AKIBA COMMERCIAL BANK PLC

the bank for your development

Annual Report

& FINANCIAL STATEMENTS **2016**

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AKIBA COMMERCIAL BANK PLC

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BRANCHES

Main | Ubungo Plaza | Kariakoo | Buguruni | Kijitonyama | Tegeta

Temeke | Kinondoni | Mbagala | Ukonga | Aggrey | Ilala | Tandale

Arusha | Moshi | Dodoma | Mwanza | Mbeya

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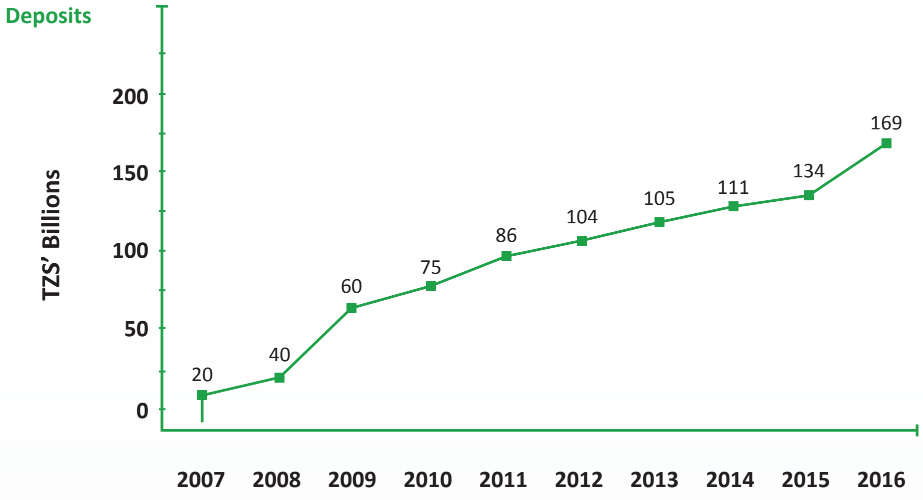
Deposits
TZS' Billions
200
150
100
50
0
20
40
60
75
86
104
105
111
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169
2007
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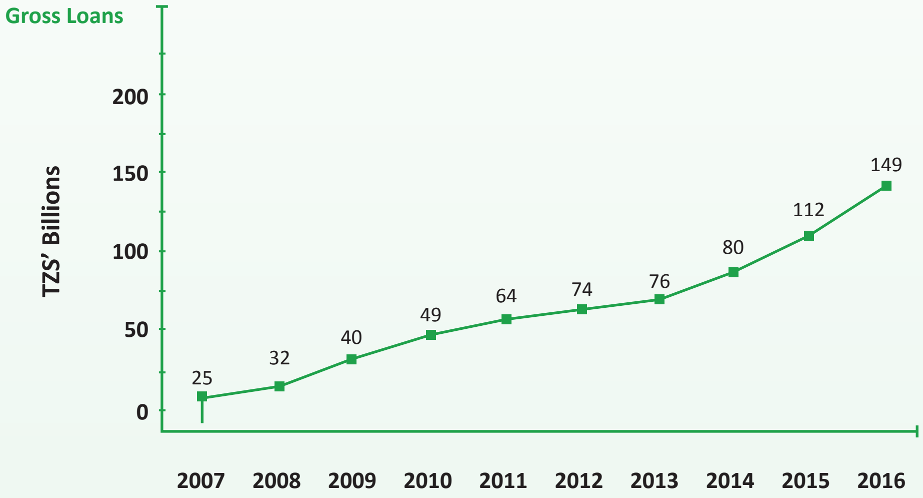
2016


Gross Loans
TZS' Billions
200
150
100
50
0
25
32
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2007
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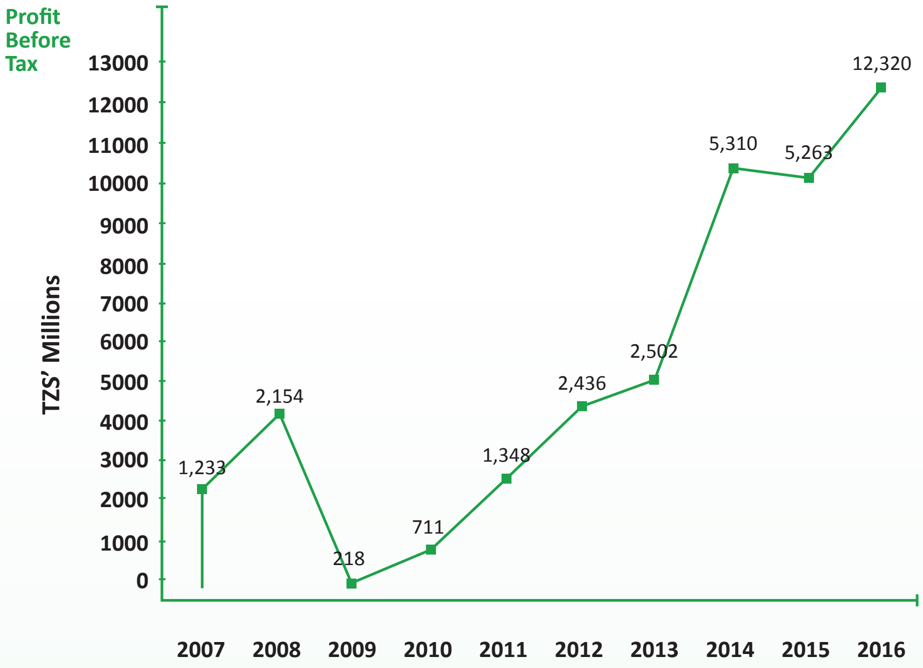
Profit
Before
Tax
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12000
11000
10000
9000
8000
7000
6000
5000
4000
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2000
1000
0
1,233
2,154
218
711
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2007
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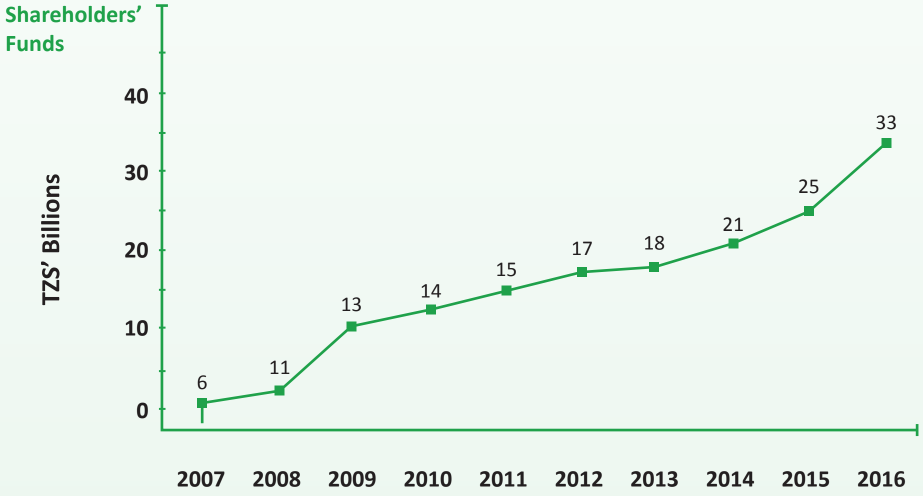
Shareholders'
Funds
TZS' Billions
40
30
20
10
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6
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13
14
15
17
18
21
25
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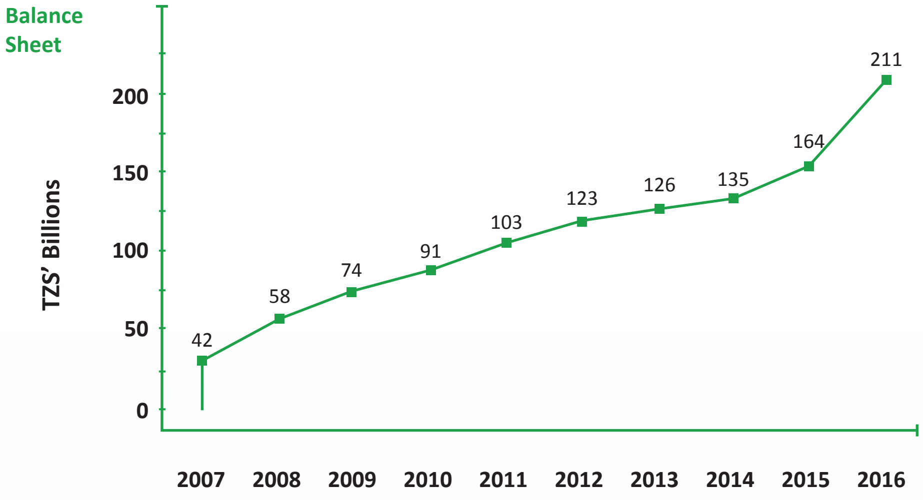
Balance Sheet
TZS' Billions
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150
100
50
0
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74
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123
126
135
164
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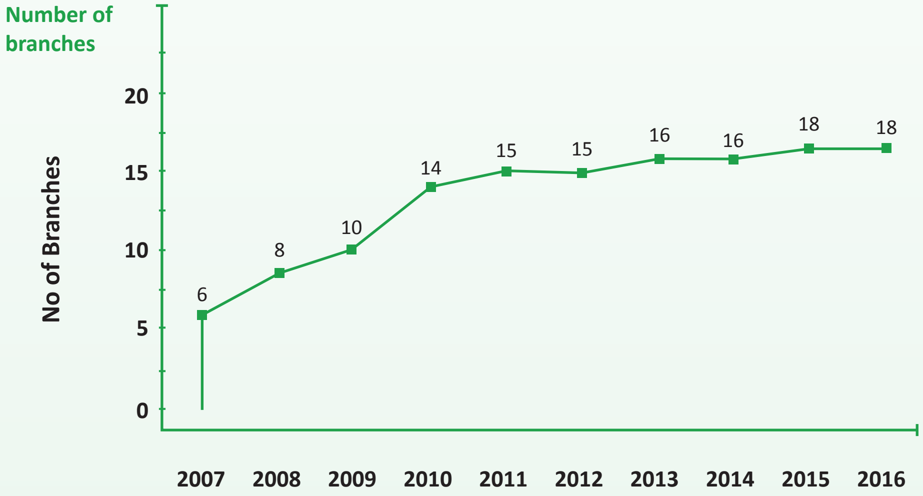
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016


Number of branches
No of Branches
20
15
10
5
0
6
8
10
14
15
15
16
16
18
18
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

LETTER OF TRANSMITTAL

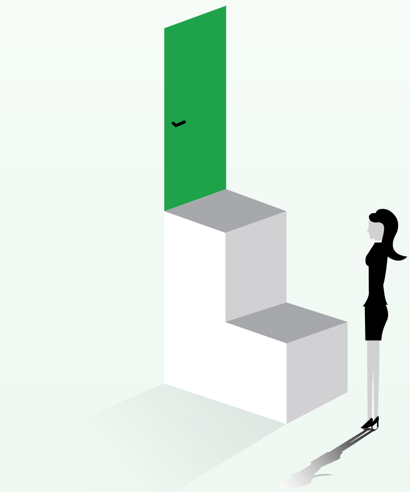
Dear Shareholders,
It is my pleasure, on behalf of Board of Directors, to present to you the Bank's Annual Report for the year 2016. The report contains the Audited Financial Statements, major events that happened during the year, achievements and future business prospects for the Bank. It is my hope that this report will meet your approval.

Yours faithfully,

Mr. Ernest Massawe
Chairman

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

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



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 economic concerns 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 un-banked and commercially undeserved men and women of Tanzania.

The Bank's vision and mission were 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

Mr. Ernest Massawe

It gives me pleasure to report to the shareholders and all the stakeholders on the financial and operational performance of Akiba Commercial Bank Plc for the financial year ending 31 December 2016. It also gives me contentment to report that the Bank recorded a praiseworthy growth for the year despite challenging economic environment and ever growing market competition in the industry.

Economic Trends

In 2016, global economic environment remained subdued with the growth in Sub-Saharan countries slowing down significantly, dropping from an average Gross Domestic Product (GDP) growth rate of 4.5% for the 2010 -15 period to 1.5% in 2016. The decline is a result of a number of factors, most notably the ongoing adjustments to sluggish commodity prices, slowdown in export demand and tightening of global financial conditions.

Despite the slowdown, Tanzania has maintained a relatively high level of stability and is one of the few resource-intensive African economies that have remained resilient in the face of global economic challenges. The Tanzanian economy continued to be the fastest growing among the EAC Countries. The decline in the average global oil prices has been favorable for Tanzania's fuel bill while stability in the price of gold has helped Tanzania to cushion the country from significant terms of trade shocks. The Tanzanian economy has continued to record strong performance, with high growth rate and low inflation rates. The Gross Domestic Product (GDP) is estimated to have grown by 7.2% in 2016 as compared to 7% in 2015.This was mainly driven by sustained improvement and stability of power supply, construction, mining and quarrying, information and communications. The rate of inflation has remained low and near the Government's medium term range of 5% although it has trended upwards in recent months following tightening of the food supply and rising energy costs.

The Government's tight fiscal and monetary policies may have weighed on economic performance. The 2016/17 budget has seen overall spending fall below target due to under execution of development projects. External borrowing also fell short of expectations and a decline in foreign financing of the budget has in turn slowed down the money supply growth and credit growth to the public and private sectors. In response, Bank of Tanzania recently lowered the rates of discount and statutory minimum reserves in order to boost domestic credit especially to the private sector.

The future outlook of the economy remains favorable although Government needs to take certain measures to ensure sustained growth. The Government has embarked on reform measures to improving public administration and clamping down on corruption. The private sector relies heavily on Government demand for goods and services and any policies that limit that demand will decrease private sector activities. Policy adjustments therefore need to be carefully drawn out and implemented with less frequent changes so as not cause uncertainty among the investors which could dampen private sector investment decision resulting in negative implications for the future growth.

Government must do more to sustain growth of the economy by continuing with its prudent macroeconomic management practice to promote stability. However, the fiscal and monetary policies need to be synchronized to achieve that. There is also a need for effective implementation of public investments to address infrastructure gaps, for example transport and energy to promote industrialization which would stimulate economic growth and in turn create new jobs. This will require the Government to unlock external financing of the budget in addition to tapping from private sector financing. The Government must come up with supportive policies to promote private sector investment and growth. The policies should include policy predictability, expanding access to affordable finance, expanding access to reliable infrastructure and improving the education and training systems to produce skilled manpower to promote industrialization.

Banking Sector Highlights

During the year under review, the banking sector remained sound and stable, with liquidity and capital buffers remaining well above the minimum requirements to withstand shocks. The banking industry experienced tight liquidity mainly due to the austerity measures taken by Government to improve public administration and clamp down on corruption. At the beginning of the year, Government moved its funds held in commercial banks current and investment accounts to Bank of Tanzania. That drained liquidity from the commercial banks affected and as the release of those funds back for commercial activities depends on Government's funding requirements, the move also impacted on credit expansion.

The aggressive tax collections by Tanzania Revenue Authority also drained financial resources from the private sector which resulted in some businesses stop using banks while others closed shop. The decision by Government to withdraw per diem allowances to civil servants and drastically cutting down on expenditures related to meetings outside Government offices affected liquidity in the market. These measures saw a drastic deterioration in business performances and a sharp decline in credit growth to the private sector.

Akiba Bank's Performance Highlights

The Bank reached a new milestone in its performance for year 2016 due to asset growth and introduction of new income streams.

Following intensified marketing efforts, the loan book grew to TZS 144 billion (TZS 107 billion – 2015) with a resultant growth in total assets to TZS 211 billion (TZS 163 billion – 2015). This was mainly driven by growth in the Biashara product segment which is the main stay of the Bank.

The Bank introduced new lines of business which generated commissions from insurance agency and super agency dealerships for Mobile Network Operators. The Bank is still reliant on interest income as its main revenue earner which accounts for 79% of total revenue. The Bank's goal is to diversify its income streams so that there is less reliance on interest income.

Profit before tax for the year under review is TZS 12 billion (TZS 5 billion – 2015) with a resultant Net Profit After Tax of TZS 8 billion (TZS 4 billion – 2015).

The Core Capital increased from TZS 19 billion in 2015 to TZS 24 billion. The Bank's earnings per share have also increased from TZS 466 in 2015 to TZS 972 in 2016.

Dividend

Basing on the very good operating results of your Bank for the year 2016, the Board had proposed to recommend the payment of an improved cash dividend of TZS 194 per share. Even "No objection clearance subject to observing regulatory requirements" had been obtained from the Bank of Tanzania for payment of this dividend.

However, the Board had to revisit its proposal as a result of the deterioration of the Bank's performance for the first nine months of 2017. As you will see from the Management's presentation the net operating loss for 2017 is projected at over TZS 2B, thus precluding the possibility of paying a dividend.

It is the Board's hope and expectation that the management's strategy for addressing the Bank's adverse performance will be successful and enable the Bank to resume paying dividends at the earliest possible opportunity.

Prospects for 2017

Tanzania's economic outlook remains strong as cited both in the World Bank April 2017 Economic Update and International Monetary Fund World Economic Outlook. However, subsequent World Bank and IMF reports have also highlighted the need for more effective public-private sector dialogue to help improve business confidence. As highlighted earlier on, the Government is determined to improve public administration and clamp down on corruption. We have also noted the aggressive approach taken by the TRA in tax collection which has had negative impact on some businesses especially in the MSME sectors.

The Minister of Finance's speech on the 2017/18 Budget presentation on 8th June 2017 acknowledged concerns in relation to the liquidity squeeze, business failures and diminishing private sector confidence in the economy. This has resulted in majority of bank customers defaulting on servicing their debt obligations with financial institutions. The Non Performing Loan ratio is on the increase in the banking industry having increased to 10.9% as at March 2017 (8.3% - March 2016). The Government reassured the public of its recognition of the private sector as the engine of growth of the economy and made commitment to ensure effective dialogue with the private sector is sustained.

We have noticed deterioration in business performances with a large number of our customers not renewing their loans or borrowing less after clearing. Some have come forward with requests for rescheduling in order to lighten the repayment burden. The intensified tax collection is forcing some of our customers to close shops as they cannot afford to meet the tax bills presented.

2017 is proving to be a challenging year which needs Government intervention because in 2016 Government only spent much less on development projects. In a recent statement by the IMF, the Government has been encouraged to step up external financing mobilization and ease the liquidity situation in order to assist in enhancing budget implementation. The move would help to avoid further accumulation of domestic payment arrears and support credit growth to the private sector. The Government has undertaken to scale up public investment while preserving fiscal sustainability.

Our Bank is taking corrective measures to address the situation by intensifying recovery measures against defaulting customers. At the same time, it is also being selective in granting loans to customers with stable and strong cash flows.
The Managing Director will give a more comprehensive report on the measures that are being taken to reverse the loss making trend and grow the loan book.

Introduction of New Stringent Accounting Standards

Implementation of the new International Financial Reporting Standard (IFRS) 9 from 1st January, 2018 will usher in tougher conditions on how banks and financial institutions account for their non performing loans.

The new standard requires banks to make higher loan loss provisions to with stand any possible future shocks.

Implementation of this standard is very demanding and will require a fair amount of investment and preparedness.

The Bank has retained KPMG to assist it in this project and preliminary indications are that the provision for loss on non-performing loans will have to be increased to the tune of 40% at the end of 2017 in order to comply with the new accounting standards. It goes without saying that this will increase the Bank's annual loss and possibly result in capital adequacy issues.

Bullion Project

Before I conclude my presentation I would like to give a brief update on the Bullion Project.
You will recall that at the last AGM I briefed shareholders on that project which was to do with our foreign shareholders led by Accion wanting to exit their shareholding in Akiba Commercial Bank Plc.

Accion and the other exiting shareholders retained Deloitte South Africa as their advisors on this project. Subsequently Deloitte recommended Micro-Cred S.A as their preferred investor to take the place of the exiting foreign shareholders.

After doing their due diligence on Akiba, Micro-Cred made and agreed on a negotiated offer for the purchase of the shares which were being offered for sale by the foreign shareholders subject to approval by the regulatory authorities. Applications for approval were submitted to the Bank of Tanzania and Fair Competition Commission respectively.

Meanwhile, the operating performance of Akiba showed material adverse results for 1st and 2nd quarters of 2017 and projections for the final results for the year is likely to be a loss of over TZS 2B before taking into account the impact of applying the new IFRS- 9 standard. Given that situation, Micro-Cred officially informed Accion and the other sellers that they were putting the Bullion Project on hold until Akiba turns around and a new valuation of the company is made.

A Word of Appreciation

On behalf of my fellow Board of Directors, I would like to express my sincere gratitude to our customers for their continued trust and support. It is the customers' patronage that has brought about the growth we have seen over the period.

I gratefully appreciate our business partners and associates for their valuable support and professional business guidance

I would like to thank management and staff for their loyalty and hard work during the past year. This year's results indicate staff commitment at all levels of the organization.
I thank our loyal shareholders for their enormous support, encouragement and confidence they continue to demonstrate.

I appreciate my fellow Directors who have invested their quality time and energy in the interest of shareholders, their input from a wide variety of experience, wisdom and guidance in helping to steer the Bank in a steady course.
The potential of the Bank make the future look very promising.

Thank you

Mr. Ernest Massawe
Chairman
Akiba Commercial Bank Plc

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

Jean - Marie Prévost
Director

Melissa Lumpkin Baez
Alternate Director

Frank Streppel
Alternate Director

LEAD ✲ ACHIEVE ✲ EXCEED
service
Champions
CUSTOMER SERVICE WEEK 2016

ACB
AKIBA COMMERCIAL BANK PLC

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Managing Director's statement

Mr. Israel Chasosa

On behalf of Management team and entire members of staff of Akiba Commercial Bank, I am delighted to present the Bank's operational results for the year ended December 2016 - the first year of the implementation of the Bank's roadmap for 2016-2020 period.

2016 was the year of transformation as the Bank implemented various initiatives ranging from service automation to streamlining of processes and, refinement and development of new products and services geared towards meeting customers' expectations while optimizing returns to shareholders value.

Market Review - 2016

Whilst we started strongly at the beginning of the year the market conditions changed later, we experienced sluggish growth of the economy in the year under review. The headline inflation remained at an average single digit of 5% which was in line with the country's long term monetary policy. There was a liquidity squeeze in the market following the Government's decision to transfer its deposits from commercial banks to Bank of Tanzania under the Treasury Single Account.

Interest rates for interbank placements firmed up to 16% during the third and fourth quarter in contrast to the levels of 10% at the beginning of the year. This spike had a serious impact on interest expense in mobilizing deposits. Likewise, in the foreign exchange front the Tanzania Shilling continued to depreciate, though marginally, against USD from TZS 2,160 in January to 2,185 in December, 2016.

The challenging economic environment, crackdowns on tax evasion, less spending on Government development projects and less donor funding support; adversely affected MSME which forms the core of Akiba business segment. We have witnessed the scaling down and closure of some businesses. Many customers are struggling to meet their financial obligations with the Bank.

To counteract the above challenges, the Bank intensified collection measures from defaulting clients including close follow ups and monitoring of the portfolio on frequent basis. The Bank deployed a cautious and selective approach in the assessment of new proposals based on market trends.

Financial Results

I am happy to report that the Bank made very good progress in 2016 and would like to express my appreciation for the support received from the Shareholders, Board Members and, Management and Staff. It was a challenging year given the changing trading environment.

The Bank achieved Net Profit Before Tax of TZS 12billion compared to TZS 5 billion in 2015 as a result of growth in income and cost savings on administration expenses. Interest income was the major driver which accounted for 79% of total revenue. There was also good growth in super agency income from Mobile Network Operators as well as commissions from insurance agency business. The Bank shall continue to grow non-funded income.

Total assets grew from TZS 163billion (2015) to TZS 211billion driven by the growth in the loan book. Shareholders Funds were strengthened from TZS 25billion (2015) to TZS 33billion.

Management is committed to continue working hard to improve the Bank's performance.

Business Development Highlights

In a bid to improve services to meet our customer needs, the Bank continued with its transformation journey by introducing new services whilst others were redesigned and re-packaged. Among the key achievements in this front include the diversification of income streams by introduction of super agency services and enhancement of insurance agency services by adding more covers on the platform.

The Bank was appointed as super agent by Airtel, Tigo and Vodacom mobile networks to distribute float funds to their agents. The success of this service has been overwhelming despite stiff competition from the market and our commissions have been growing month-on-month and thus contributing to non funded income.

The Bank introduced a range of products covering various classes of insurance risks of which we promote under our agency agreement. Our clients can buy all their insurance requirements through Akiba Commercial Bank, thus providing a one-stop-shop for financial and insurance services. We have seen commissions from this segment steadily increasing during the year under review.

The Home Improvement Loan product was improved and re-launched to include purchase of surveyed plots to prospective and existing customers. Originally the product was meant for undertaking repairs, maintenance, renonvations and improvements, and completion of constructions. This was accomplished following the successful partnership between the Bank and Blackwood Consult, an innovative and one amongst the leading real estate and property development companies in the market. The enhancement is also a result of the Bank's response towards empowering its customers to have strong and appealing collaterals and, thus making it easier to access bank loans for growing their businesses as well as improving their livelihoods.

Our outreach to the self-help groups, particularly Village Cooperative Banks (VICOBA) has been improving as evidenced by the growth in savings accounts for groups as well as their individual members. We have been successful in convincing the vicoba groups to keep their funds with our Bank which is more secure and accessible at any time. Through mobile banking, members can also make their regular contributions without having to carry cash to meetings. The Bank is happy being part of the Government agenda in deepening and fostering financial inclusion.

The Bank introduced remote account opening using digital field kits. Customers will not need to come to the branches physically to open new accounts. We want to take the Bank to the customers wherever they are, so that we open new accounts in the comfort of their homes, businesses or meeting places. This will greatly assist to complement the Bank's efforts especially in mobilizing vicoba and other potential groups accounts.

The Mobile Banking registration was automated at account opening stage to streamline the process and procedures. Besides SMS notifications for account transactions, loan repayment reminders and general communications were introduced during the period. Apart from efficiency and promptness SMS notifications have enhanced security of the customers' funds significantly and thus improving trust to the Bank.

Accounts statements have been digitized whereby E-statement are automatically generated at month ends and sent via email to our customers. This brings convenience to customers as they can easily access their accounts' status promptly through electronic gadgets such as computers, laptops, tablets and mobile phones. This also demonstrates Bank's eco move in environmental protection as the service does not need the use of papers.

The Bank will continue to leverage on technology to address the ever evolving customer requirements in order to be the Bank of choice as well as enhancing market share.

The Bank's infrastructure/core banking system was enhanced to improve its functionality to optimal level to enable it to effectively and efficiently respond to the needs of the market 24/7. These developments supported among other things the interface with NIDA systems and hence improving the customers' identification during account opening. The comprehensive review and upgrade of the system will be conducted in 2017 for alignment with the Bank's strategic plan directions.

On the other hand, at corporate level some of the products were reviewed, re-packaged and promoted moderately through media during the third and fourth quarters in order to maintain visibility in the market.

During the year under review the communication channels were improved to ensure reliability of Bank information and brand communications. The Bank's website was re-designed to make it more attractive and interactive. The Facebook page was also launched to enhance brand communications, bring the customers closer and make the brand more active and engaging. The page is being well managed and monitored with proper risk guidelines in place following the vulnerability of the Social Media pages. The Bank plans to introduce in future Instagram and YouTube applications in order to broaden the outreach.

To ensure business prosperity and sustainability, the Banks puts more emphasis on staff development and training. During the year under review, various programs for career development were conducted at all levels. The Bank implemented a new HR system for performance evaluation and management all human resource activities. The Bank's industrial relations for 2016 remained sound with labor turnover of less than industry average.

In line with its mission, the Bank continued to implement its role as a good community citizen through various social responsibility activities. During the launch of Mwanza branch, the Bank donated the operating table to Nyamagana Hospital worth TZS 7.5 million. The Bank is aware of the growing problem of cancer in the country and extended support of TZS 5million to the establishment of a new cancer centre in Kilimanjaro region. The donation of groceries was done to various orphanage centres during the holy month of Ramadan whereby a total of TZS 12.5m was spent. Further, the Bank supported the Government initiatives in ensuring all schools are having sufficient desks by contributing to various fundraising events. The tragedy of Bukoba Earthquakes touched our hearts and the Bank supported the victims through the programme conducted by the Office of the Prime Minister.

Future Outlook-2017

The economy is expected to grow by 7% in 2017 while inflation is projected to remain stable at single digit level of 5% . We are hopeful that the fiscal policy for the Financial Year 2017-18 will be relaxed to stimulate growth in the economy. The Government has indicated that it would like to embark on some big infrastructure projects such as the reconstruction of the railway line Dar - Morogoro to standard gauge, construction of the new railway line and oil pipeline connecting Uganda to the port of Tanga, developments of the ports and implementation of Phase 3 of the rural electrification program. There are funds pledged by multilateral organizations, like the World Bank, to fund infrastructure developments.

Regrettably, the Government has not been spending enough in the economy to stimulate economic growth. Government owes money to contractors and service providers which it has failed to pay for a long time. Furthermore, the aggressive tax collections measures adopted by Government and non payment to contractors have had negative impact on our customers businesses.

We have witnessed a lot of deterioration in the performance of our customers resulting in high levels of non performing loans. Some customers are paying off their loans and wait for the improvement in the economy whilst others are borrowing much less than they did before. Therefore our loan portfolio is shrinking impacting our income levels.

Management is working very hard to collect from defaulting customers and at the same time cautiously growing the loan book given the current economic environment. Whilst liquidity has stabilized in the market, there are no takers of new loans hence the fast depletion of the loan book. The Biashara segment has been hard hit by the current economic developments. Management will continue to find ways of sustaining business performance.

There are new regulations which have been introduced by Bank of Tanzania which will have serious impact on our capital levels. From August 2017, all banks are required to make additional provision for operational risk. Furthermore, from January 2018, all financial institutions worldwide will be required to adopt the IFRS 9 which replaces the IFRS 39 and this is going to have huge impact on the way we do our provisions. The implementation of IFRS 9 will start this year whereby the 2017 accounts will have to make adjustments for that provision. IFRS 9 deals with impairment requirements based on expected credit loss model (forward looking) as opposed to the IFRS 39 which is based on incurred loss model (backward looking). Therefore our provisions are going to increase and a consultant has been hired to assist with the implementation.

Appreciation

In conclusion, I would like to express my sincere gratitude to all our customers for remaining loyal to the Bank and continuing to trust us. We equally remain most grateful also to our shareholders, development and strategic business partners for their support in many ways. I also thank our Board of Directors for the guidance and continued support received. Lastly, to my fellow colleagues - the bank's staff, the above achievements would never have been possible without their passion and enthusiasm as each and every one delivered on their respective areas of responsibilities. Thank you so much for your efforts, energy, dedication and determination. I look forward to continued support and teamwork for 2017 which is posing several challenges.

Thank you

Mr. Israel Chasosa
Managing Director
Akiba Commercial Bank PLC

SENIOR MANAGEMENT TEAM

Israel Chasosa
Managing Director

Bertha Simon
General Manager - Finance

Stephen Gumbo
General Manager - Commerce

Juliana Swai
General Manager - Operations

Hamis Malipula
General Manager - ICT

Robert Masala
Head of Human Resources

Leynnette Machibya
Head of Risk and Compliance

Dora Saria
Head of Marketing
and Communications

Chemo Mutani
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 quasi-equity 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 Holding 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 development 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 internationally-ac¬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.

PENSIONS FUND
...for your secure future

PPF Pensions Fund

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**

INCOFIN CVSO INVESTORS

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 and Hivos Triodos Fund Foundation

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.

Mwanza branch launching ceremony.

The branch was officially opened by
Mwanza Regional Commissioner;
Hon. John. V. Mongella, pictured at the center.
Looking on Board Members and Bank staffs

Directors	Mr. Ernest S. Massawe	Tanzanian	Chairperson
	Mr. Brian Kuwik	American	Director
	(Alternate: Ms. Melissa Baez)	American	
	Mr.Selestine Some	Tanzanian	Director
	Ms Liesbeth Soer	Dutch	Director
	(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

Company Secretary Niwaeli Mziray

Registered Office

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

Auditors

PricewaterhouseCoopers Ltd
Pemba Houses, 369 Toure Drive, Oysterbay
PO Box 45, Dar es Salaam, Tanzania

Legal Advisors

Law Bay Advocates
Plot 2B, Corridor Area Jandu Road
P. O. Box 13021, Arusha

Nexlaw Advocates
PO Box 75578, Dar es Salaam, Tanzania

Tan Africa Law Chambers
G.A.K Patel Building, 4th Floor, Off Maktaba
Street, Dar es Salaam

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 2016 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 2016, except where otherwise stated, are as listed on page 1.

7 **CAPITAL STRUCTURE AND SHAREHOLDING OF THE BANK**
As at 31 December 2016, the Bank had 280 shareholders (2015: 281 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%**

8 **CAPITAL STRUCTURE AND SHAREHOLDING OF THE BANK (CONTINUED)**
The Capital structure and shareholding position of the Bank as at 31 December 2016 is as follows:

Shareholder	2016 Number of ordinary shares	Percentage (%)	2015 Number of ordinary shares	Percentage (%)
Accion International	1,721,456	20	1,721,456	20
PPF Pensions Fund	963,957	11	963,957	11
STICHTING HIVOS - TRIODOS FONDS	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
STICHTING TRIODOS SUSTAINABLEFI-NANCE FOUNDATION	430,798	5	430,798	5
ERNCON Holdings Limited	426,684	5	426,684	5
TANZANIA DEVELOPMENT FINANCE	275,235	3	275,235	3
Others	1,986,126	23	1,986,126	23
	8,607,135	**100**	**8,607,135**	**100**

9 **RESULTS AND DIVIDEND**

The Bank recorded a profit before tax of TZS 12.3 billion for the year under review (2015: TZS 5.3 billion). The profit for the year is mainly attributed to growth in lending activities. The Directors recommend payment of cash dividend of TZS 194 per share (total amounting to TZS 1,670 million for the year ended 31 December 2016 (2015: Cash dividend of TZS 75 per share, total amounted to TZS 645 million).

The cash dividend for year ended 2015 was distributed to shareholders on a prorata basis. The issuance of cash dividend was approved by Bank of Tanzania on 22 July 2016 and has been issued to shareholders subsequent to the approval date.

10 **CORPORATE GOVERNANCE**

The Bank's Board of Directors is composed of eight (8) Directors (2015: 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.

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

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

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

Board Governance and Human Resources Oversight Committee

The Governance and Human Resources Oversight Committee reports to the main Board.
The committee had 4 meetings during the year.

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

Board Risk and Compliance Committee

The Risk and Compliance Committee reports to the main Board. The committee had 5 meetings during the year.

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 5meetings during the year.

11 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.

12 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.

13 PERFORMANCE FOR THE YEAR

The year ended 31 December 2016 had a profit before tax of TZS 12.3 billion (2015: TZS 5.3 billion).

Interest income increased from TZS 29.3 billion during the year 2015 to TZS 41.2 billion in 2016 which is percentage increase of 40.6% while total fees and commission income increased from TZS 6.8 billion in 2015 to TZS 10.5 billion in 2016 which is 54.4% due to growth in loans portfolio. Overall the Bank experienced increased volume of customer transactions in the year 2016.

Total general and administrative expenditure was TZS 13.9 billion, an increase of 20.9% from expenditure of TZS 11.5 billion in 2015 mainly due to the growth of the business.

Total assets at year-end stood at TZS 211.2 billion, a net increase of 29% or TZS 47.5 billion from TZS 163.7 billion at 31 December 2015.This growth in the Bank's asset base was fully funded by increase in deposits throughout 2016. The Bank managed to maintain customer deposit volume which increased by 26% from TZS 134.4 billion in 2015 to TZS 169 billion in 2016. The deposit base also fully financed lending activities which stood at TZS 149.4 billion from TZS 111.5 billion in 2015 reflecting a net growth of TZS 37.9 billion or increase of 34%.

14 FUTURE DEVELOPMENT PLANS

The Bank plans to undertake a comprehensive upgrade and modernization of Akiba's IT systems which will reduce operating costs and increase capabilities and digital finance functionality. Akiba 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 Akiba 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. Akiba 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.

Akiba 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.

15 RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control system of the Bank.

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 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 2016 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.

16 EMPLOYEE WELFARE

Management and employee relations

The relationship between employees and management continued to be good during the year 2016. 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 555 million for staff training (2015: TZS 424 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 2016, 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 928 million was paid as insurance premium in 2016.

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.

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 1,097 million was contributed in 2016 (2015: TZS 977 million).

Gender parity

The Bank is gender sensitive. During the year 2016, it ensured that female employees were given due priorities in all aspects of the Bank. For example, during the year 2016, 50% of the branch managers were women. In addition, the Bank had 533 employees, out of whom 313 were women and 220 were men (2015: 529 employees, out of whom 298 were women and 231 were men). Women represent 50% of the bank's Management group.

17 POLITICAL DONATIONS

The Bank did not make any political donations during the year (2015: Nil).

18 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 2016, the Bank donated TZS 37 million of which, TZS 10 million to Tanzania Cancer Care Foundation, TZS 7.5 million for purchase of Operating Table to Nyamagana Hospital, TZS 4.4 for various orphanage centres, TZS 4 million for purchase of school desk and TZS 2.3 million for Kagera Earthquake victims.

19 SOLVENCY

The state of affairs of the Bank as at 31 December, 2016 is set out on page 40 of the financial statements. The Directors consider the Bank to be solvent within the meaning ascribed by the Companies Act, 2002. In addition, the Bank has met all the Bank of Tanzania (BoT) regulatory capital requirements.

20 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.

21 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	**Mr. Selestine Some**
Chairperson	Director

24th March 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 profit in accordance with International Financial Reporting Standards (IFRS). The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

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

Signed on behalf of the Board of Directors by

Mr. Ernest Massawe	**Mr. Selestine Some**
Chairperson	Director

24th March 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 2016 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 2016 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

24/03/2017

....

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 2016, and 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 as set out on pages 17 to 77 comprise:

- statement of financial position as at 31 December 2016;
- 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 a summary of 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.

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.

Key audit matter	How our audit addressed the key audit matter

Impairment of loans and advances to customers

Management exercises judgement when determining both when and how much to record as loan impairment provisions. Judgement is applied to determine the appropriate parameters and assumptions to calculate the impairment. Judgement and assumptions are usually made on the identification of non-performing loans, expected cash flows, timing of cash flows, emergence period and loss ratio for unidentified impairment.

These judgements together with the size of the loans and advances to customers make this a key audit matter. The significant judgments and areas of uncertainty embodied in the impairment assessment are disclosed in Note 6 of the financial statements.

As at 31 December 2016, the Bank's gross loans and advances to customers was TZS 149,355 million and provision for impairment allowances amounted to TZS 4,691 million. Further details have been disclosed in Note 18 of the financial statements.

The directors are responsible for the other information. The other information comprises directors' report but does not include the Bank financial statements and our auditor's report thereon.

Our opinion on the Bank's financial statements does not cover the other information and we do not provide 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the 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 no realistic alternative but to do so.

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

Identification of loans subject to specific impairment provision

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.

Impairment assessment

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 the recoverable amount of collaterals.

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

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.

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

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

Report on the audit of the Bank financial statements (continued)
Auditor's responsibilities for the audit of the Bank's financial statements (continued)

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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.

Michael Sallu, FCPA-PP

For and on behalf of PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam

31st March 2017

	Notes	2016	2015
		TZS 000	TZS 000
Interest income	7	**41,177,476**	29,334,649
Interest expense	8	**(7,362,443)**	(2,736,647)
Net interest income		**33,815,033**	26,598,002
Loan impairment charges	18	**(2,210,553)**	(2,073,884)
Net interest income after loan impairment charges		**31,604,480**	24,524,118
Fee and commission income	9	**10,499,242**	6,834,583
Foreign exchange income	10	**217,904**	668,582
Other operating income	11	**1,080,478**	1,055,105
Employee benefits expenses	12	**(15,670,276)**	(14,592,550)
General and administrative expenses	13	**(13,926,702)**	(11,547,188)
Depreciation and amortization	14	**(1,485,211)**	(1,679,303)
Profit before income tax		**12,319,915**	5,263,347
Income tax expense	15	**(3,956,463)**	(1,248,992)
Profit for the year		**8,363,452**	4,014,355
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**8,363,452**	4,014,355

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

Assets	Notes	2016	2015
		TZS000	TZS000
Cash and balances with The Bank of Tanzania	16	29,881,865	26,187,830
Balances with other Banks	17	7,279,524	8,929,034
Loans and advances to customers	18	144,663,920	107,294,832
Government securities	19	15,906,780	12,893,876
Unquoted equity investment	20	20,000	20,000
Property and equipment	21	2,798,736	2,536,719
Intangible assets	22	141,631	83,572
Leasehold improvements	23	2,639,641	2,679,395
Deferred income tax	24	1,564,348	900,754
Other assets	25	6,307,922	2,200,625
Total assets		211,204,367	163,726,637
Liabilities			
Deposits from other banks		3,162,767	500,178
Deposits from customers	26	169,105,208	134,382,765
Other liabilities	27	5,185,867	3,563,975
Current income tax	15	786,457	33,568
Total liabilities		178,240,299	138,480,486
Shareholders' equity			
Share capital	29	8,607,135	8,607,135
Share premium		2,431,917	2,431,917
Retained earnings		20,040,593	11,107,684
Regulatory reserve		538,090	2,174,018
General Risk Reserve		1,346,333	925,397
Total equity		32,964,068	25,246,151
Total liabilities and equity		211,204,367	163,726,637

The financial statements on pages 13 to 77 were approved and authorised for issue by the Board of Directors on

24th March 2017 .... and signed on its behalf by:

Mr. Ernest Massawe
Chairperson

Mr. Selestine Some
Director

	Share capital	Share premium	Retained earnings	*Regulatory Reserve	**General Risk Reserve	Total
At 1 January 2016						
Comprehensive income	**8,607,135**	**2,431,917**	**11,107,684**	**2,174,018**	**925,397**	**25,246,150**
Profit for the year	-	-	**8,363,452**	-		**8,363,452**
Total comprehensive income	-	-	**8,363,452**	-	-	**8,363,452**
Transfer from Regulatory Reserve	-	-	**1,635,928**	**(1,635,928)**	-	-
Transfer to General Risk Reserve	-	-	**(420,936)**	-	**420,936**	-
Dividend declared	-	-	**(645,535)**	-	-	**(645,535)**
At 31 December 2016	**8,607,135**	**2,431,917**	**20,040,593**	**538,090**	**1,346,333**	**32,964,068**
At 1 January 2015	8,607,135	2,431,917	6,614,747	3,836,097	-	21,489,896
Comprehensive income						
Profit for the year	-	-	4,014,355	-	-	4,014,355
Total comprehensive income	-	-	4,014,355	-	-	4,014,355
Transfer to general banking reserve	-	-	1,662,079	(1,662,079)	-	-
Transfer to Share capital	-	-	(925,397)	-	925,397	-
Dividend declared	-	-	(258,100)	-	-	(258,100)
At 31 December 2015	8,607,135	2,431,917	11,107,684	2,174,018	925,397	25,246,151

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

Before April 2016 the bank was charging flat interest rate on certain loan products. However, interest on these products has been accrued using effective interest rate in line with the requirements of the International Financial Reporting Standards (IFRS). For prudence purposes, the difference of TZS 500 million (2015: TZS 2,150 million) between interest calculated per IFRS and the contracted interest income has been included in the regulatory reserve. This amount is released to retained earnings when the interest is collected.

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

	Notes	2016 TZS 000	2015 TZS 000
Cash flows from operating activities			
Profit before taxation		**12,319,915**	5,263,347
Adjustments for:			
Depreciation		**1,485,211**	1,679,303
Profit from disposal of property and equipment		**158,762**	6,572
Gain/(loss) in foreign exchange		**113,500**	(1,879,526)
		14,077,388	5,069,696
Movement in working capital			
Decrease in Statutory Minimum Reserve		**(3,602,586)**	(2,248,010)
Increase in loans and advances to customers		**(37,369,088)**	(30,075,621)
(Increase)/decrease in government securities		**(3,012,904)**	1,487,918
Increase in other assets		**(283,705)**	(122,620)
Increase in deposit from customers		**34,722,442**	23,532,911
Increase in balances from other banks		**2,662,589**	500,178
Increase in other liabilities		**1,621,892**	803,579
Cash flows generated from/(used) in operations		**8,816,029**	(1,051,969)
Tax paid		**(3,867,168)**	(1,857,423)
Net cash flows generated from /(used) in operations		**4,948,861**	(2,909,392)
Cash flows from investing activities			
Purchase of property and equipment	21	**(1,324,155)**	(1,602,326)
Purchase of intangible assets	22	**(97,245)**	(25,200)
Purchase of leasehold improvements	23	**(502,894)**	(870,389)
Proceeds from sales of property and equipment		**-**	50,966
Net cash used in investing activities		**(1,924,294)**	(2,446,949)
Cash flows from financing activities			
Dividend paid		**(606,470)**	(225,693)
Net Cash used in financing activities		**(606,470)**	(225,693)
Net increase/(decrease) in cash and cash equivalents		**2,418,097**	(5,582,034)
Cash and cash equivalent at the beginning of the year		**22,581,354**	26,283,862
Effect of movement in foreign exchange		**(113,500)**	1,879,526
Cash and cash equivalent at the end of the year		**24,885,951**	22,581,354

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 2016 have been approved for issue by the board of Directors on 23 March 2017. Neither the entity owners nor others have the power to amend the financial statements after issue

2 Summary of 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.

2.2 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 2016, 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

- IFRS 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).

2 Summary of significant accounting policies (continued)

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 1 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 revised general hedge accounting requirements are better aligned with an entity's risk management activities, provide additional opportunities to apply hedge accounting and various simplifications in achieving hedge accounting.

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

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.

2 Summary of significant accounting policies (continued)

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 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.

2 Summary of significant accounting policies (continued)

Annual Improvements 2014 – 2016 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

2.3 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, 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.

2 Summary of significant accounting policies (continued)

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.

2.4 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

2 Summary of significant accounting policies (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. Contingent rents are recognised as revenue in the period in which they are earned.

2 Summary of significant accounting policies (continued)

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

Date of recognition

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

2 Summary of significant accounting policies (continued)

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the statement of profit or loss and other comprehensive income. The losses arising from impairment of such investments are recognised in profit or loss.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

2.10 Balances with banks and loans and advances

'Balances with banks' and 'Loans and advances', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss.

- Those that the Bank, upon initial recognition, designates as available for sale.

- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'Balances with banks' and 'Loans and advances' are measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in profit or loss.

2.11 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 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.

2 Summary of significant accounting policies (continued)

2.12 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.

2 Summary of significant accounting policies (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.

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.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

2 Summary of significant accounting policies (continued)

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.

2.13 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.

2.14 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 Summary of significant accounting policies (continued)

2.15 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 (continued)

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.

2.16 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.

2.17 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.

2.18 Earnings per share

Earnings per share are calculated based on the profit attributable to shareholders divided by the weighted number of ordinary shares. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year. During the year, there were no dilutive potential shares.

2.19 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.

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.

3 Financial Risk Management (Continued)

Bank's internal ratings scale

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

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

3 **Financial Risk Management (Continued)**

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.

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 4.1.1 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:

Bank's rating	**31 December 2016 Loans and advances (%)**	**31 December 2016 Impairment provision (%)**	31 December 2015 Loans and advances (%)	31 December 2015 Impairment provision (%)
Current	**93.53**	**28.55**	93.60	18.27
Especially mentioned	**2.11**	**4.56**	0.67	0.63
Sub-standard	**0.67**	**1.01**	0.5	0.64
Doubtful	**1.07**	**7.45**	1.28	5.67
Loss	**2.63**	**58.42**	3.94	74.79
	100	**100**	100	100

3 Financial Risk Management (Continued)

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 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.

	2016 TZS 000	2015 TZS 000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with the Bank of Tanzania	**20,451,680**	16,181,116
Loans and advances to banks	**7,279,524**	8,929,034
Loans and advances to customers	**144,663,920**	107,294,832
Government securities	**15,906,780**	12,893,876
Other assets (excluding prepayments)	**4,026,662**	323,501
	192,328,566	145,622,359
Credit risk exposures relating to off-balance sheet items are as follows:		
Unutilised facilities and other commitments to lend	**2,897,521**	3,696,791
Acceptances, guarantees and letters of credit	**11,142,753**	1,939,766
	14,040,274	5,636,557
	206,368,840	151,258,916

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2016 and 2015, 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 71.5% is derived from loans and advances to customers (2015: 74.4%), 7.9% represent investments in Government securities (2015: 8.6%).

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:

-93.5% of the loans and advances portfolio are considered to be neither past due nor impaired (2015: 94.2%);

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

3 **Financial Risk Management (Continued)**

a Loans and advances are summarised as follows:

	31 December 2016 Loans and advances to customers TZS 000	**31 December 2016 Loans and advances to banks TZS 000**	31 December 2015 Loans and advances to customers TZS 000	31 December 2015 Loans and advances to banks TZS 000
Neither past due nor impaired	**139,688,308**	**7,279,524**	105,054,318	8,929,034
Past due but not impaired	**4,142,621**		1,165,432	-
Impaired	**5,523,631**		5,299,686	-
Gross	**149,354,560**	**7,279,524**	111,519,436	8,929,034
Less: allowances for impairment	**(4,690,640)**	**-**	(4,224,604)	-
	144,663,920	**7,279,524**	107,294,832	8,929,034

The total impairment provision for loans and advances is TZS 4.7 billion (2015: TZS 4.2 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 2016, the Bank's total loans and advances increased by 33.93% (2015: 40.34%) as a result of the expansion of the lending business. 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 nor impaired

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

Classes	**2016 TZS 000**	2015 TZS 000
Micro and Small Enterprises (MSEs)	**99,686,429**	81,274,896
Consumer Loans	**3,166,848**	1,851,030
Term loans	**22,544,478**	14,499,053
Overdrafts	**14,290,554**	7,429,339
Total loans and advances to customers	**139,688,308**	105,054,318
Amounts due from Banks	**7,279,524**	8,929,034

3 **Financial Risk Management (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	Individual (retail) customers	Corporate entities	Corporate entities	
31 December 2016	**Micro and Small Enterprises TZS 000**	**Consumer loans TZS 000**	**Term loans TZS 000**	**Overdraft TZS 000**	**Total TZS 000**
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**
31 December 2015					
Especially mentioned (31-60 days)	532,128	51,696	83,853	-	667,676
Substandard (61-90 days)	419,953	77,803	-	-	497,756
	952,081	129,499	83,853	-	1,165,432

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 (2015: TZS 4.2 billion).

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

	Individual (retail) customers	Individual (retail) customers	Corporate entities	Corporate entities	
31 December 2016	**Enterprises TZS 000**	**Consumer TZS 000**	**Term Loans TZS 000**	**Overdraft TZS 000**	**Total TZS 000**
Doubtful	**1,270,698**	**15,512**	**313,079**	**-**	**1,599,289**
Loss	**3,424,588**	**404,734**	**-**	**95,020**	**3,924,342**
31 December 2015					
Doubtful	716,512	60,442	494,221	-	1,271,175
Loss	2,900,545	1,004,296	123,671	35,245	4,028,511
	3,617,057	1,064,738	617,892	35,245	5,299,686

3 Financial Risk Management (Continued)

3.1.5 Amounts due from Banks

There were no amount of individually impaired loans and advances to Banks as at 31 December 2016 (2015: 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 502 million are considered impaired, these assets have been fully provided for. All other items under other assets are classified as current.

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:

	Financial institutions TZS 000	Trading and commercial TZS 000	Wholesale and retail trade TZS 000	Individuals TZS 000	Others TZS 000	Total TZS 000
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**
As at 31 December 2016	**23,186,304**	**125,526,271**	**7,183,550**	**9,622,359**	**6,358,402**	**171,876,886**
Loans and advances to banks	8,929,034	-	-	-	-	8,929,034
Investment securities	12,893,876	-	-	-	-	12,893,876
Loans and advances to customers	-	91,095,564	7,361,769	3,121,081	5,716,417	107,294,832
Other assets**	-	-	-	-	323,501	323,501
As at 31 December 2015	21,822,910	91,095,564	7,361,769	3,121,081	6,039,918	129,441,243

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

3 Financial Risk Management (Continued)

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 2016, 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 (2015: TZS 43 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 2016. 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 2016 was as follows;

As at 31 December 2016	TZS TZS 000	USD TZS 000	EURO TZS 000	GBP TZS 000	KES TZS 000	UGX TZS 000	Total TZS 000
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
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	174,001,591	11,724,897	94,522	13,608	14,471	2,882	185,851,971
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	11,541,350	(998,637)	(13,170)	8,175	14,471	2,882	10,555,071

3 Financial Risk Management (Continued)

3.2 Market risk (Continued)

As at 31 December 2015	TZS TZS 000	USD TZS 000	EURO TZS 000	GBP TZS 000	KES TZS 000	UGX TZS 000	Total TZS 000
Financial Assets							
Cash and balances with Bank of Tanzania	22,275,827	3,853,669	43,759	7,535	3,861	3,179	26,187,830
Loans and advances to banks	199,461	8,665,333	61,094	3,146	-	-	8,929,034
Loans and advances to customers	106,445,682	849,150	-	-	-	-	107,294,832
Other assets excluding prepayments	323,501	-	-	-	-	-	323,501
Total financial assets	129,244,471	13,368,152	104,853	10,681	3,861	3,179	142,735,197
Financial liabilities							
Deposits from other banks	500,178	-	-	-	-	-	500,178
Deposits from Customers	121,049,520	13,271,770	53,656	7,819	-	-	134,382,765
Other Liabilities (excluding statutory deductions and deferred facility fee)	1,839,235	127,472	50,657	-	-	-	2,017,364
Total financial liabilities	123,388,933	13,399,242	104,313	7,819	-	-	136,900,307
Net position	5,855,538	(31,090)	540	2,862	3,861	3,179	5,834,890

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 2016, 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.

	2016 TZS 000	2015 TZS 000
125 basis points increases or decrease in interest rates	**83,542**	**468,457**

3 Financial Risk Management (Continued)

3.2 Market risk (Continued)

3.2.2 Interest rate risk (Continued)

The effective interest rates for the principal financial assets and liabilities at 31 December 2016 and 2015 were as follows:

	Year 2016	Year 2015
Government securities	**9.30%**	14.08%
Balances with other banks	**5.81%**	4.77%
Loans and advances to customers	**38.30%**	30.30%
Deposit from Customers	**2.72%**	2.03%

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

	Non-interest bearing TZS 000	**Up to 1 month TZS 000**	**1-3 month TZS 000**	**3-12 month TZS 000**	**1-5 years TZS 000**	**Total TZS 000**
Financial assets						
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 **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 2015

	Non-interest bearing TZS 000	Up to 1 month TZS 000	1-3 month TZS 000	3-12 month TZS 000	1-5 years TZS 000	Total TZS 000
Financial assets						
Cash and balances with Bank of Tanzania	26,187,830	-	-	-	-	26,187,830
Government Securities	-	1,438,891	6,862,155	4,570,552	-	12,871,598
Loans and advances to banks	5,686,574	1,080,820	2,161,640	-	-	8,929,034
Loans and advances to customers	-	16,244,258	3,807,425	43,817,253	43,425,896	107,294,832
Other Assets	323,501	-	-	-	-	323,501
Total financial assets	32,197,905	18,763,969	12,831,220	48,387,805	43,425,896	155,606,795
Financial liabilities						
Deposit from other banks	-	500,178	-	-	-	500,178
Deposit from Customers	59,142,411	56,620,754	1,899,833	16,709,767	10,000	134,382,765
Other Liabilities (excluding statutory deductions)	2,017,364	-	-	-	-	2,017,364
Total financial liabilities	61,159,775	57,120,932	1,899,833	16,709,767	10,000	136,900,307
Total interest re-pricing gap	-	(38,356,963)	10,931,387	31,678,038	43,415,896	-

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

3 **Financial Risk Management (Continued)**

3.3 Liquidity risk (Continued)

3.3.1 Liquidity risk management process (Continued)

- 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.

3.3.3 Non-derivative cash flows

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

	Up to 1 month TZS 000	1-3 month TZS 000	3-12 month TZS 000	Over 1 year TZS 000	Total TZS 000
Financial liabilities					
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**

The following is the liquidity profile of the Bank as at 31 December 2015

	Up to 1 month TZS 000	1-3 month TZS 000	3-12 month TZS 000	Over 1 year TZS 000	Total TZS 000
Financial liabilities					
Deposits from other banks	500,178	-	-	-	500,178
Deposits from customers	115,661,385	2,001,614	16,709,766	10,000	134,382,765
Other Liabilities (excluding statutory deductions and deferred facility fee)	2,017,364	-	-	-	2,017,364
Total liabilities (contractual maturity dates)	118,178,927	2,001,614	16,709,766	10,000	136,900,307
Assets held for managing liquidity risk (contractual maturity dates)	38,301,690	13,153,802	63,392,207	55,868,531	170,716,231

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

	No later than 1 year TZS 000
As at 31 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**
As at 31 December 2015	
Unutilised facilities and other commitments to lend	3,696,791
Acceptances, guarantees and letters of credit	1,939,766
Total	5,636,557

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	Carrying value	Fair value	Fair value
	2016 TZS 000	2015 TZS 000	2016 TZS 000	2015 TZS 000
Financial assets				
Cash and balances with Bank of Tanzania	**29,881,865**	26,187,830	**29,881,865**	26,187,830
Loans and advances to banks	**7,279,524**	8,929,034	**7,279,524**	8,929,034
Loans and advances to customers	**144,663,920**	107,294,832	**144,663,920**	107,294,832
Other assets (excluding prepayments)	**4,026,662**	323,501	**4,026,662**	323,501
Investment securities	**15,906,780**	12,893,876	**15,906,780**	12,893,876
Financial liabilities				
Deposits from other banks	**3,162,767**	500,178	**3,162,767**	500,178
Deposits from customers	**169,105,208**	134,382,765	**169,105,208**	134,382,765
Other liabilities (excluding statutory obligations)	**3,028,925**	2,754,858	**3,028,925**	2,754,858
Off-balance sheet financial instruments				
Loan commitment	**2,897,521**	3,696,791	**2,897,521**	3,696,791
Guarantees, acceptances and other financial facilities	**11,142,753**	1,939,766	**11,142,753**	1,939,766

3 Financial Risk Management (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(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 and held-to-maturity 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.

Investment securities (available-for-sale) 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. All other available-for-sale financial assets are already measured and carried at fair value.

(i) 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.

(b) 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).

(b) Fair value hierarchy (continued)

- 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.

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 2016.

	Fair value hierarchy	Fair value hierarchy	Fair value hierarchy	
	Level 1 **TZS '000**	**Level 2** **TZS '000**	**Level 3** **TZS '000**	**Total** **TZS '000**
31 December 2016				
Available for sale financial assets				
- Investment in equity securities	-	-	**20,000**	**20,000**
Total			**20,000**	**20,000**
31 December 2015				
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 2016 (2015: 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 2016, and (b) maintain a ratio of core capital and total capital to the risk-weighted asset (the 'Basel ratio') at or above the internationally agreed minimum of 12.5% and 14.5% respectively.

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.

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 2016 and 31 December 2015 year end respectively. During those two periods, the Bank complied with all of the externally imposed capital requirements to which they are subject.

Tier 1 capital	**2016 TZS 000**	2015 TZS 000
Share capital	**8,607,135**	8,607,135
Share premium	**2,431,917**	2,431,917
Retained earnings	**20,040,593**	11,107,684
Prepaid expenses	**(2,281,260)**	(1,877,124)
Deferred charges	**(1,564,348)**	(900,754)
Intangible assets	**(141,632)**	(83,572)
Total qualifying Tier 1 capital	**27,092,405**	19,285,286
Tier 2 capital		
General risk reverse	**1,346,333**	925,397
Regulatory reserve	**538,090**	2,174,018
Total qualifying Tier 2 capital	**1,884,423**	3,099,415
Total regulatory capital (Tier 1 & Tier 2)	**28,976,828**	22,384,701
Risk-weighted assets		
On-balance sheet	**132,962,915**	82,343,925
Off-balance sheet	**6,429,187**	4,266,830
Total risk-weighted assets	**139,392,103**	86,610,755
	Bank's ratio 2016	Bank's ratio 2015
	%	%
Tier 1 capital (BOT minimum 12.5%)	**19.44**	22.27
Tier 1 + Tier 2 capital (BOT minimum 14.5%)	**20.79**	25.84

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 (2015: 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.

7 INTEREST INCOME

	2016 TZS 000	2015 TZS 000
Interest on loans and advances to customers	**38,369,445**	25,294,132
Income from Government securities	**2,060,324**	1,734,330
Interest from placement with other banks	**247,516**	155,765
Unrealised interest on loans and advances to customers	**500,191**	2,150,422
	41,177,476	29,334,649

The unrealised interest 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

	2016 TZS 000	2015 TZS 000
Saving deposits	1,166,159	1,067,272
Time deposits	5,037,761	1,590,118
Other borrowings	1,158,523	79,257
	7,362,443	2,736,647

9 FEES AND COMMISSION INCOME

Commission income	1,281,039	207,338
ATM Card	171,355	171,955
ATM Fees	210,462	220,458
Loans commitment fees	3,862,242	2,834,775
Legal fees	1,549,147	534,136
Penalties from premature loans	1,651,216	1,088,739
Withdrawal charges	402,636	349,483
Ledger fees	957,836	1,008,540
Telegraphic transfer	204,359	168,949
Salary processing	134,391	135,537
Other fees	74,559	114,673
	10,499,242	6,834,583

10 FOREIGN EXCHANGE INCOME

Foreign currency trading	217,904	668,582

11 OTHER OPERATING INCOME

	2016 TZS 000	2015 TZS 000
Insurance income	944,645	780,208
Profit on disposal of property and equipment	19,374	36,598
Other income	116,459	238,299
	1,080,478	1,055,105

12 EMPLOYEE BENEFITS EXPENSES

	2016 TZS 000	2015 TZS 000
Salaries and allowances	**11,306,898**	9,705,453
Social security costs	**1,097,171**	976,830
Medical insurance	**1,084,635**	960,223
Leave allowance	**44,430**	743,248
Staff welfare	**187,924**	216,667
Staff Incentives	**652,600**	839,193
Skill and development levy	**557,452**	548,727
Workers Compensation Fund	**108,962**	51,115
Other staff cost	**630,204**	551,094
	15,670,276	14,592,550

13 GENERAL AND ADMINISTRATIVE EXPENSES

Operating leases	**3,479,800**	2,858,953
Umoja Switch expenses	**617,411**	625,031
Advertising and Marketing	**1,112,256**	574,506
ICT expenses	**1,179,807**	1,117,089
Technical assistance fees (Note 31 (iii))	**289,614**	341,538
Auditors' remuneration	**169,655**	100,844
Directors' fees and other emoluments (Note 31)	**180,700**	178,210
Training	**555,409**	424,219
Travel and lodging	**585,019**	579,950
Maintenance equipment	**297,471**	394,824
Akiba Mobile expenses	**208,048**	47,768
Fuel Motor vehicles and generators	**377,698**	360,159
Telephones	**147,164**	167,335
Stationery expenses	**446,259**	453,839
Insurance	**301,123**	237,658
Subscription and professional fees	**274,984**	279,397
Legal expenses	**808,279**	650,988
Security	**983,261**	961,991
Premises expenses	**1,506,385**	961,953
Provision other assets	**226,439**	13,826
Postage and Courier	**67,291**	-
Miscellaneous expenses	**112,629**	217,110
	13,926,702	11,547,188

14 DEPRECIATION AND AMORTISATION

	2016 TZS 000	2015 TZS 000
Depreciation (Note 21,22 and 23)	**1,485,211**	1,679,303

15 TAXATION

	2016 TZS 000	2015 TZS 000
(a) Tax expense for the year is arrived at as follows:		
Current income tax - current year	**4,798,240**	2,626,843
Current income tax – Prior year	**(178,183)**	(292,630)
Deferred income tax - current year	**(876,981)**	(878,509)
Deferred income tax - prior periods	**213,387**	(206,712)
	3,956,463	1,248,992

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

	2016 TZS 000	2015 TZS 000
Accounting profit before tax	**12,319,915**	5,263,347
Tax calculated at the statutory income tax rate of 30%	**3,695,975**	1,579,004
Tax effect of:		
Expenditure permanently disallowed	**5,696**	46,159
Other adjustment	**219,588**	123,171
Prior year current tax adjustment	**(178,183)**	(292,630)
Prior year deferred tax adjustment	**213,387**	(206,712)
Income tax expense	**3,956,463**	1,248,992

(c) Current income tax

At 1 January	**(33,568)**	443,222
Payments made during the year	**3,867,168**	1,857,423
Charge to profit or loss	**(4,620,057)**	(2,334,213)
	(786,457)	(33,568)

16 CASH AND BALANCES WITH THE BANK OF TANZANIA

	2016 TZS 000	2015 TZS 000
Cash balances	**9,430,185**	10,006,714
Balances with Bank of Tanzania:		
Clearing account - local currency	**2,235,098**	920,997
Clearing account - foreign currency	**2,078,486**	2,724,609
Statutory minimum reserve (SMR)	**16,138,096**	12,535,510
	29,881,865	26,187,830

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

	2016 TZS 000	2015 TZS 000
Maturing within 90 days		
Placement with local banks	**6,355,420**	-
Placement with banks abroad	**146,254**	3,244,239
Cheques and items in the course of clearing	**198,536**	168,987
Balances with other banks	**579,314**	5,515,808
	7,279,524	8,929,034

18 LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers	**143,070,468**	105,650,616
Staff loans	**6,284,092**	5,868,820
Gross loans and advances	**149,354,560**	111,519,436
Less: allowance for impairment	**(4,690,640)**	(4,224,604)
	144,663,920	107,294,832

18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Gross loans and advances to customers by class are as follows:

	2016 TZS 000	2015 TZS 000
Micro and Small Enterprises (MSEs)	**106,759,901**	85,844,034
Consumer loans	**3,629,339**	3,045,267
Term loans	**24,408,161**	15,200,798
Overdrafts	**14,557,159**	7,429,337
Less: allowance for impairment	**(4,690,640)**	(4,224,604)
	149,354,560	111,519,436

Analysis of loans and advances to customers by maturity

Maturing:		
Within 1 year	**84,184,017**	63,868,936
Between 1 year and 5 years	**59,478,254**	43,425,896
Over 5 years	**1,001,650**	-
	144,663,920	107,294,832

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

	2016 TZS 000	2015 TZS 000
Balance at 1 January	**4,224,604**	2,244,299
Impairment losses for the year	**2,340,292**	2,298,120
Loans and advances written off during the year	**(1,874,256)**	(317,815)
	4,690,640	4,224,604

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

	Individual (retail) customers	Individual (retail) customers	Corporate entities	Corporate entities	
	Small and Medium Enterprises TZS 000	Consumer TZS 000	Term loans TZS 000	Overdrafts TZS 000	Total TZS 000
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**
Balance at 1 January 2015	1,734,872	7,248	458,092	44,086	2,244,298
Increase in provision for loan impairment	1,510,441	806,259	(39,532)	20,953	2,298,121
Write offs	(317,814)	-	-	-	(317,815)
At 31 December 2015	2,927,498	813,507	418,560	65,039	4,224,604

18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2016 TZS 000	2015 TZS 000
The provision as at year is made up of the following:	**4,017,676**	3,736,032
Specific allowance for impairment	**672,964**	488,572
	4,690,640	4,224,604
Impairment charge to profit or loss is broken down as follows:		
Impairment charges for credit losses	**2,340,292**	2,298,121
Amounts recovered during year	**(129,739)**	(224,237)
Charge to profit or loss	**2,210,553**	2,073,884

19 GOVERNMENT SECURITIES

	2016 TZS 000	2015 TZS 000
Treasury bills:		
Maturing within 91 days or less (from acquisition)	**-**	-
Maturing after 91 days	**15,906,780**	12,893,876
Current	**15,906,780**	12,893,876

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

	2016 TZS 000	2015 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

	Motor vehicles TZS 000	Fixtures fittings and equipment TZS 000	Work in Progress	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**		**1,324,155**
Disposals	**(46,932)**	**(296,099)**	**(41,129)**	**(384,160)**
At end of year	**1,253,282**	**8,777,786**		**10,031,067**
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	**292,338**	**2,506,398**	**-**	**2,798,736**

	Motor vehicles TZS 000	Fixtures fittings and equipment TZS 000	Work in Progress	Total TZS 000
COST				
At start of year	994,773	6,841,698	-	7,836,471
Additions	150,680	1,410,517	41,129	1,602,326
Disposals	(46,932)	(300,793)	-	(347,725)
At end of year	1,098,521	7,951,422	41,129	9,091,072
DEPRECIATION				
At start of year	790,930	5,095,707	-	5,886,637
Charge for the year	121,860	879,213	-	1,001,073
Disposals	(46,932)	(286,425)	-	(333,357)
At end of year	865,858	5,688,495	-	6,554,353
NET BOOK VALUE				
At end of year	232,663	2,262,927	41,129	2,536,719

None of the premises and equipment has been pledged as security for liabilities (2015: Nil).

22 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2016 TZS 000	2015 TZS 000
COST		
At start of year	**2,753,589**	2,729,459
Additions	**97,245**	25,200
Write off	**-**	(1,069)
At end of year	**2,850,834**	2,753,590
AMORTISATION		
At start of year	**2,670,017**	2,448,908
Current year charge	**39,186**	222,179
Write off	**-**	(1,069)
At end of year	**2,709,203**	2,670,018
NET BOOK VALUE	**141,631**	83,572

23 LEASEHOLD IMPROVEMENTS

	2016 TZS 000	2015 TZS 000
COST		
At start of year	**5,901,403**	5,074,917
Additions	**502,894**	802,210
Work in progress	**(68,179)**	68,179
Write off	**-**	(43,903)
At end of year	**6,336,118**	5,901,403
AMORTIZATIONS		
At start of year	**3,222,008**	2,766,689
Current year charge	**474,469**	456,051
Write off	**-**	(732)
At end of year	**3,696,477**	3,222,008
NET BOOK VALUE	**2,639,641**	2,679,395

24 DEFERRED INCOME TAX

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

	2016 TZS 000	2015 TZS 000
At start of year	**900,754**	(184,467)
Prior years over provision	**(213,387)**	206,712
Credit to profit or loss	**876,981**	878,509
At end of year	**1,564,348**	900,754

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**
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**
2015			
Property and equipment	155,150	57,742	212,892
Other timing differences	(339,617)	1,027,479	687,862
	(184,467)	1,085,211	900,754

25 OTHER ASSETS

	2016 TZS 000	2015 TZS 000
Float balance	**3,862,658**	-
Prepayments	**2,281,260**	1,877,124
Other receivables	**665,749**	600,807
Less: Provision for losses	**(501,745)**	(277,306)
	6,307,922	2,200,625
Current	**6,307,922**	2,200,625

26 DEPOSITS FROM CUSTOMERS

	2016 TZS 000	2015 TZS 000
Current accounts	**25,701,671**	29,458,058
Biashara accounts	**25,279,412**	29,684,353
Savings accounts	**53,813,656**	50,261,140
Time deposit accounts	**61,192,185**	21,708,213
Solidarity savings	**3,118,284**	3,271,001
	169,105,208	134,382,765

MATURITY ANALYSIS:

Payable within three months	**135,724,814**	117,662,999
Payable within three to twelve months	**33,296,487**	16,709,766
Payable over one year	**83,907**	10,000
	169,105,208	134,382,765

27 OTHER LIABILITIES

Statutory deductions	**1,504,792**	636,339
Bills payable	**108,408**	133,625
Deferred facility fees	**652,145**	910,272
Accrued leave	**201,893**	180,283
Other accrued expenses	**1,140,478**	622,838
Trade creditors	**433,882**	270,613
Auditors fees payable	**134,473**	38,956
Directors fees payable	**203,000**	146,878
Dividend payable	**71,472**	32,407
Mobile service payable	**20,104**	111,656
Loan insurance premium	**149,458**	210,487
Customer suspense	**522,351**	219,386
Other accounts payable	**43,411**	50,235
	5,185,867	3,563,975
Current	**5,002,378**	3,331,783
Non-current	**183,489**	232,192
	5,185,867	3,563,975

28 CASH AND CASH EQUIVALENTS

	2016 TZS 000	2015 TZS 000
Cash and balances with Bank of Tanzania (Note 16)	**29,881,865**	26,187,830
Less: Statutory Minimum Reserves (Note 16)	**(16,138,096)**	(12,535,510)
Float balance	**3,862,658**	
Loans and Advances to Banks (Note17)	**7,279,524**	8,929,034
	24,885,951	22,581,354

29 SHARE CAPITAL

Authorised		
10,000,000 ordinary shares of TZS 1,000 each	**10,000,000**	10,000,000
Issued and fully paid		
8,607,136 (2015: 8,247,184) ordinary shares of TZS 1,000 each	**8,607,135**	8,607,135

For purposes of the cash flow statement, 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 lettersof credit amounting to TZS 11.1 billion(2015: TZS 1.9 billion).

Commitments to extend credit

At the end of the reporting period the Bank had outstanding commitments to extend credit amounting to TZS 2.9 billion(2015: TZS 3.7 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 383 million (2015: TZS 229 million). Litigations, current or pending, are not likely to have a material adverse effect to the Bank.

As at 31 December 2016, contingent liabilities and contingent assets relating to pending cases with approximate financial effect of TZS 2.88 billion and TZS 0.28 billion respectively (2015: TZS 1.95 billion and TZS 0.57 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.

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

Capital commitments

	2016 TZS 000	2015 TZS 000
Authorized and contracted for	**348,436**	831,475
Authorized not yet contracted for	**322,542**	109,308
	670,978	940,783

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:

	2016 TZS 000	2015 TZS 000
Not later than 1 year	**2,540,456**	1,650,147
Later than 1 year but not later than 5 years	**8,698,088**	5,624,223
	11,238,544	7,274,370

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:

	2016 TZS 000	2015 TZS 000
At start of year	**413,994**	3,313,209
Net movement during the year	**(72,315)**	(2,899,215)
At end of year	**341,679**	413,994
Interest income earned	**70,718**	70,873

31 RELATED PARTY DISCLOSURES (CONTINUED)

Advances to key management personnel were as follows:

	2016 TZS 000	2015 TZS 000
At start of year	**403,680**	349,842
Net movement during the year	**(118,906)**	53,838
At end of year	**284,774**	403,680
Interest income earned	**20,066**	14,322

Loans and advances to related parties were fully performing as at 31 December 2016 and 31 December 2015.

(ii) Deposits from related parties

a) Deposits received from shareholders.

	2016 TZS 000	2015 TZS 000
Inter Consult Limited	**113,864**	21,004
PPF Pensions Fund	**5,519,836**	1,000,000
ERNCON Holdings Limited	**129,282**	123,998
Others	**1,201,508**	372,414
	6,964,490	1,517,416

At start of year	**315,527**	191,751
Net movement during the year	**198,422**	123,776
Balance as at 31 December	**513,949**	315,527
Interest expense incurred	**2,785**	4,596

c) Deposits by shareholders

At start of year	**1,739,841**	2,068,273
Net movement during the year	**5,086,090**	(328,432)
At end of year	**6,825,931**	1,739,841
Interest expense incurred	**534,590**	94,290

(iii) Technical assistance fees

Accion International	**289,614**	**1,807,716**

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.

(iV) Key management compensation

Salaries and other short-term benefits	**1,775,689**	**1,807,716**

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:

Name	2016 Directors fees TZS 000	2016 Other emoluments TZS 000	2015 Directors fees TZS 000	2015 Other emoluments TZS 000
Ernest Massawe	**15,400**	**3,500**	15,400	3,500
Joseph Rugumyamheto	**11,000**	**7,500**	11,000	6,500
Jean Marie Prevost	**11,000**	**15,200**	11,000	13,700
Brian Kuwik	**11,000**	**15,200**	11,000	15,700
John Fischer	**11,000**	**15,700**	11,000	13,200
Dr. Richard Kasungu	**11,000**	**9,500**	11,000	10,000
Selestine Joseph Some	**11,000**	**8,500**	11,000	10,500
Liesbeth Soer	**11,000**	**13,200**	11,000	12,700
	92,400	**88,300**	92,400	85,800

32 COUNTRY OF INCORPORATION

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

33 ASSETS PLEDGED AS SECURITY

As at 31 December 2016, 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.

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