753
	4,263,552	14,040,274
	160,684,934	206,368,840

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2017 and 2016, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, of the total maximum exposure of 63% is derived from loans and advances to customers (2016: 70%), 12% represent investments in Government securities (2016: 8%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

-68.7% of the loans and advances portfolio are considered to be neither past due nor impaired (2016: 93.29%);

- A stringent selection process using widely accepted industry best practices upon granting loans and advances.

NOTES (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.4 Loans and advances

a) Loans and advances are summarised as follows:

	31 December 2017		31 December 2016	
	Loans and advances to customers TZS 000	**Loans and advances to banks TZS 000**	Loans and advances to customers TZS 000	Loans and advances to banks TZS 000
Neither past due nor impaired	**81,819,131**	**6,611,250**	139,688,308	7,279,524
Past due but not impaired	**7,725,789**	**-**	4,142,621	-
Impaired	**30,184,467**	**-**	5,523,631	-
	119,729,387	**6,611,250**	149,354,560	7,279,524
Gross	**(17,951,863)**	**-**	(4,690,640)	-
Less: allowances for impairment	**101,777,524**	**6,611,250**	144,663,920	7,279,524

The total impairment provision for loans and advances is TZS 18.0 billion (2016: TZS 4.7 billion). This amount represents individually as well as portfolio impaired loans. Further information of the impairment allowance for loans and advances to customers is provided in Note 18.

During the year ended 31 December 2017, the Bank's total loans and advances decreased by 20% (2016: Increase 40.34%) as a result of slowdown in lending and increases in non-performing loans. When entering into new markets or new industries, the Bank focused more on the business with small and medium corporate enterprises with good performance records in order to contain the level of delinquency.

(b) Loans and advances neither past due or impaired

The portfolio of loans and advances that were neither past due nor impaired can be analysed as follows:

	2017 TZS 000	2016 TZS 000
Classes		
Micro and Small Enterprises (MSEs)	**65,057,640**	99,686,429
Consumer Loans	**2,835,128**	3,166,848
Term loans	**9,570,033**	22,544,478
Overdrafts	**4,356,330**	14,290,554
Total loans and advances to customers	**81,819,131**	139,688,308
Amounts due from Banks	**6,611,250**	7,279,524

NOTES (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.4 Loans and advances (continued)

c) Loans and advances past due but not impaired

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Individual (Retail) Customers			Corporate Entities	
	Micro and Small Enterprises TZS 000	Consumer Loans TZS 000	Term loans TZS 000	Overdraft TZS 000	Total TZS 000
31 December 2017					
Especially mentioned (31-60 days)	**2,165,482**	**327,888**	**1,186,842**	**1,113,399**	**4,793,611**
Substandard (61-90 days)	**1,338,090**	**69,093**	**1,184,021**	**340,974**	**2,932,178**
	3,503,572	**396,981**	**2,370,863**	**1,454,373**	**7,725,789**
31 December 2016					
Especially mentioned (31-60 days)	1,655,018	21,652	1,469,002	-	3,145,672
Substandard (61-90 days)	723,169	20,593	81,602	171,585	996,949
	2,378,187	42,245	1,550,604	171,585	4,142,621

(d) Loans and Advances Impaired

Individually impaired loans and advances to customers before taking into consideration the anticipated cash flows from collateral held are TZS 5.5 billion (2016: TZS 4.2 billion).

The breakdown of the gross amount of individually impaired loans and advances by class are as shown below:

31 December 2017	Enterprises TZS 000	Consumer TZS 000	Term Loans TZS 000	Overdraft TZS 000	Total TZS 000
Doubtful	**4,057,595**	**73,065**	**2,827,016**	**7,101,471**	**14,059,147**
Loss	**10,118,818**	**927,119**	**4,676,462**	**402,922**	**16,125,321**
	14,176,413	**1,000,184**	**7,503,478**	**7,504,393**	**30,184,468**
31 December 2016					
Doubtful	1,270,698	15,512	313,079	-	1,599,289
Loss	3,424,588	404,734	-	95,020	3,924,342
	4,695,286	420,246	313,079	95,020	5,523,631

NOTES (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.4 Loans and advances (continued)

c) Loans and advances past due but not impaired

3.1.5 Amounts due from Banks

There were no amount of individually impaired loans and advances to Banks as at 31 December 2017 (2016: Nil). No collateral is held by the Bank and no impairment provision has been made against the gross amounts.

3.1.6 Debt securities, treasury bills and other eligible bills

The only investment securities held by the Bank are treasury bills issued by the Government of Tanzania. These investments are internally graded as current.

3.1.7 Other assets

Other assets amounting to TZS 1,564 million (2016: TZS 502 million) are considered impaired, these assets have been fully provided for. All other items under other assets are classified as current.

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.8 Concentration of Risks of Financial Assets with Credit Risk Exposure

Industry Sectors

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as categorised by the industry sectors of its counterparties:

31 December 2017	Government TZS 000	Financial Institutions TZS 000	Trading and commercial TZS 000	Wholesale and retail trade TZS 000	Individuals TZS 000	Others TZS 000	Total TZS 000
Balances with Bank of Tanzania	22,851,981						22,851,981
Loans and advances to banks	-	6,611,250	-	-	-	-	6,611,250
Government securities	19,177,226		-	-	-	20,000	19,197,226
Loans and advances to customers	-	-	78,961,678	5,049,555	10,177,527	7,588,765	101,777,524
Other assets**	-	-	5,734,287	-	-	269,115	6,003,402
Total on balance assets	**42,029,207**	**6,611,250**	**84,695,965**	**5,049,555**	**10,177,527**	**7,877,880**	**156,441,383**
Unutilised facilities and other commitments to lend	-	-	-	830,109	372,594	-	1,202,703
Acceptances, guarantees and letters of credit	-	-	2,040,566	-	-	1,020,283	3,060,849
Total off balance sheet	-	-	**2,040,566**	**830,109**	**372,594**	**1,020,283**	**4,263,552**

**For financial instruments disclosure purposes, other assets category excludes prepayments and stock.

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.8 Concentration of Risks of Financial Assets with Credit Risk Exposure (Continued)

31 December 2016	Government TZS 000	Financial Institutions TZS 000	Trading and Commercial TZS 000	Wholesale and Retail trade TZS 000	Individuals TZS 000	Others TZS 000	Total TZS 000
Balances with Bank of Tanzania	20,451,680						20,451,680
Loans and advances to banks	-	7,279,524	-	-	-	-	7,279,524
Government securities	15,906,780		-	-	-	-	15,906,780
Loans and advances to customers	-	-	121,663,613	7,183,550	9,622,359	6,194,398	144,663,920
Other assets**	-	-	3,862,658	-	-	164,004	4,026,662
Total on balance assets	**36,358,460**	**7,279,524**	**125,526,271**	**7,183,550**	**9,622,359**	**6,358,402**	**192,328,566**
Unutilised facilities and other commitments to lend	-	-	-	2,897,521	-	-	2,897,521
Acceptances, guarantees and letters of credit	-	-	11,142,753	-	-	-	11,142,753
Total off balance sheet	-	-	11,142,753	2,897,521	-	-	14,040,274

3.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates.

3.2.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

At 31 December 2017, if the functional currency had strengthened/weakened by 10% against the USD, GBP and EURO with all other variables held constant, post-tax profit for the year would have been TZS 99 million (2016: TZS 69 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated financial assets and liabilities. The exposure to foreign currencies other than the US Dollar is minimal.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2017. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

The Bank operates wholly within Tanzania and its assets and liabilities are reported in the local currency. The Bank's currency risk is managed within the Bank of Tanzania exposure guideline of 7.5% of core capital. The Bank's currency position as at 31 December 2017 was as follows;

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER, 2017

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (continued)
3.2.1 Foreign exchange risk (continued)

As at 31 December 2017	TZS TZS 000	USD TZS 000	EURO TZS 000	GBP TZS 000	KES TZS 000	UGX TZS 000	Total
Financial Assets							
Cash and balances with Bank of Tanzania	27,130,047	4,882,923	13,777	126,300	43,243	2,958	32,199,247
Government securities	19,197,226	-	-	-	-	-	19,197,226
Loans and advances to banks	5,952,925	159,475	485,539	13,310	-	-	6,611,250
Loans and advances to customers	98,668,184	3,109,340	-	-	-	-	101,777,524
Other assets excluding prepayments	6,003,402	-	-	-	-	-	6,003,402
Total Financial Assets	156,951,784	8,151,738	499,316	139,610	43,243	2,958	165,788,649
Financial liabilities							
Deposits from Customers	143,887,321	9,553,618	-	-	-	-	153,440,939
Other Liabilities (excluding statutory deductions and deferred facility fee)	2,813,364	-	-	-	-	-	2,813,364
Total financial liabilities	146,700,685	9,553,618					156,254,303
Net Position	10,251,099	(1,401,880)	499,316	139,610	43,243	2,958	9,534,346

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (continued)

3.2.1 Foreign exchange risk (continued)

As at 31 December 2016	TZS TZS 000	USD TZS 000	EURO TZS 000	GBP TZS 000	KES TZS 000	UGX TZS 000	Total
Financial Assets							
Cash and balances with Bank of Tanzania	26,294,812	3,534,609	24,071	11,020	14,471	2,882	29,881,865
Government securities	15,906,780						15,906,780
Loans and advances to banks	1,300,086	5,906,399	70,451	2,588	-	-	7,279,524
Loans and advances to customers	142,380,031	2,283,889	-	-	-	-	144,663,920
Other assets excluding prepayments	4,026,662	-	-	-	-	-	4,026,662
Total Financial Assets	189,908,371	11,724,897	94,522	13,608	14,471	2,882	201,758,751
Financial liabilities							
Deposits from other banks	3,162,767	-	-	-	-	-	3,162,767
Deposits from Customers	156,798,608	12,230,149	71,018	5,433	-	-	169,105,208
Other Liabilities (excluding statutory deductions and deferred facility fee)	2,498,866	493,385	36,674	-	-	-	3,028,925
Total financial liabilities	162,460,241	12,723,534	107,692	5,433	-	-	175,296,900
Net Position	27,448,130	(998,637)	(13,170)	8,175	14,471	2,882	26,461,851

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (continued)

3.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Banks Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate reprising that may be undertaken, which is monitored daily by Bank. The table below summarises the Bank's exposure to interest rate risks.

It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

Interest Rate Risk - Stress Tests

The Bank monitors the impact of risks associated with the effects of fluctuations in prevailing interest rates. At 31 December 2017, the following table summarizes the estimated impact of an immediate hypothetical increase or decrease in interest rates of 125 basis points on profit before income tax expense, and current interest rate risk profile.

	2017	2016
1% increases or decrease in interest rates	**TZS 000**	TZS 000
	52,790	83,542

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (continued)

3.2.2 Interest rate risk (continued)

The following is the Interest rate risk analysis of the bank as at 31 December 2017

Financial Assets	Non- Interest Bearing TZS 000	Up to One Month TZS 000	1-3 Month TZS 000	3-12 Month TZS 000	1-5 Years TZS 000	Total TZS 000
Cash and balances with Bank of Tanzania	32,199,247	-	-	-	-	32,199,247
Government Securities	20,000	2,480,398	5,645,583	11,031,245	-	19,197,226
Loans and advances to banks	1,109,524	5,501,726	-	-	-	6,611,250
Loans and advances to customers	-	6,897,652	6,652,037	48,684,825	39,543,009	101,777,523
Other assets(excluding prepayments)	6,003,402	-	-	-	-	6,003,402
Total Financial Assets	39,332,173	14,879,776	12,297,620	59,716,070	39,543,009	165,788,649
Financial liabilities						
Deposits from other banks	-	-	-	-	-	-
Deposit from customers	47,202,586	61,427,880	17,103,488	27,427,947	279,040	153,440,941
Other liabilities (excluding statutory deductions and deferred facility fee)	2,813,364	-	-	-	-	2,813,364
Total financial Liabilities	50,015,950	61,427,880	17,103,488	27,427,947	279,040	156,254,305
Total Interest re-pricing Gap	(10,683,777)	(46,548,104)	(4,805,86)	32,288,123	39,263,969	9,534,343

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER, 2017

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (continued)
3.2.2 Interest rate risk (continued)

The following is the Interest rate risk analysis of the bank as at 31 December 2016

Financial Assets	Non- Interest Bearing TZS 000	Up to One Month TZS 000	1-3 Month TZS 000	3-12 Month TZS 000	1-5 Years TZS 000	Total TZS 000
Cash and balances with Bank of Tanzania	29,881,865	-	-	-	-	29,881,865
Government Securities		2,633,662	4,379,192	8,893,926	-	15,906,780
Loans and advances to banks	924,104	6,355,420	-	-	-	7,279,524
Loans and advances to customers	-	25,350,723	7,857,238	52,875,492	58,580,467	144,663,920
Other assets(excluding prepayments)	4,026,662	-	-	-	-	4,026,662
Total Financial Assets	34,832,631	34,339,805	12,236,430	61,769,418	58,580,467	201,758,751
Financial Liabilities						
Deposits from other banks	-	3,162,767	-	-	-	3,162,767
Deposit from customers	50,981,353	67,672,805	17,070,657	33,296,487	83,906	169,105,208
Other liabilities (excluding statutory deductions and deferred facility fee)	3,028,925	-	-	-	-	3,028,925
Total financial Liabilities	54,010,278	70,835,572	17,070,657	33,296,487	83,906	175,296,900
Total Interest re-pricing Gap	(19,177,647)	(36,495,767)	(4,834,227)	28,472,931	58,496,561	26,461,851

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Bank's Asset and Liability Committee (ALCO), includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that cash requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

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

3.3.2 Funding approach

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

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER, 2017

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative cash flows

The following is the liquidity profile of the Bank as at 31 December 2017

Financial Liabilities	Up to 1 month TZS 000	1-3 Month TZS 000	3-12 Month TZS 000	Over I Year TZS 000	Total TZS 000
Deposits from other banks	-	-	-	-	-
Deposits from customers	108,630,465	17,103,488	27,427,947	279,040	153,440,939
Other Liabilities (excluding statutory deductions and deferred facility fee)	2,813,364	-	-	-	2,813,364
Total Liabilities (contractual maturity dates)	111,443,829	17,103,488	27,427,947	279,040	156,254,303
Assets held for managing liquidity risk (contractual maturity dates)	45,680,497	12,297,620	59,716,071	39,563,009	157,257,197
Net liquidity gap	65,763,332	4,805,868	(32,288,124)	(39,283,969)	(1,002,894)

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative cash flows

The following is the liquidity profile of the Bank as at 31 December 2016

Financial Liabilities	Up to 1 month TZS 000	1-3 Month TZS 000	3-12 Month TZS 000	Over I Year TZS 000	Total TZS 000
Deposits from other banks	3,162,767				3,162,767
Deposits from customers	118,654,157	17,070,657	33,296,487	83,907	169,105,208
Other Liabilities (excluding statutory deductions and deferred facility fee)	3,028,925	-	-	-	3,028,925
Total Liabilities (contractual maturity dates)	124,845,849	17,070,657	33,296,487	83,907	175,296,900
Assets held for managing liquidity risk (contractual maturity dates)	52,889,240	12,234,824	61,751,307	58,581,281	185,456,652
Net liquidity gap	71,956,609	4,835,833	(28,454,820)	(58,497,374)	(10,159,752)

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative cash flows (continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, Bank of Tanzania balances, and items in the course of collection, treasury bills, deposits and balances due from financial institutions and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

3.3.4 Off-balance sheet items

(a) Loan commitments

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 30), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 30) are also included below based on the earliest contractual maturity date.

	No later than 1 year TZS 000
As at 31st December 2017	
Unutilised facilities and other commitments to lend	1,202,703
Acceptances, guarantees and letters of credit	3,060,849
Total	**4,263,552**
As at 31st December 2016	
Unutilised facilities and other commitments to lend	2,897,521
Acceptances, guarantees and letters of credit	11,142,753
Total	**14,040,274**

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair values of financial assets and liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

	Carrying Value		Fair Value	
	2017 TZS 000	2016 TZS 000	2017 TZS 000	2016 TZS 000
Financial Assets				
Cash and balances with Bank of Tanzania	**32,199,247**	29,881,865	**32,199,247**	29,881,865
Loans and advances to banks	**6,611,250**	7,279,524	**6,611,250**	7,279,524
Loans and advances to customers	**101,777,524**	144,663,920	**94,141,670**	138,379,828
Other assets (excluding prepayments)	**6,003,402**	4,026,662	**6,003,402**	4,026,662
Government securities	**19,177,226**	15,906,780	**19,177,226**	15,906,780
Financial Liabilities				
Deposits from other banks	**-**	3,162,767	**-**	3,162,767
Deposits from customers	**153,440,939**	169,105,208	**153,440,939**	169,105,208
Other liabilities (excluding statutory obligations)	**2,813,364**	3,028,925	**2,813,364**	3,028,925
Off-balance Sheet Financial Instruments				
Loan commitment	**1,202,703**	2,897,521	**1,202,703**	2,897,521
Guarantees, acceptances and other financial facilities	**3,060,849**	11,142,753	**3,060,849**	11,142,753

(i) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities

The fair value for loans and receivables financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair values of financial assets and liabilities (CONTINUED)

Investment securities disclosed in the table above comprises only those equity securities held at cost less impairment. The fair value for these assets is based on estimations using market prices and earnings multiples of quoted securities with similar characteristics.

(iv) 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.

(v) Off-balance sheet financial instruments
The estimated fair values of the off-balance sheet financial instruments are based on markets prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

Fair value hierarchy
IFRS 13 requires the Bank to classify fair value measurements using a fair value hierarchy that reflects 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 while 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.

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair values of financial assets and liabilities (CONTINUED)

3.4.1 Assets and liabilities measured at fair value

The following table analyses within the fair value hierarchy the Bank's financial assets and financial liabilities (by class) measured at fair value at 31 December 2017.

	Fair Value hierarchy			
	Level 1 TZS 000	Level 2 TZS 000	Level 3 TZS 000	Total TZS 000
31 December 2017				
Available for sale financial assets				
- Investment in equity securities	-	-	20,000	20,000
Total			20,000	20,000
31 December 2016				
Available for sale financial assets				
- Investment in equity securities	-	-	20,000	20,000
Total	-	-	20,000	20,000

There were no transfers between levels for the year ended 31 December 2017 (2016: Nil).

4. CAPITAL MANAGEMENT: OBJECTIVES

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

- 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 adopted by the Bank of Tanzania (BOT), for supervisory purposes. The required information is filed with the BOT on monthly basis.

The BOT requires each Bank or Banking group to: (a) hold the minimum level of the regulatory capital of TZS 15 billion by 31 December 2017, and (b) maintain a ratio of core capital and total capital to the risk-weighted asset

NOTES (CONTINUED)

4. CAPITAL MANAGEMENT: OBJECTIVES (CONTINUED)

(the 'Basel ratio') at or above the internationally agreed minimum of 12.5% and 14.5% respectively. These capital are defined by BOT as below.

Core capital or Tier 1 mean 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

Supplementary capital" or "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 and redeemable preferred stocks, and any other form of capital as may be determined and announced from time to time by BOT.

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

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Prepaid expenses, intangible assets and deferred charges are deducted in arriving at Tier 1 capital; and

- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of the asset 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 (CONTINUED)

5. CAPITAL MANAGEMENT: REGULATORY CAPITAL

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2017 and 31 December 2016 year end respectively. As at 31 December 2017 the Bank was in breach of capital adequacy ratio following introduction of capital charge on operational risk.

Tier 1 capital	2017 TZS 000	2016 TZS 000
Share capital	8,607,135	8,607,135
Share premium	2,431,917	2,431,917
Retained earnings	12,981,019	20,040,593
Prepaid expenses	(2,437,303)	(2,281,260)
Deferred income tax	(6,160,721)	(1,564,348)
Intangible assets	(267,373)	(141,632)
Total qualifying Tier 1 capital	15,154,674	27,092,405
Tier 2 capital		
General risk reserve	843,314	1,346,333
Total qualifying Tier 2 capital	843,314	1,346,333
Total regulatory capital (Tier 1 & Tier 2)	15,997,988	28,438,738
Risk-weighted assets		
On-balance sheet	106,012,201	132,962,915
Off-balance sheet	2,750,904	6,429,187
Operational risk	38,578,916	-
Market risk	76,684	-
Total risk-weighted assets and operational and market risk	147,418,705	139,392,102
	Bank's ratio 2017 %	Bank's ratio 2016 %
Tier 1 capital (BOT minimum 12.5%)	10.28%	19.39
Tier 1 + Tier 2 capital (BOT minimum 14.5%)	10.85%	20.74

5.1 Capital injection and growth plans

The Bank has planned to raise capital by way of Rights Issue to existing shareholders. It's expected that proceeds from the rights issue will be injected in the Bank from June 2018. The capital increase has been formalized at Extraordinary General Meeting (EGM) which took place in April 2018.

The agreed capital increase will ensure sufficient capitalization of the Bank in 2018 and beyond which will support planned growth in the future. Capital plan has been submitted to BOT for review and approval.

Beyond the capital injection, the Board together with Management have been implementing strategies to improve the performance of the Bank. These strategies relate to improving non-performing loans and growing quality loan assets for the Bank in the short and medium terms.

NOTES (CONTINUED)

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements the Bank makes estimates and assumptions that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances. The most significant uses of judgment and estimates are as follows:

Impairment losses on loans and advances
The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Were the net present values of estimated cash flow to differ by +/- 10%, the impairment loss would have been TZS 83 million lower or higher (2016: TZS 33 million).The impairment loss on loans and advances is disclosed in more detail in note 18.

Property and equipment
Critical estimates are made by the directors in determining depreciation rates for equipment and their residual values. The rates used are set out in the accounting policies section of these financial statements under Note 2. There is no significant risk of these estimates changing in the next 12 months that may lead to a material change in the carrying value of property and equipment and intangible assets.

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

NOTES (CONTINUED)

7. INTEREST INCOME

	2017 TZS 000	2016 TZS 000
Interest on loans and advances to customers	**37,099,535**	39,369,827
Income from government securities	**2,175,749**	2,060,324
Interest from placement with other banks	**136,000**	247,516
Effective interest rate adjustment on loans and advances to customers	**(3,932,879)**	(500,191)
	35,478,405	41,177,476

The effective interest rate adjustment is attributed to recognition of interest income using effective interest rate as opposed to flat rate basis based on agreement with customers.

8. INTEREST EXPENSE

	2017 TZS 000	2016 TZS 000
Saving deposits	**1,142,129**	1,166,159
Time deposits	**7,077,410**	5,037,761
Other borrowings	**335,769**	1,158,523
	8,555,308	7,362,443

9. FEES AND COMMISSION INCOME

Commission income	**1,910,801**	1,281,039
ATM card	**264,513**	171,355
ATM fees	**181,737**	210,462
Loans commitment fees	**2,494,202**	3,862,242
Legal fees	**845,104**	1,549,147
Penalties from premature loans	**695,502**	1,651,216
Withdrawal charges	**333,879**	402,636
Ledger fees	**1,182,651**	957,836
Telegraphic transfer	**104,849**	204,359
Salary processing	**92,890**	134,391
Other fees	**81,072**	74,559
	8,187,201	10,499,242

10. FOREIGN EXCHANGE INCOME

Foreign currency trading	**145,544**	217,904

11. OTHER OPERATING INCOME

	2017 TZS 000	2016 TZS 000
Insurance income	456,680	944,645
Profit on disposal of property and equipment	4,852	19,374
Other income	133,157	116,459
	594,689	1,080,478

12. EMPLOYEE BENEFITS EXPENSES

	2017 TZS 000	2016 TZS 000
Salaries and allowances	12,676,795	11,306,898
Social security costs	1,258,405	1,097,171
Medical insurance	1,260,958	1,084,635
Leave allowance	3,217	44,430
Staff welfare	406,226	187,924
Staff incentives (reversal) /provision	(114,526)	652,600
Skill and development levy	578,109	557,452
Workers Compensation Fund	116,179	108,962
Other staff cost	612,467	630,204
	16,797,830	15,670,276

13. GENERAL AND ADMINISTRATIVE EXPENSES

	2017 TZS 000	2016 TZS 000
Operating leases	3,513,522	3,479,800
Umoja Switch expenses	677,987	617,411
Advertising and marketing	642,118	1,112,256
ICT expenses	1,466,881	1,179,807
Technical assistance fees	202,986	289,614
Auditors' remuneration	203,877	169,655
Directors' fees and other emoluments	208,700	180,700
Training	243,956	555,409
Travel and lodging	572,500	585,019
Maintenance equipment	444,004	297,471
Akiba Mobile expenses	201,994	208,048
Fuel Motor vehicles and generators	447,136	377,698
Telephones	130,613	147,164
Stationery expenses	405,847	446,259
Insurance	415,515	301,123
Subscription and professional fees	402,432	274,984
Legal expenses	711,983	808,279
Security	953,798	983,261
Premises expenses	1,275,471	1,506,385
Provision other assets	1,122,122	226,439
Postage and courier	38,572	67,291
Auctioneer commission	462,569	-
Miscellaneous expenses	124,486	112,629
	14,869,069	13,926,702

NOTES (CONTINUED)

14. DEPRECIATION AND AMORTISATION

	2017 TZS 000	2016 TZS 000
Depreciation (Note 21,22 and 23)	**1,585,459**	1,485,211

15. INCOME TAX (CREDIT)/EXPENSE

	2017	2016
(a) Tax expense for the year is arrived at as follows:		
Current income tax - current year	**1,112,020**	4,798,240
Current income tax -prior year	**-**	(178,183)
Deferred income tax - current year	**(4,364,107)**	(876,981)
Deferred income tax - prior periods	**(232,266)**	213,387
	(3,484,353)	3,956,463

(b) Reconciliation of tax expense to the expected tax based on accounting profit.

	2017 TZS 000	2016 TZS 000
Accounting (loss) / profit before tax	**(10,890,843)**	12,319,915
Tax calculated at the statutory income tax rate of 30%	**(3,267,253)**	3,695,975
Tax effect of:		
Expenditure permanently disallowed	**12,933**	5,696
Penalties	**-**	219,588
Fixed asset adjustment	**2,233**	-
Prior year current tax overprovision	**-**	(178,183)
Prior year deferred tax under-provision	**(232,266)**	213,387
Income tax (credit)/expense	**(3,484,353)**	3,956,463

(c) Current income tax

	2017	2016
At 1 January	**(786,457)**	(33,568)
Payments made during the year	**5,010,358**	3,867,168
Charge to profit or loss	**(1,112,020)**	(4,620,057)
	3,111,881	(786,457)

16. CASH AND BALANCES WITH THE BANK OF TANZANIA

	2017 TZS 000	2016 TZS 000
Cash balances	**9,347,266**	9,430,185
Balances with Bank of Tanzania:	**7,741,423**	
Clearing account - local currency	**3,620,292**	2,235,098
Clearing account - foreign currency	**11,490,266**	2,078,486
Statutory minimum reserve (SMR)		16,138,096
	32,199,247	29,881,865

The SMR deposit is not available to finance the Bank's day-to-day operations and is excluded from cash and cash equivalents for the purpose of the cash flow statement (Note 28).

Cash and balances with Bank of Tanzania are non-interest bearing.

17. LOANS AND ADVANCES TO BANKS

	2017 TZS 000	2016 TZS 000
Placement with local banks	**5,501,523**	6,355,420
Balance with foreign banks	**658,324**	146,254
Cheques and items in the course of clearing	**451,403**	198,536
Balances with local banks	**-**	579,314
Current	**6,611,250**	7,279,524

18. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers	**112,093,533**	143,070,468
Staff loans	**7,635,854**	6,284,092
Gross loans and advances	**119,729,387**	149,354,560
Less: allowance for impairment	**(17,951,863)**	(4,690,640)
	101,777,524	144,663,920
Gross loans and advances to customers by class are as follows:		
Micro and Small Enterprises (MSEs)	**82,690,461**	106,759,901
Consumer loans	**4,156,376**	3,629,339
Term loans	**19,530,788**	24,408,161
Overdrafts	**13,351,762**	14,557,159
	119,729,387	149,354,560

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Analysis of loans and advances to customers by maturity

	2017 TZS 000	2016 TZS 000
Maturing:		
Within 1 year	**62,234,515**	86,083,453
Between 1 year and 5 years	**39,543,009**	58,580,467
	101,777,524	144,663,920

Reconciliation of allowance account for losses on loans and advances is as follows:

	2017 TZS 000	2016 TZS 000
Balance at 1 January	4,690,640	4,224,604
Impairment losses for the year	13,770,699	2,340,292
Loans and advances written off during the year	(509,476)	(1,874,256)
	17,951,863	4,690,640

Reconciliation of allowances account for losses on loans and advances by class is as follows:

	Individual (retail) customers				
	Small and Medium Enterprises TZS 000	Consumer TZS 000	Term loans TZS 000	Overdrafts TZS 000	Total TZS 000
Balance at 1 January 2017	**3,564,019**	**397,268**	**351,027**	**378,326**	**4,690,640**
Increase in provision for loan impairment	**6,821,399**	**409,591**	**3,665,567**	**2,818,603**	**13,770,699**
Write offs	**(110,128)**		**(343,809)**		**(509,476)**
At 31 December 2017	**10,275,290**	**806,859**	**3,672,785**	**3,196,929**	**17,951,863**
Balance at 1 January 2016	2,927,498	813,507	418,560	65,039	4,224,604
Increase in provision for loan impairment	2,206,709	(112,171)	(67,533)	313,287	2,340,292
Write offs	(1,570,188)	(304,068)	-	-	(1,874,256)
At 31 December 2016	3,564,019	397,268	351,027	378,326	4,690,640

The provision as at year is made up of the following:	2017 TZS 000	2016 TZS 000
Specific allowance for impairment	**17,550,908**	4,017,676
Collective allowance for impairment	**400,955**	672,964
	17,951,863	4,690,640

NOTES (CONTINUED)

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2017 TZS 000	2016 TZS 000
Impairment charge to profit or loss is broken down as follows:		
Impairment charges for credit losses	**13,770,699**	2,340,292
Amounts recovered during year	**(281,684)**	(129,739)
Charge to profit or loss	**13,489,015**	2,210,553

19. GOVERNMENT SECURITIES

Treasury bills:	2017 TZS 000	2016 TZS 000
Maturing within 91 days or less (from acquisition)	**-**	-
Maturing after 91 days	**19,177,226**	15,906,780
Current	**19,177,226**	15,906,780

Treasury bills are debt securities issued by the Government of the United Republic of Tanzania and are classified as loans and receivables. All above securities are current.

20. UNQUOTED EQUITY INVESTMENT

	2017 TZS 000	2016 TZS 000
Investment in shares	**20,000**	20,000

Investments in shares represent 20 ordinary shares in Umoja Switch Company Limited. The investment represents 9.1% of the Company's total issued and paid up ordinary share capital. The shares are accounted for at cost.

UmojaSwitch Company Limited is a jointly controlled operation whereby 11 banks have pulled together resources to invest in a nationwide ATM network. Each bank has an equal voting right in respect of decision making.

21. PROPERTY AND EQUIPMENT

31 December 2017	Motor vehicles TZS 000	Fixtures fittings and equipment TZS 000	Total TZS 000
COST			
At start of year	1,253,282	8,777,786	10,031,068
Additions	206,622	577,202	783,824
Disposal	-	(68,298)	(68,298)
Reclassification from Leasehold improvements	-	7,322	7,322
Adjustment	-	(202)	(202)
At end of year	1,459,904	9,293,810	10,753,714
DEPRECIATION			
At start of year	960,943	6,271,389	7,232,332
Charge for the year	144,972	885,329	1,030,301
Disposals	-	(67,387)	(67,387)
Adjustment	-	391	391
At end of year	1,105,915	7,089,722	8,195,637
NET BOOK VALUE			
At end of year	353,989	2,204,088	2,558,077

NOTES (CONTINUED)

21. PROPERTY AND EQUIPMENT (CONTINUED)

31 December 2016	Motor vehicles TZS 000	Fixtures fittings and equipment TZS 000	Work in Progress TZS 000	Total TZS 000
COST				
At start of year	1,098,521	7,951,422	41,129	9,091,072
Additions	201,693	1,122,463		1,324,156
Disposals	(46,932)	(296,099)	(41,129)	(384,160)
At end of year	1,253,282	8,777,786	-	10,031,068
DEPRECIATION				
At start of year	865,858	5,688,495	-	6,554,353
Charge for the year	142,017	829,539	-	971,556
Disposals	(46,932)	(246,645)	-	(293,577)
At end of year	960,943	6,271,389	-	7,232,332
NET BOOK VALUE				
At end of year	292,339	2,506,397	-	2,798,736

None of the premises and equipment has been pledged as security for liabilities (2016: Nil).

22. INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2017 TZS 000	2016 TZS 000
COST		
At start of year	**2,850,834**	2,753,589
Additions	**179,001**	97,245
At end of year	**3,029,835**	2,850,834
AMORTIZATION		
At start of year	**2,709,203**	2,670,017
Current year charge	**53,260**	39,186
At end of year	**2,762,463**	2,709,203
NET BOOK VALUE	**267,373**	141,631

23. LEASEHOLD IMPROVEMENTS

NOTES (CONTINUED)

	2017 TZS 000	2016 TZS 000
COST		
At start of year	**6,336,118**	5,901,403
Additions	**163,400**	502,894
Work in progress	**-**	(68,179)
Reclassification to Property and Equipment	**(7,322)**	-
At end of year	**6,492,196**	6,336,118
AMORTIZATION		
At start of year	**3,696,477**	3,222,008
Current year charge	**506,618**	474,469
Adjustment	**(12,363)**	-
At end of year	**4,190,732**	3,696,477
NET BOOK VALUE	**2,301,464**	2,639,641

24. DEFERRED INCOME TAX

	2017 TZS 000	2016 TZS 000
At start of year	**1,564,348**	900,754
Prior years over provision	**232,266**	(213,387)
Credit to profit or loss	**4,364,107**	876,981
At the end of year	**6,160,721**	1,564,348

Deferred income tax liabilities and deferred income tax charge to the profit and loss account are attributed to the following items:

	1 January TZS '000	(Debit)/Credit to profit or loss TZS '000	31 December TZS' 000
2017			
Property and equipment	**178,713**	**72,044**	**250,757**
Other timing differences	**1,385,635**	**4,524,329**	**5,909,964**
	1,564,348	**4,596,373**	**6,160,721**
2016			
Property and equipment	212,892	(34,179)	178,713
Other timing differences	687,862	697,773	1,385,635
	900,754	663,594	1,564,348

NOTES (CONTINUED)

25. OTHER ASSETS

	2017 TZS 000	2016 TZS 000
Float balance	**6,004,287**	3,862,658
Prepayments	**2,437,303**	2,281,260
Other receivables	**1,564,518**	665,749
Less: Provision for losses	**(1,565,404)**	(501,745)
	8,440,704	6,307,922
Current	**8,440,704**	6,307,922

26. DEPOSITS FROM CUSTOMERS

Current accounts	**26,205,325**	25,701,671
Biashara accounts	**20,997,261**	25,279,412
Savings accounts	**52,475,081**	53,813,656
Time deposit accounts	**51,310,681**	61,192,185
Solidarity savings	**2,452,591**	3,118,284
	153,440,939	169,105,208

MATURITY ANALYSIS:

Payable within three months	**125,733,952**	135,724,814
Payable within three to twelve months	**27,427,947**	33,296,487
Payable over one year	**279,040**	83,907
	153,440,939	169,105,208

27. OTHER LIABILITIES

Statutory deductions	**483,781**	434,685
Other tax payables	**879,665**	1,070,107
Bills payable	**63,616**	108,408
Deferred facility fees	**329,805**	652,145
Accrued leave	**182,615**	201,893
Other accrued expenses	**594,004**	1,140,478
Trade creditors	**477,864**	433,882
Auditors fees payable	**151,425**	134,473
Directors fees payable	**235,289**	203,000
Dividend payable	**46,260**	71,472
Mobile service payable	**6,621**	20,104
Loan insurance premium	**45,878**	149,458
Customer suspense	**36,440**	522,351
Other accounts payable	**93,687**	43,411
	3,626,950	5,185,867

NOTES (CONTINUED)

27. OTHER LIABILITIES (CONTINUED)

	2017 TZS 000	2016 TZS 000
Current	3,505,212	5,002,378
Non-current	121,738	183,489
	3,626,950	5,185,867

28. CASH AND CASH EQUIVALENTS

	2017 TZS 000	2016 TZS 000
Cash and balances with Bank of Tanzania (Note 16)	**32,199,247**	29,881,865
Less: Statutory Minimum Reserves (Note 16)	**(11,490,266)**	(16,138,096)
Mobile float balance	**6,004,287**	3,862,658
Loans and Advances to Banks (Note17)	**6,611,250**	7,279,524
	33,324,518	24,885,951

29. SHARE CAPITAL

	2017	2016
Authorised		
10,000,000 ordinary shares of TZS 1,000 each	**10,000,000**	10,000,000
Issued and fully paid		
8,607,136 (2016: 8,247,184) ordinary shares of TZS 1,000 each	**8,607,135**	8,607,135

For purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with Bank of Tanzania, Government securities, and deposits and balances due from Banking instructions. Cash and cash equivalents exclude the Statutory Reserve requirement held with the Bank of Tanzania.

30. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

In common with other Banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Acceptances are a draft or bill of exchange drawn upon and accepted by a Bank.

Guarantees are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

At the end of the reporting period the Bank had outstanding Acceptances, guarantees and letters of credit amounting to TZS 3.1 billion (2016: TZS 11.1 billion).

NOTES (CONTINUED)

30. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Commitments to extend credit

At the end of the reporting period the Bank had outstanding commitments to extend credit amounting to TZS 1.2 billion (2016: TZS 2.9 billion).

Legal claims

The Bank is currently involved in legal proceedings and has in consultation with its legal counsel assessed the outcome of these proceedings. Following this assessment, the Bank's management has determined that a provision of TZS 406 million (2016: TZS 383 million). Litigations, current or pending, are not likely to have a material adverse effect to the Bank.

As at 31 December 2017, contingent liabilities and contingent assets relating to pending cases with approximate financial effect of TZS 10.94 billion and TZS 0.03 billion respectively (2016: 2.88 billion and TZS 0.28 billion).

Various employees have sued the Bank for unfair dismissal. Furthermore, some loan customers have also sued the Bank. In the opinion of the Directors, in combination with the Bank's legal advisors, the ultimate liability to the Bank in respect of the amounts claimed in these two situations is not expected to be material.

Tax case

An appeal case related to corporate tax assessments amounting to TZS 1.3 billion has been ruled in favour of Tanzania Revenue Authority (TRA). Bank's management is of the opinion that the assessment based on revised law instead of the one existed in the year of assessment therefore plan to appeal to the Court of Appeal.

Capital commitments	2017 TZS 000	2016 TZS 000
Authorized and contracted for	-	348,436
Authorized not yet contracted for	-	322,542
	-	670,978

Capital commitments authorized but not yet contracted for relates to work in progress for Ubungo Branch remodelling and ICT projects

Operating lease commitments

At the end of the reporting date, the Bank had outstanding commitments under operating leases, payable as follows:

	2017 TZS 000	2016 TZS 000
Not later than 1 year	**2,221,135**	2,540,456
Later than 1 year but not later than 5 years	**8,234,711**	8,698,088
	10,455,846	11,238,544

Operating lease commitments represent rentals payable by the Bank for its office premises, branches and residence houses for employees. Leases are negotiated for an average term of one to three years during which rentals are fixed.

31. 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 or operational decisions.

A number of Banking transactions are entered into with related parties in the normal course of business and on the Bank's normal commercial terms. The values of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

(i) Loans and advances to related parties

Advances to shareholders and their related companies were as follows:

	2017 TZS 000	2016 TZS 000
At start of year	341,679	413,994
Net movement during the year	52,310	(72,315)
At end of year	393,989	341,679
Interest income earned	73,810	70,718

Advances to key management personnel were as follows:

At start of year	284,774	403,680
Net movement during the year	143,354	(118,906)
At end of year	428,128	284,774
Interest income earned	16,551	20,066

Loans and advances to related parties were fully performing as at 31 December 2017 and 31 December 2016.

(ii) Deposits from related parties

a) Deposits received from shareholders.

	2017 TZS 000	2016 TZS 000
Inter Consult Limited	138,290	113,864
PPF Pensions Fund	4,519,836	5,519,836
ERNCON Holdings Limited	21,651	129,282
Others	-	1,201,508
	4,679,777	6,964,490

31. RELATED PARTY DISCLOSURES (CONTINUED)

(ii) Deposits from related parties (continued)

a) Deposits received from shareholders (continued)

	2017 TZS 000	2016 TZS 000
At start of year	**6,825,931**	1,739,841
Net movement during the year	**(2,146,154)**	5,086,090
At end of year	**4,679,777**	6,825,931
Interest expense incurred	**412,548**	534,590

b) Deposits by Directors and key management personnel

	2017 TZS 000	2016 TZS 000
At start of year	**513,949**	315,527
Net movement during the year	**(278,274)**	198,422
Balance as at 31 December	**235,675**	513,949
Interest expense incurred	**3,457**	2,785

(iii) Technical assistance fees

	2017 TZS 000	2016 TZS 000
Accion International	**-**	289,614

(iv) Key management compensation

	2017 TZS 000	2016 TZS 000
Salaries	**1,708,108**	1,736,302
Other short-term benefits	**425,999**	306,004
	2,134,107	2,042,302

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director of the Bank.

31. RELATED PARTY DISCLOSURES (CONTINUED)

(v) Directors' remuneration

Fees and other emoluments paid to Directors of the Bank during the period are as follows:

	2017 Directors fees TZS 000	2017 Other emoluments TZS 000	2016 Directors fees TZS 000	2016 Other emoluments TZS 000
Ernest Massawe	**15,846**	**6,000**	15,400	3,500
Joseph Rugumyamheto	**11,218**	**10,500**	11,000	7,500
Jean Marie Prevost	**11,250**	**15,500**	11,000	15,200
Brian Kuwik	**11,250**	**11,000**	11,000	15,200
John Fischer	**11,250**	**5,000**	11,000	15,700
Dr. Richard Kasungu	**11,218**	**14,250**	11,000	9,500
Selestine Joseph Some	**11,218**	**9,000**	11,000	8,500
Liesbeth Soer	**11,250**	**11,000**	11,000	13,200
Travelling/Lodging	**-**	**31,950**		
	94,500	**114,200**	92,400	88,300

32. COUNTRY OF INCORPORATION

The Banks incorporated under the Companies Act, 2002 and domiciled in Tanzania.

33. ASSETS PLEDGED AS SECURITY

As at 31 December 2017, there were no assets which had been pledged by the Bank to secure any liabilities and the Bank did not have any secured liabilities.

34. FAIR VALUE

The Directors consider that there is no material difference between the fair value and the carrying value of the Bank's financial assets and financial liabilities where fair value details have not been presented.

35. SUBSEQUENT EVENTS DISCLOSURE

At the date of signing the financial statements, the Directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in these financial statements, which significantly affected the financial position of the Company and results of its operations.

BANK INFORMATION

Head Office
Amani Place, Ohio street
Dar Es Salaam
+255 22 211 8340 / 3
info@acbtz.com
www.acbtz.com

Main Branch
Amani Place,
Ohio street
Dar Es Salaam
+255 22 213 8840

Ubungo Plaza Branch
Ubungo - Morogoro Rd,
Dar Es Salaam
+255 22 246 0690 / 92

Tandale Branch
Tandale CCM,
Dar Es Salaam
+255 240 1106 / 240 1108

Kariakoo Branch
Uhuru / Likoma streets,
Dar Es Salaam
+255 22 218 5148

Buguruni Branch
Opp. Police station Buguruni,
Dar Es Salaam
+255 22 286 4612

Kinondoni Branch
Mwinjuma Rd,
Dar Es Salaam
+255 22 276 1952
+255 22 276 1957

Tegeta Branch
Tegeta Kibaoni,
Bagamoyo Rd,
Dar Es Salaam
+255 737 206 761

Temeke Branch
Tandika Mwisho,
Dar Es Salaam
+255 22 285 6571

Kijitonyama Branch
Letsya Towers, opp
Oilcom Petrol Station
Dar Es Salaam
+255 22 277 3878

Moshi Branch
Market Street,
Moshi
+255 27 275 1069

Mbagala Branch
Mbagala Rangi Tatu,
Dar Es Salaam
+255 (0) 732 992 540 / 41

Arusha Branch
Summit Centre Uhuru Rd,
Arusha
+255 27 254 8667

Mwanza Branch
Nyerere Rd, Mwanza
+255 28 254 2477
+255 28 254 2479

Ukonga Branch
Banana Petrol Station,
Dar Es Salaam
+255 22 284 3175 / 6

Aggrey Branch
Aggrey Street,
Dar Es Salaam
+255 22 218 2154 / 56

IIala Branch
Lindi Street,
Dar Es Salaam
+255 22 286 5422 / 3

Dodoma Branch
12th Rd
Opp. Independence Sq.
Dodoma
+255 26 232 3304

Mbeya Branch
Mwanjelwa Rd near
Mwanjelwa Market
+255 25 250 5032
+255 25 250 5033

The Bank staff and some VICOBA Customers displaying their products following the support provided by the Bank

The hand over ceremony for Independence Square Garden at Capital City- Dodoma; Akiba Eco Move

AKIBA COMMERCIAL BANK PLC

benki kwa maendeleo yako

www.acbtz.com