

ANNUAL
REPORT

2015



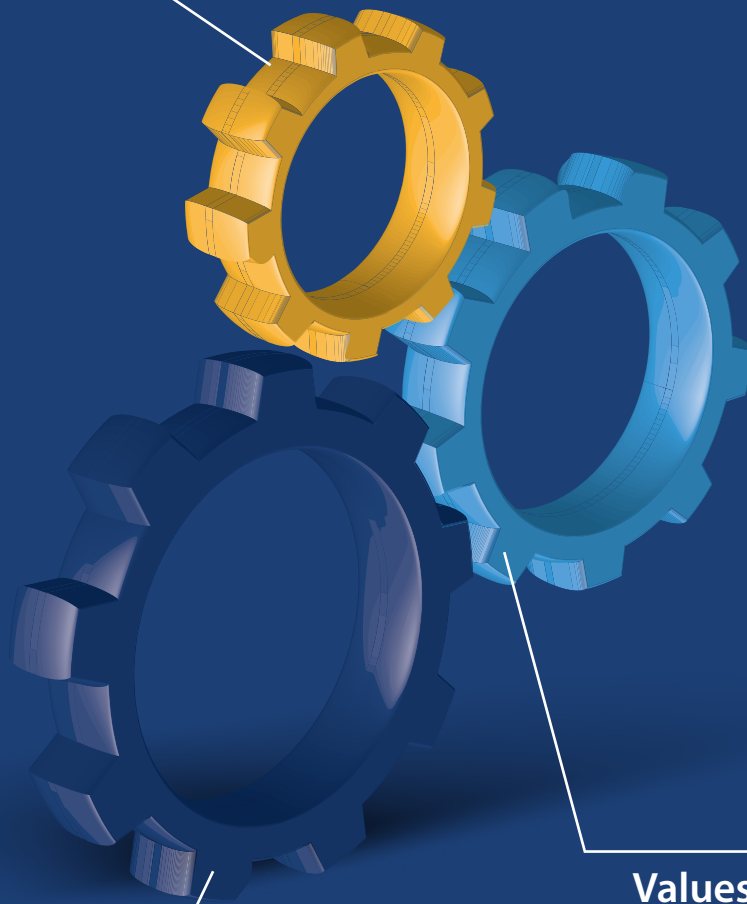
igniting a brighter future



**TIB
DEVELOPMENT
BANK**
Your Partner for Growth

Vision

To be the premier national development financing bank for promoting sustained economic growth and poverty all eviation.



Mission

To provide development financing and complimentary services for a diversified, vibrant and competitive national economy.

Values

Ethical
Teamwork
Innovative
Quality
Inspiring

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**TIB
DEVELOPMENT
BANK**
Your Partner for Growth

GENERAL INFORMATION

Registered office

Building No 3, Mlimani City Office Park Ms.
Sam Nujoma Road P.O. Box 9373,
P.O Box 9373
Dar es Salaam,

Company secretary

Ms. Martha Maeda
P.O Box 9373
Dar es Salaam,

Physical address

Mlimani City Office Park
P.O. Box 9373,
Building No. 3
Sam Nujoma Road

Other contact details

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Dar es Salaam
Tel: (0)255 (0)22 2411101-9
Telefax: (0)255 (0)22 2411095
E-mail: md@tib.co.tz
Website: www.tib.co.tz

Main bankers

TIB Corporate Bank Limited
Mlimani City Branch
BOX 9102,
Dar es Salaam, Tanzania

NBC Limited

Corporate Branch
P.O. Box 9062
Dar es Salaam, Tanzani

Auditors

Principal auditors:
The Controller and Auditor General
National Audit Office
Corner of Samora Avenue and Ohio Street
P. O. Box 9080
Dar es Salaam, Tanzania

Sub-contracted auditors:

KPMG (Certified Public Accountants)
11th PPF Tower
Corner of Ohio Street and Garden Avenue
P.O. Box 1160
Dar es salaam, Tanzania.

A new chapter of

enlightenment







I feel privileged to present to you this Annual Report and the Financial Results of TIB Development Bank Limited for the year ended 31st December 2015.



Chairman's statement

TOTAL ASSETS
^ 32.5%

TIB finally obtained the license to operate as a Development Finance Institution in June 2015. This energized the bank to continue with vigour its mission and vision of financing development in line with its 2015-2019 corporate strategic plan that supports the Government's vision of transforming the country into a middle income economy by 2025.

The operating environment was largely conducive to the bank's operations. Inflation remained at single digit throughout 2014/15, averaging 5.6% against the medium-term target of 5.0% mainly driven by low food prices following bumper harvest, fall in global oil prices and prudent monetary policy. Although interest rates remained relatively high throughout the year, GDP growth reached 7.1% compared to 7.0% recorded in 2014 a reflection on

the prudence in national economic management.

The bank's balance sheet was split at the beginning of the year to form the subsidiary TIB Corporate Bank Ltd., concluding its transformation that began earnestly in 2010. Despite the dilution of its assets and tighter liquidity conditions in the domestic market and higher than anticipated monetary and foreign global exchange market developments, I am glad to report that the bank's performance continues to be positive.

The balance sheet of the bank showed a significant growth in the financial year 2015. Total assets grew from TZS 520 billion prior to the split in 2014 to reach TZS 689 billion an increase of 32.5%. Loan disbursements reached TZS 208.9 billion against TZS 94.8 billion

Management has initiated to pursue innovative ways of mobilising funds to meet the demands of its fast expanding lending operations

recorded in 2014, an increase of 120%.

During the year, the bank undertook an evaluation of its five years Corporate Strategic Plan to gauge the achievements and challenges encountered during implementation and gather the lessons learnt to inform the preparation of the next 2016-2020 Corporate Strategic Plan.

The outcome of the evaluations point to the potential role that the bank can play in national plans to sustain its own growth and therefore become a major and dominant influence in the Country's economic development plans and direction. The reviews pointed out however, that the bank is rather constrained at the moment to achieve that status by the prevailing inadequate capital base.

I am encouraged by the measures that the banks' Management has initiated to pursue innovative ways of mobilising funds to meet the demands of its fast expanding

lending operations apart from continuing to negotiate with the shareholders for an equity base expansion/increase. These efforts are in line and will assist the bank achieve its new strategic plan objectives whose focus is on financing infrastructure and other strategic development projects in the industrial, manufacturing, mining, service and oil and gas sectors.

Developments in the domestic economy point to subdued growth conditions in 2016 contrary to earlier projections that were largely influenced by a sharp fall in crude oil prices since mid-2015. In light of these developments, the Government's policy stance as per the fiscal measures outlined in the 2016/17 budget is to sustain the favourable measures to maintain macroeconomic stability by slowing down the macroeconomic imbalances and maintain investor confidence. In addition, the expected increase in supplies of natural gas will improve power generation and reduce oil imports and therefore conserve foreign exchange earnings

Management has initiated to pursue innovative ways of mobilising funds to meet the demands of its fast expanding lending operations

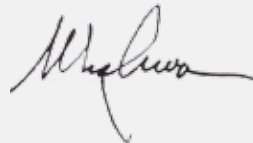
LOAN DISBURSEMENTS
^ 120%

that will further stabilize the economy.

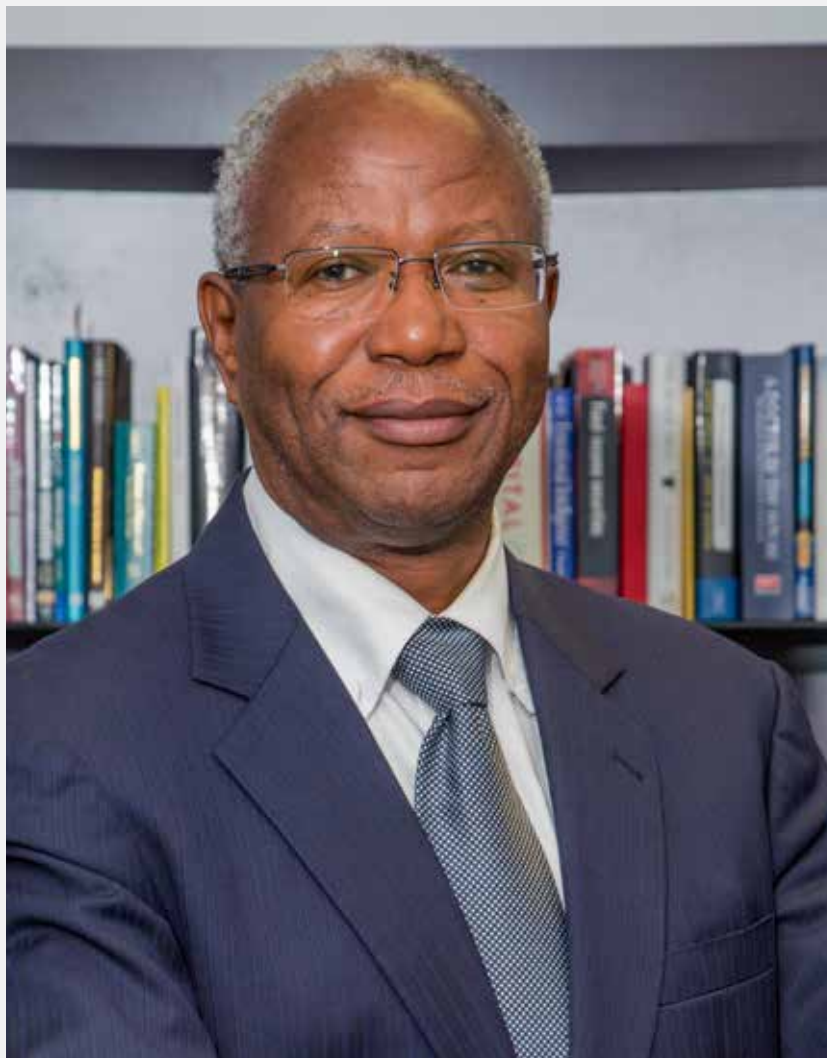
The bank on the other hand has planned and is confident of playing a major role in national economic development. Against the background of measures adopted to mobilize funds including a capital increase by the Government, the strategic focus is on infrastructure and larger industrial development projects with down and upstream multiplier effects. Investments will be directed and target projects that will stimulate demand on domestic producers of raw materials, create employment, and value addition among other effects. With the continued close collaboration and support by the Government, the bank is poised to contribute significantly to the industrialization drive that the Government has adopted and therefore accelerate the achievement of the National Vision 2025 ideals.

As a family, made up of shareholders, customers and staff that worked together to build up this valued

financial institution which is looking forward to even better performance in the coming years, I would like to take this opportunity on behalf of the Board therefore to applaud your continued support over the years. I would also like to congratulate my colleagues on the Board, the Management and staff of TIB for their hard work and commitment to duty and pray for a successful year 2016.



Professor William Lyakurwa
Chairman of the Board of Directors



I am delighted to present to you this report on the activities of TIB Development Bank Limited for the year ended 31st December, 2015. A significant milestone in the bank's history was recorded during this year with the issuance of licenses by the Bank of Tanzania (BOT) to both TIB Development Bank and its subsidiary TIB Corporate Bank Limited in June that also signified the culmination of the transformation process that began in 2010 with the re-launch of TIB as a development bank.



Managing Director's statement

30-06-2015

DATE OF THE ISSUANCE OF LICENSES BY THE BANK OF TANZANIA (BOT) TO BOTH TIB DEVELOPMENT BANK AND ITS SUBSIDIARY TIB CORPORATE BANK

As the premier licensed development financing institution (DFI) in the country, the bank can now confidently carry out its mandate in an environment sufficiently enabling to execute its mission of assisting the Government and speed up the economic development of Tanzania

Operating Environment

According to the National Bureau of Statistics (NBS, 2015), Tanzania's economy continues to remain stable with a reasonable growth rate of 7.1% during 2015 compared to 7.0% in 2014. Global growth was at 3.1% in 2015 and projected to reach 3.4% in 2016 and 3.6% in 2017. The pickup in economic activity according to the World Bank statistics on the other hand indicate that Sub-Saharan Africa recorded a 3.7% growth for 2015 which is significantly lower when compared to what Tanzania was able to achieve. Growth in 2016 is expected to be strongly driven by domestic demand, supported by continuing infrastructure investments and private consumption fueled by expected lower oil prices.

Within the East African countries inflation was generally low with

Uganda having recorded the lowest inflation at an average of 5.1%, followed by Tanzania with an average of 5.6% and Kenya with the average of 6.6%.

Interest rates during the year moved slightly upwards to 17.7% from 17.0% recorded in November 2014; similarly short term lending rates were at 14.1% compared to 14.8% recorded in 2014. The market experienced an increase in overall deposits rate of up to 9.2%, from 8.2% that was recorded for the period to November 2014. This was mainly attributed to tight monetary policy that led to higher deposit rates.

The Treasury Bills overall Weighted Average Yield (WAY) rose to 17.8% from 14.3% in October 2015. The high interest rates had a negative impact on the bank's plan to float a domestic bond to fund its lending programme, consequently and adversely affecting the bank's growth prospects. The exchange rate and the value of the shilling against the US dollar was however, generally stable.

In October 2015, the country held its General elections and ushered in a new Government whose stance on

development continues to be the achievement of the ideals of Vision 2025 through industrializing the economy with investments in the development of infrastructure.

Given our focus on national development plans and projects in support of the Vision 2025, the bank found it necessary to undertake some changes on its organizational and operational set-up. The changes are a reflection of the conclusion of the transformation and the need to entrench TIB as a DFI.

The organization's structural changes were implemented in the Departments such as Legal Services, Development Finance, Managed Funds, Portfolio Management, Information and Communication Technology, HR and the creation of a Division for Funds Mobilization and an Insurance Department.

The new Division for Funds Mobilization will spearhead the efforts to raise capital by coming up with innovative mechanisms that will henceforth ensure the bank's lending operations are appropriately and adequately funded. I am happy to note the efforts of this new Division during the year in the establishment

of lines of credit and syndications with other Development Finance Institutions (DFIs) and local sources of funds that enabled the bank to close funding for two large deals in the energy sector.

I am glad to report that with these changes during the year, TIB repositioned itself to play a leading advisory and funding role in the Government's development programme including the infrastructure and industrialization initiative that is being expounded in the forthcoming 2nd Five Year Development plan (FYDP II). The bank's small capital base however, remains a big challenge given the fund requirements for large scale infrastructure projects and the limitations set by some funding institutions not to invest with banks such as TIB which they consider to be under-capitalized.

Operational Highlights

In spite of all the challenges including the capital limitations, I am happy to report that the bank was able to sign two agreements for the implementation of significant and large projects in the energy sector with Tanzania Petroleum Development Corporation (TPDC) and Tanzania Electricity Supply Company (TANESCO). The

transaction with TPDC enabled the connection of gas wells to the gas processing plant in Madimba to Kinyerezi I gas-to-electricity generation plant in Dar es Salaam ushering in a new era of gas to power. The bank and TANESCO entered into an agreement that will pave way for the construction of a 400KV high voltage transmission line infrastructure covering 198km from Somanga in Kilwa to Kinyerezi to evacuate power from a gas to electricity plant being constructed in Somanga. These transactions are a part of a series of deals in the same value chain demonstrating the bank's capabilities to innovate and execute infrastructure development projects.

The initiative to work with Local Government Authorities (LGAs) in the structuring and development of viable infrastructure projects continued during the year. A Memorandum of Understanding (MOU) was signed in the first quarter of 2015 between the bank and the then Prime Minister's Office for Regional Administration and Local Government (PMORALG) to support the financing of Local Government infrastructure projects that will improve the quality and delivery of services to local communities. A partnership was also formed with United Nations Capital Development

Fund (UNCDF) to provide technical assistance in the form of expertise and seed capital for viable Local Government infrastructure projects. As a result, the Moshi Municipal Council's new bus terminal and the Kibaha Municipal Council's market and bus terminal projects have benefited from UNCDF's technical assistance towards project preparation.

In close collaboration with Kinondoni Municipal Council, National Housing Corporation (NHC) and UNCDF, the bank initiated and spearheaded the development of Oysterbay beach as part of its Corporate Social Responsibility. The project aims at modernizing the public beach into a well-planned free open space recreational area that is accessible to the general public. It is a huge undertaking that will span several years with the attendant fundraising efforts scheduled to begin in the course of 2016. The plans for this initiative are showcased in this report.

For two consecutive years, the bank maintained a winning streak at the 38th and 39th Saba Saba Trade Fair when it clinched the coveted top prize in the Financial Institutions Category. This win was largely a result of the bank's innovative display showcasing the bank's commitment

400KV
 HIGH VOLTAGE TRANSMISSION
 LINE INFRASTRUCTURE COVERING
 198KM FROM SOMANGA IN
 KILWA TO KINYEREZI

to the development of infrastructure in the transport and energy sectors that impressed the judges and was a crowd puller during the Fair.

The bank is obligated to observe and constructively manage any environmental and social impacts of projects that it finances. In that regard and as a responsible development finance institution, the bank prepared environmental and social policies and procedures with a view to integrate them into existing credit policies. In all its development finance activities, the bank is committed to ensure that it complies with the national as well as international environmental and social management practices that sustain the quality of its investments.

During the year, the bank recorded a profit before tax of TZS 9.2 billion from TZS 10.4 billion that was achieved in 2014. The seeming 12% drop in profits is largely a function of the split of the bank which resulted in a significant portion of the earning assets ceded to form the subsidiary, TIB Corporate Bank Limited.

Despite the split, the bank was able to record a 4% growth in interest income during the year, from TZS 59.8 billion in 2014 before the split to TZS 62.5 billion. Interest

expenses however, increased by 75% to TZS 25.7 billion due to an increase in deposits and long term borrowings. Impairment losses on loans and advances amounted to TZS 11.9 billion from TZS 15.2 billion recorded in the previous year. The loan portfolio increased by 30% from TZS 413 billion in 2014 to TZS 538.7 billion. Assets also grew by 32% from TZS 520.2 billion in 2014 to TZS 689 billion.

With the expected involvement in the national industrialization/ infrastructure programmes sponsored by the Government, the bank is bound to grow and record positive results in the coming years.

Future Outlook

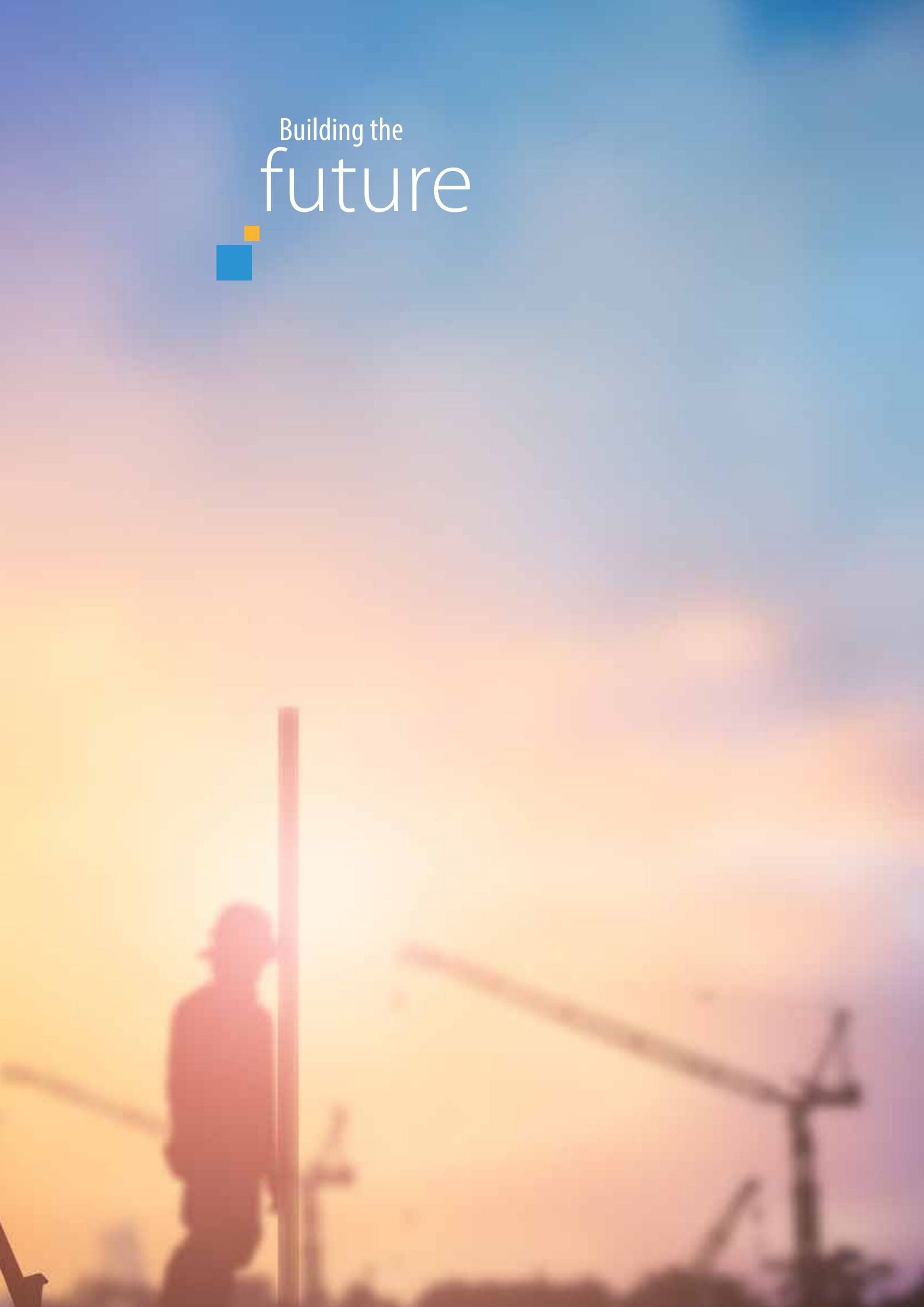
The bank's next five year Corporate Strategic Plan 2016-2020 comes at a time when the Government is also preparing its second Five-Year Development plan (FYDP – II). The framework of the Government's plan emphasizes on the infrastructure development and industrialization anchored on utilization of domestic raw materials. These are sectors important towards national economic development which the bank has also identified as its area of strategic focus. The stance and approach of the

Government presents the bank with an abundance of investment opportunities that are reinforced by the Government efforts to instill frugality and discipline in the conduct of public affairs. Investment prospects for the bank are bright and the main challenge is the mobilization of sufficient financial resources that will provide the muscle for the bank to play its rightful role.

I would like to acknowledge the efforts of the Board, Management and Staff of the bank for the achievements made during the year. I would also like to recognize the ongoing support from the Government and thank all our local and international stakeholders and strategic partners for their support towards the bank's vision. With their continued cooperation, the contribution of the bank in the development of Tanzania will be one that we can all be proud of.



Building the
future





Overview

Tanzania has gone through a sustained economic expansion for the last decade with an average of 7% growth year on year positioning the country at the cusp of becoming a middle income country. Whilst the sustained growth is encouraging on many levels, the country faces a number of challenges that could curtail the envisioned growth trajectory. Some of these challenges include population growth. Tanzania will be inhabited by about 72 million people by the year 2025. In addition, the country continues to witness rapid urbanisation trends resulting in pressure on infrastructure and a decline in agricultural productivity.

At the same time, the new Government's keen interest in the redevelopment of industries in Tanzania has also amplified the shortcomings of critical national infrastructure projects in the energy, transport, and utilities sector. These economic challenges will be TIB's focus in the years to come with a view to attaining Tanzania's Development Vision 2025.

The shortfalls with our existing infrastructure are challenging but also create a ground for optimism. However, the circumstances demand that we assess the efficiency, effectiveness and sustainability of the bank's

The Deputy Managing Director



7%
TANZANIA –
ANNUAL ECONOMIC
EXPANSION RATE

interventions in the economy. Henceforth, the bank's response has to cultivate a different attitude from other banks; we have to enhance our business performance and design products that are developmentally suitable, institute a working culture that fosters innovation, and train our workforce in order to become a modern, productive and results oriented team.

In order to achieve these objectives, the bank went through a number of changes in 2015, one of them being the reorganization of the core business in order to enhance business performance.

Changes to the business structure

The core business units will now report to the office of the Deputy Managing Director (DMD): Strategic Planning and Corporate Affairs, Development Financing, Portfolio Management and Managed Funds Administration. Support functions such as the Technical Services Unit also fall under the office of the DMD.

The most significant change to the organization structure took place in the Development Finance Division with a redefinition of roles and responsibilities as well as product segmentation in line with the business units. The most significant change is the reporting line for the Zonal Managers to the DMD. The

role was previously reporting to the Director for Development Financing. Their redefined roles will now encompass: business development, relationship management and monitoring of the completed projects portfolio. The objective of the Zonal Manager role is to be the representative of the Managing Director in the zones.

The highlighted changes address the bank's service delivery deficiencies in that there will now be a clear separation of client management from the credit evaluation processes. We will become more efficient and the Zonal Managers will be the point of contact for our clients.

The bank's products have been clearly defined in line with the strategic focus that will address the country's economic challenges. The bank recognizes that investment in infrastructure has to be done in tandem with the development of industries in order for the country to achieve its development agenda. Therefore, infrastructure financing will concentrate on national and local government projects while industrial loans will cater for agro processing, mining/mineral processing and general manufacturing. Other products in the portfolio are Services Financing, Leasing and SME Finance programmes. Services financing will focus on commercial real estate development, tourism, health and education and arts and culture.

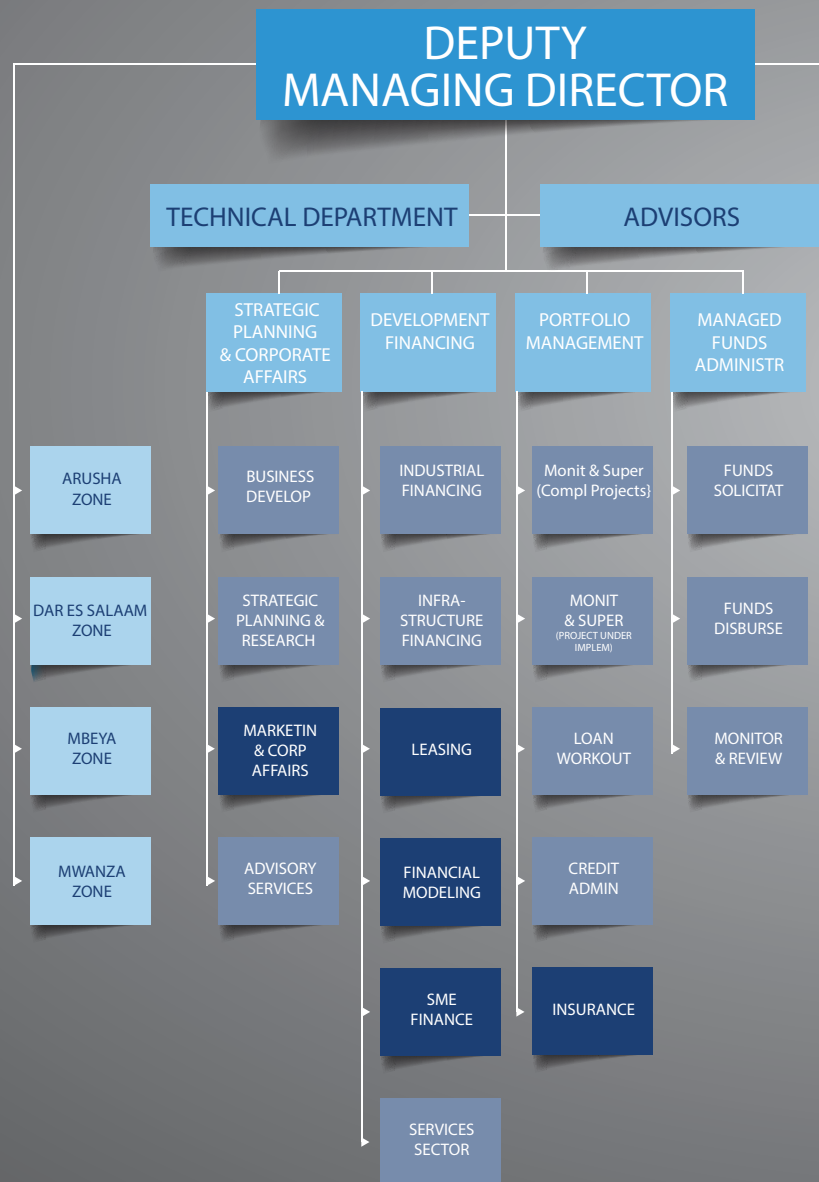
The Leasing product has been designed to cater for large scale projects with a specific focus on: construction and mining equipment, transport and airplanes.

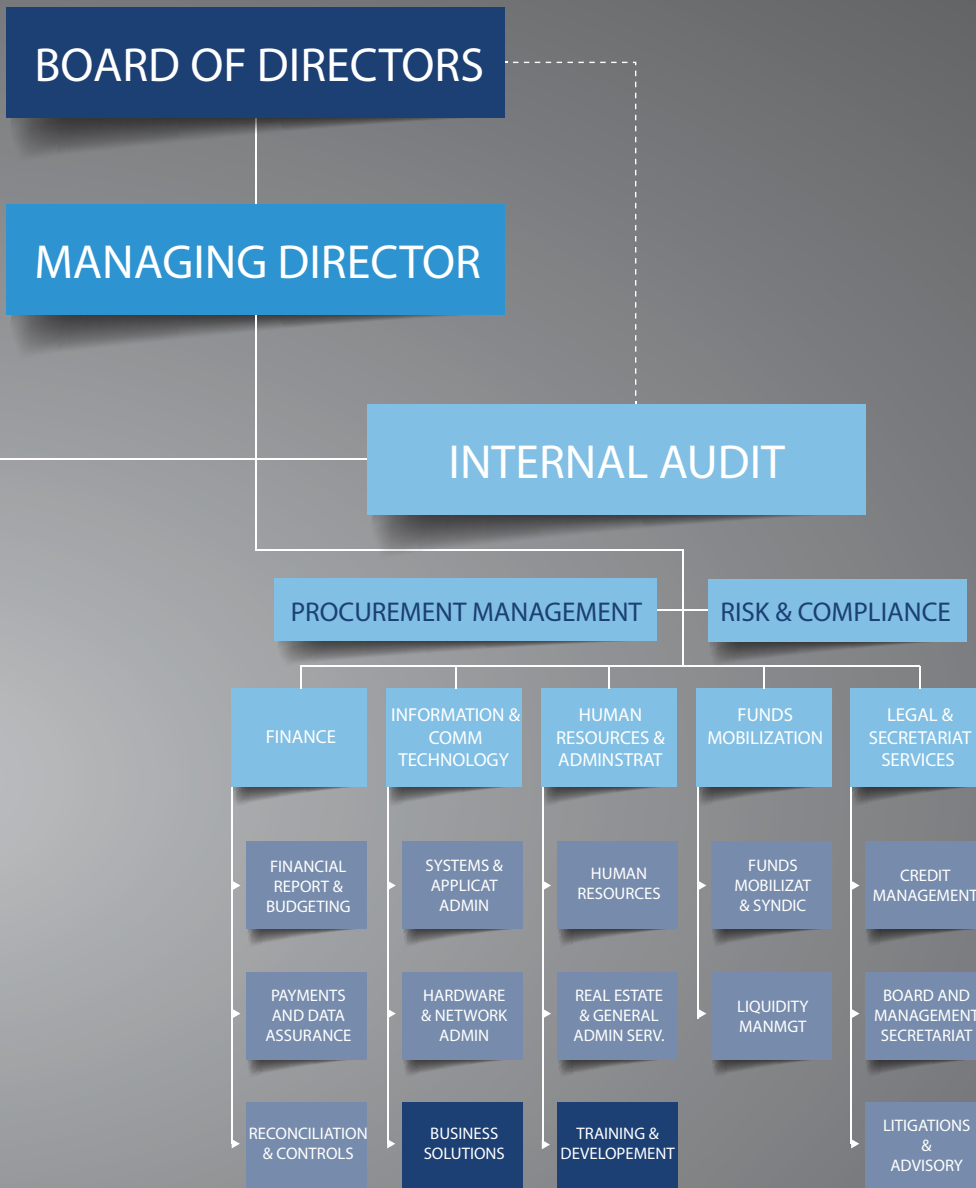
The bank's financing of SME's will continue under an SME Program initiative that TIB has adopted to finance SMEs. This will be done through financing of industrial parks. The development of industrial parks will be done in collaboration with SIDO and Local Government Authorities. The parks shall ultimately accommodate the selected/ earmarked enterprises with a view to reduce SMEs operating costs.

Outlook for the future

TIB is more than a bank. It is an institution that has an important role to play in the development financing space. As a development finance institution, TIB has to be an agent of change pioneering development projects and bringing them to fruition. We must take advantage of the pace of the current Government in that it is no longer business as usual.

Organisational structure





The Board of Directors

Left to right
standing

Mr. Haruna Masebu
Director
MBA, Msc.

Dr. Huba Mary Nguluma
Director
MBA

Dr. James Wanyancha
Director
MBA

Ms. Stella Urio
Director
Master of Science

Ms. Martha J. Maeda
Board Secretary
MBA





Left to right seated

Mrs. Elipina Mlaki
Director
MBA

Mr. Peter Noni
Managing Director
MBA

Prof. William Lyakurwa
Chairman
PhD in Economics

Dr. Said Seif Mzee
Director
PhD in Finance

Not in the picture

Prof. Deogratias Rutatora
Director
PhD in Sociology

Transforming the
seashore







Proposed Oysterbay Beach Development Project


Offering the public a touch of quality amongst many other things

The goal of the Oysterbay Beach Development project is to improve entrepreneurship, create jobs, and establish structural infrastructure in an effort to bring about a better environment for beach lovers and people of Tanzania collectively.


- Opportunities to fund different stages of this project will be open to all.
- The Oysterbay Beach Development will remain free and accessible to the general public.




NEW PARKING LOTS




SWIMMING POOLS




VENDOR SPACES



SECURITY



AMPHI-THEATRE



The proposed design of the transformation of the beach will introduce recreational facilities, a jogging track, benches, restaurants, food stalls, and an organized shopping experience. The aesthetic of the open space will be maintained and international environmental standards will be observed.



A spark of
ingeniousness







Workforce

The recently resuscitated employs 400 people



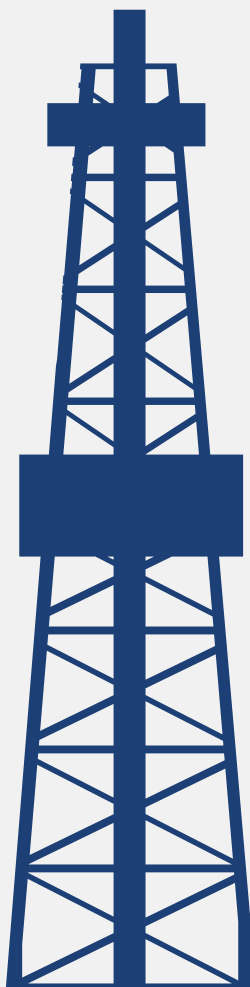
Gas reserves

Tanzania estimates it has about 55 trillion cubic feet (tcf) of recoverable natural gas reserves off its southern coastline.



Investment cost

approx. US\$ 1.26 billion



Capacity

transporting 784mmcf per day, with compression the pipeline capacity can be increased to 1,002mmcf per day.



Pipeline length

542km from Mtwara to Dar



A New Era of Gas to Power



TIB HAS BEEN THE STIMULUS THAT WILL CHANGE THE FUTURE OF THE POWER SECTOR IN TANZANIA.

TIB Development Bank is an instrumental partner in an innovative transaction worth over USD 55 million that has enabled the Tanzania Petroleum Development Corporation (TPDC) to connect gas wells to the gas processing plant in Madimba to Kinyerezi I gas plant in Dar es Salaam.

The deal is actually a series of deals that are a part of the same value chain. The bank has also provided Wentworth Resources Limited with the capital that has been used to drill the current gas well in the Mnazi Bay area of Mtwara region. This well is producing the gas that TPDC has started pumping through the pipeline from Mtwara to Dar es Salaam: a government investment of over USD 1.2 billion.

With significant reserves of natural gas discoveries in Tanzania, amounting to approximately 52 trillion cubic feet (tcf), the Government is in the process of reforming the power sector in order to reduce the cost burden created by the Emergency Power Plants (EPPs). The country is expected to save up to USD 1 billion (about TZS 2 trillion) per annum which has been used to purchase fuel to operate diesel-powered generation plants.

As the country focuses on gas for power generation, the public can be assured of reliable power and stable prices.

As the leading development finance institution in the country, TIB's role is to maintain and strengthen its support towards the attainment of

Tanzania Development Vision 2025, which aims to transform Tanzania into a semi-industrialized economy. Reliable and sustainable power is the necessary catalyst in enhancing the country's industrialization efforts.

TIB has been the stimulus that will change the future of the power sector in Tanzania.

Divisional Performance Reviews

STRATEGIC PLANNING AND CORPORATE AFFAIRS



Suitbert Kageuka
Ag. Director, Strategic Planning and Corporate Affairs

The Directorate's mandate is to drive the strategic direction of the bank. This was accomplished during the year through the development of new projects in the gas sector, advising the government on a number of strategic decisions and seeing to the completion of existing projects under the Local Government Authorities (LGAs) which added to the bank's growing balance sheet. The Directorate played a central role in developing, coordinating and communicating the bank's next five year corporate strategic plan 2016/2020. The plan drew on lessons learnt from the previous year and also anchored around the country's anticipated Five Year Development Plan (FYDP II) specifically focusing on projects of strategic and commercial nature that fall into the bank's core sector focus.

The Directorate responsibilities were discharged through its four departments namely; Advisory Services, Business Development,

Marketing & Corporate Affairs, Research & Strategic Planning.

Business Development Department

The Business Development department focused mainly on the execution of LGA projects. The projects were in agro processing and the infrastructure sector. The projects the department executed included the Chamwino Grape Processing Plant, Mbezi Luis Bus Terminal, Kisutu Market (reconstruction), Lokolova Market (Moshi), Mburahati Market and Narco Ruvu abattoir. The department engaged LGAs in the country by signing various Memoranda of Understanding predominately focused on projects that are commercial in nature with the aim to ensure the Councils become self-reliant.

An awareness workshop was organized by the department during the year for LGAs and a team from the Local Government Finance Department of now the President's office, Ministry

WINNER AT **39TH**

OTHER NOTABLE ACHIEVEMENTS ARE THE CONTINUED WINNING STREAK AT THE DAR ES SALAAM INTERNATIONAL TRADE FAIR (SABA SABA) IN THE FINANCIAL SERVICES CATEGORY FOR TWO CONSECUTIVE YEARS.

of Regional Administration and Local Government Authorities. The workshop's success not only promoted TIB's commitment to developing LGAs but also improved the execution process of the projects.

Advisory Services Department

The Advisory Services department continued with its core responsibility of project preparation and structuring. During the year the department presented detailed proposals to the Government on alternative ways of financing infrastructure projects which include ports (Bagamoyo), rail (standard gauge Central line), airports (Arusha and Mwanza) and roads (Dar es Salaam Flyovers). The department also participated in the structuring of the financing and delivery of the gas to electricity supply projects by Tanzania Petroleum Development Corporation (TPDC) and Wentworth Gas Limited.

Research and Planning Department

The Research and Planning department supports the bank through sector mapping by providing in-house data research and outsourcing research studies and consultancies. During 2015 the department provided support by way of research to a number of projects including kaolin, coal, gold, soda ash mining, patrol boats, grapes processing, housing projects under National Housing Corporation, master plan development for Mtwara and many others.

Marketing and Corporate Affairs Department

The Marketing and Corporate Affairs department is responsible for marketing and communicating strategic elements internally and externally. This also includes conducting several staff and stakeholder events during the course of the year.

The department's highlights include the first strategic engagement event for Financial Institutions in partnership with Export Processing Zones Authority (EPZA) to raise awareness to the financial sector on the opportunities available in the redevelopment of the Industrial sector through the Export Processing Zones.

Other notable achievements included participation in, and winning the 39th Dar es Salaam International Trade Fair (Saba Saba) first position in the financial services category for the second year consecutively. The department also fully participated in the successful launch of the Tanzania Agricultural Development Bank (TADB) in July. The marketing activities of TIB Corporate Bank are also coordinated by the department.

RISK AND COMPLIANCE

The Department’s mandate is to ensure quality risk management structures are in place and that they are in alignment with the business plans and goals of the bank. This involves - planning, coordinating and implementing risk activities; reviews, risk assessments and reporting. The Department reports to the Executive Management.



Julius. B. Mukoji
Head of Risk & Compliance

Division structure and department reviews

The department, with eight staff members, has five units, responsible for - Credit Risk, Operational Risk, Compliance, Physical Security and Systems Security.

Credit Risk Unit

The department has the responsibility to ensure that the credit risk governance, processes, procedures, and concentrations as sources of credit risks, are in line with the bank’s policies and regulatory requirements.

2015 deliverables included continued improvements in the bank’s capacity to source and analyze risks into customer applications. Through the Investment Risk Management Committee (IRMC), the unit has processed, reviewed, analyzed, and provided the technical and independent opinions/recommendations to all pre-appraisal projects, and those projects that end up to the management’s level of approval. This has been recognized as a key deliverable to ensure that there exists effective and proactive ways of managing credit risk, and above all improving our loan book quality.

Through the Investment Risk Management Committee (IRMC), the unit has processed, reviewed, analyzed, and provided the technical and independent opinions/recommendations to all pre-appraisal projects,

Notable improvements were made in the assessment and appraisal processes. Better scrutiny of both the client and the business, all enhanced the quality of client applications and the ensuing internal assessment of new and ongoing projects, and the level of compliance to both internal credit parameters and external governance requirements.

The unit also conducted independent review of the credit processes and projects during the year as one of the core functions of the risk department. The outcomes are periodically reported to management and board for information and directives. Another key activity implemented during the year was the establishment of a Credit Risk Rating framework. The framework involved external consultations. While it is still a work in progress, the framework provides the basis on which recommendations to management for operationalization in 2016, shall be based. The expected implementation is meant to improve further our credit appraisal, monitoring practices and reporting, together with regulatory compliance.

Work started in 2015 on Credit Risk Stress Testing and will be completed next year, when the tool is operationalized.

Operational Risk Unit

The department establishes a bank wide risk register to identify individual departmental risks and reporting processes.

During the year the Risk Register Project continued to be implemented as an on-going process, and it played a great role in identifying, measuring, controlling, and monitoring risks.

Compliance Unit

The department creates a compliance risk register of the policies that the bank must comply with, and monitors it.

The unit conducted routine monitoring and reviewing activities. Several policies were updated including the anti-money laundering policy. The compliance policy was put in place during the last quarter, before the risk management framework was used.

Apart from the other routine functions, for the year 2015, the compliance unit has managed to design and implement the Compliance Matrices which are used to track all the compliance issues in the departments/divisions across the bank.

Physical Security Unit

The department monitors and liaises with security and authorities of staff and coordinates with authorities on emerging threats.

The major threat to the bank's physical security is armed robbery and burglary.

The unit coordinates and manages the services of privately hired guards and police officers to make sure that they comply with the bank's contract. The department also monitors the security systems of the bank ensuring that they are efficient and effective.

There were no major incidents that occurred during the year in review.

Systems Security Unit

The unit involves the daily monitoring of systems performance. It includes conducting vulnerability assessments and determines business continuity and assesses controls.

The main concern during the year was to ensure that the security systems of the new structure were supported. The business continuity policy was updated and improvements were made on the User access guidelines.

Implementation of routine activities related to systems controls and closure of regulatory comments were also performed and reported.


Staff trainings conducted were in areas of cyber security and as part of systems security policy. One of the highlights of the year was the launch of Business Continuity Management, including finalization of business impact analysis

During the year under review, Risk & Compliance department identified top ten risks that will need more focus and attention during the coming year.



2015

THE DEPARTMENT WILL CONTINUE
TRACING THE ISSUES GOING
THROUGH THIS COMMITTEE



Overall Review

During the year under review, Risk and Compliance department identified top ten risks that will need more focus and attention during the coming year, and established an attendant mechanism to deal with them. The identified risks are associated with the following;

- (a) Strategic DFI alignment to the government's development activities
- (b) Credit Process
- (c) Liquidity
- (d) Control Standards
- (e) Engagement Model with Family Owned Business
- (f) Fraud and Corruption
- (g) Value vs. Cost on IT Infrastructure
- (h) Operation of the Two Tier Structure
- (i) Management and Evaluation of Collateral
- (j) Continuous Process Improvements and Customer Service

Challenges

The Joint Two Tier Operations Committee, established to bring about common resolution of challenges resulting from the operation of the two tier institutions, met regularly in 2015. The department will continue tracing the issues going through this committee, and ensure that the operation of the two tier institutions does not create gaps in the management of both operational and strategic risks emanating from the difference in the regulatory and operational modality of the three institutions, TIB Development Bank Limited, TIB Corporate Bank Limited and TIB Rasilimali Limited.

DEVELOPMENT FINANCING



Masanja K. Kungu
Director, Development Financing

The directorate is charged with the responsibility to originate transactions related to financing of commercially viable developmental projects, in line with the country’s development vision 2025 and other national policies and programs, particularly in relation to investment appraisal and processing of necessary approvals.

The directorate has a total of three (3) departments, one (1) unit and three (3) zones all reporting to the Director of Development Financing (DDF) as detailed below:

- i. Project Finance Department
- ii. Infrastructure and Real Estate Department
- iii. SME and Leasing Department
- iv. Financial Modelling Unit
- v. Arusha Zone
- vi. Mwanza Zone
- vii. Mbeya Zone

Other performance targets were qualitative in nature mainly to do with administrative issues such as review of the bank’s policies and manuals, and coordinating the relationship with regional DFIs.

Overall Review

In 2015, the Directorate undertook evaluation of the bank’s credit process, particularly the quality of appraisal work, resulting into process changes in two areas of sector specialization

The directorate’s main performance targets for 2015 were as narrated below:

MILLION BY DECEMBER 2015

ACCRUING INTEREST INCOME OF TZS

54,805

EARNING APPRAISAL FEE OF TZS

2,321

SECURING NEW LOAN APPROVALS OF TZS

148,633

TOTAL LOANS

538,675

and decentralization of client management. Client management functions will henceforth be centered in Zones in which they are domiciled, sharpening the bank's focus by operating from a close range local focal point with the clients. The Division is now conducting its appraisal work along the bank's refined product bouquet to meet the requirements of the specific areas of operation such as Industrial Loans, Infrastructure Loans, Service Loans, Oil & Gas Loans, SME Programme Lending, Financial Leasing and Equity Financing.

In this respect, the Division embarked on bigger and more complex projects during the year falling under the following areas:

Agro-Processing Loans

- A cashew nuts processing factory in Tandahimba/ Newala - USD 12 Million

Oil & Gas Loans

- A Gas to Electricity power Generation plant in Kilwa - USD 20 Million
- Deliveries of gas TANESCO for electricity generation - USD 27 Million
- Patrol boats for off-shore oil and gas operations – EURO 28 Million

Infrastructure Loans

- Acquisition and installation of a 4G LTE and GSM technologies – USD 22 Million
- Somanga Fungu to Dar es Salaam power Transmission line - TZS 42 Billion
- Development of Kibaha modern market - TZS 12.6 Billion
- Development of ICD business USD 7.0 Million

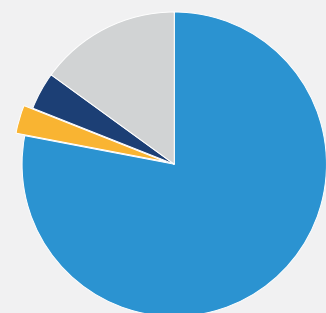
Industrial Loans

- New gold mining and processing operations in Geita – USD 5.2 Million

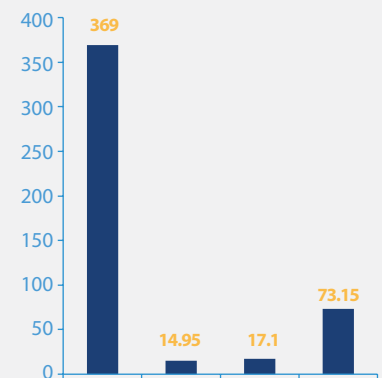
Service Loans

- Construction of apartments in Dar es Salaam - TZS 13 Billion

In total however, the directorate appraised and secured approval for 71 projects worth TZS 474.2 Billion spread across the country.



● Dar es Salaam Zone*, 78%
 ● Mwanza Zone, 15%
 ● Mbeya Zone, 4%
 ● Arusha Zone, 3%



NB: *Dar es Salaam Zone was not yet officially established but by default all regions not covered by the three zones (Arusha, Mwanza and Mbeya) together with Zanzibar are covered here.

PORTFOLIO MANAGEMENT



Eric B. Hamissi
Director, Portfolio Management

Division structure and department reviews

The Division is comprised of four departments: - Projects Under Implementation, Completed Projects, Credit Administration and Loan Work Out and Recovery Departments. Collectively, the division consists of 23 staff members.

The Portfolio Management Division monitors and supervises projects under implementation as well as completed projects. The Division also provides checks and balances of all projects financed by the bank to minimise credit risk. In addition, the Division is responsible for the workout and recovery of non-performing and charged off loans, respectively.

Monitoring and Supervision of Projects under Implementation

This department is led by a manager who oversees the implementation of approved projects. The role of the department is to ensure that

project implementation is carried out according to the terms and conditions in the approved project contract. This process involves the sequencing of disbursements, verification of suppliers and costs/prices, site visits to monitor progress, use of suitable technical experts/consultants, etc. The process of monitoring projects under implementation continues until the project starts operation and a completion report is prepared. The project is then transferred to the Completed Projects department.

Monitoring and Supervision of Completed Projects

This department monitors the performance of operational projects in the TIB portfolio according to credit policy standards and the approved business strategies. Continual feedback on the projects progress is provided and the information collected enables the bank to improve the chances of a project's success.

THE BANK HAD AN ON-BALANCE SHEET GROSS
PORTFOLIO AMOUNTING TO TZS

557,696m

Credit Administration

This department acts as the 'intelligence' unit for the Division and the bank as a whole. It provides checks and balances to ensure that loans are disbursed and repaid according to their respective terms and conditions. It is also responsible for booking all credit accommodations into the system and providing portfolio performance reports to Management, the Board of Directors and Bank of Tanzania (BOT).

Loan Recovery

This department is mandated to institute and manage recovery measures on bad loans.

Overall Review

As at December 31st, 2015 the bank had an on-balance sheet gross portfolio amounting to TZS 557,696 million. The on balance sheet portfolio is comprised of 137 projects (out of which 64 are under implementation and 73 are completed.)

From a sector perspective, TIB Loan comprised of the following sectors: ; Gas 26%; 24% Agroprocessing; 11.1% Mining and Quarrying; Real Estate 10%; Tourism 8% Manufacturing 7%; Education 2%; Hotel and Restaurants 2%; Transportation and Communication 2%; Electricity Trade 2%; Electricity 2%; Financial Intermediaries 1%; Trade 1%; Personal 1%; Other Services 1%; Agriculture 1%; Building and Construction 1%; Leasing 0.2%; Fishing 0.2%; and Health 0% of the total on the bank's balance sheet portfolio. The distribution according to priority sectors was in compliance with the TIB Development Bank Limited's Investment Policy. The portfolio is regionally distributed among five zones namely Dar-es-Salaam 46%; Lake 34%; Arusha 17%; Zanzibar 2% and Mbeya 1%.

TIB LOAN SECTORS

Gas 26%	Restaurants 2%	Personal 1%
Agroprocessing 24%	Transportation and Communication 2%	Other Services 1%
Mining 11.1%	Electricity Trade 2%	Agriculture 1%
Real Estate 10%	Electricity 2%	Building and Construction 1%
Tourism 8%	Financial Intermediaries 2%	Leasing 0.2%
Manufacturing 7%	Financial Intermediaries 1%	Fishing 0.2%
Education 2%	Trade 1%	Health 0%

By December 31st, 2015 the portfolio under recovery category had a total exposure of TZS 43.5 billion. The amount of recoveries from this portfolio doubled from TZS 1,733 million to TZS 2,824 million.

The Portfolio Management Division continued to face similar challenges like in the previous year such as promoters' failure for timely equity injections, and failure to fulfill other attendant loan conditions.

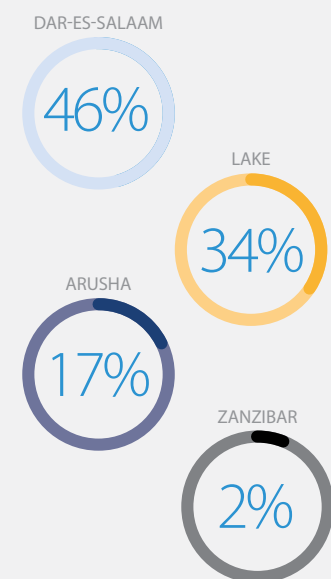
On the other hand, some projects operated under tight liquidity positions, leading to failure to meet their regular repayment obligations precipitating an increase in Non-Performing Loans (NPLs).

Court procedures and poor conditions of security assets were hurdles. More than TZS 25 billion of the portfolio under recovery was locked in court cases. To avoid

the long-winding litigations, the Division is exploring other measures to shorten the time demands on the bank to recover some of its investments.

The Transition

In June 2015, the bank received an operating license to conduct its business as a Development Financial Institution (DFI). This is about 27% of the existing portfolio as the beginning of the year was hived off to the subsidiary, TIB Corporate Bank Limited. The rest of the Portfolio made up largely of projects of long term tenure remain with the DFI. This split allowed the Division to focus its monitoring efforts to developments projects in infrastructure, industrial, manufacturing, mining, service, and gas and oil sectors.



MANAGED FUNDS



Prisca V. Chang'a
Ag. Director Managed Funds

The division manages funds on behalf of various fund owners at a fee. The portfolio is composed of funds from the Government of Tanzania through its ministries and agencies, the World Bank and SNV Development Organization meant to support various developmental programmes in agriculture, energy and mining sectors.

Division structure and department reviews

The division comprises of three units i.e. Fund Solicitation, Monitoring and Supervision and Disbursement.

Fund solicitation unit

The unit sources funds for projects. During the year in review, one agreement was signed between TIB and the Government through the Ministry of Energy and Minerals to administer grant funds of USD 3.0 million and TZS 1.7 billion for small scale mining activities

in Tanzania Mainland. During the year, the bank tendered for administration of Contractors Registration Board (CRB) and Tanzania Coffee Development Fund (TCDF)

Monitoring and Supervision Unit

The unit administers ongoing projects. The main role is primarily determined by the nature of the specific fund and respective financed projects. However, it generally includes monitoring and supervision of implementation and operations of projects, collection of loan repayments, preparation and submission of reports.

Disbursement unit

The unit mainly focuses on document verifications review of financing plan for each project before disbursement; make disbursements and preparation of portfolio reports.

Table 1 Funds Disbursed January to December 2015

Name	Principal	Amount in TZS million
Rural Energy Funds	Rural Energy Agency	128,908
TEDAP	World Bank/REA	774
Agriculture Window Fund	Ministry of Finance	6,978
Small Scale Mining Development Scheme	World Bank/MEM	6,481
Results Based Financing (RBF) Fund	SNV	196
TOTAL		143,337

Total loan collections in year 2015 increased when compared to 2014. In 2015, the bank collected TZS 9.7 billion from various projects while in 2014 collected TZS 7.5 billion.

Administered funds grew cumulatively from TZS 597 billion in 2014 to TZS 741 billion by 31st December 2015.

Table 2 Funds Managed by the Bank as at 31st December 2015

Name	Principal	Amount in TZS million
Structured/Refinancing Facility	Bank of Tanzania	60,663
Rural Energy Funds	Rural Energy Agency	569,370
TEDAP	World Bank/REA	41,026
Agriculture Window Funds	Ministry of Finance	57,000
Commodity Import Support	Ministry of Finance	16,802
Small Scale Mining Development Scheme – Credit Facilities	MEM	2,300
Small Scale Mining Development Scheme – Grants	World Bank/MEM	7,238
Results Based Financing (RBF) Fund	SNV	2,173
Credit Guarantee Scheme	NEEC	250
Tanzania Coffee Development Fund (TCDF)	TCDF	7
TOTAL		741,830

The Managed Fund's portfolio has been increasing year after year following the Government's resolve to fund various development projects in the country. The total portfolio has increased by 24% cumulatively (i.e. from TZS 597.016 million in 2014 to TZS 741.8 million as at 31st December 2015).

Despite the increased portfolio, the division encountered the following challenges during the period under review:

- Competition from other financial institutions to administer Government project funds
- Delays in receiving the status of project implementation from clients
- Variation in project scope of works
- Unsatisfactory performance of agriculture projects under Agriculture Window funds especially by SACCOS
- Rural Energy Agency Funds Management agreement expired in July 2015.

HUMAN RESOURCES AND ADMINISTRATION



Stella M. Nghambi
Director of Human
Resources &
Administration

The Human Resources and Administration Directorate is comprised of two Departments, namely the Human Resources and Administrative Services. The Directorate's objective is to ensure efficient and effective provision of human capital and administrative services to enable the bank meet its set objectives and targets. In implementing its functions the Directorate amongst others facilitated recruitment of qualified staff and coordinated their training and development to improve required skills and knowledge. The Directorate also facilitated acquisition of working tools to enable staff members to live in conducive working environments and perform their functions effectively and efficiently.

The bank continued the recruitment process to fill various vacant positions in the bank including its subsidiary Rasilimali Limited and TIB Corporate Bank Limited (CBL), a bank which has been established as a second subsidiary company of TIB Development Bank Limited. The Directorate took a leading role in preparing job descriptions,

advertising job vacancies, shortlisting applicants, coordinating interviews and placements. A total of seventy six (76) new employees were recruited for TIB in 2015. In line with the envisaged changes in the business operations of the bank, the Directorate reviewed the bank's organization structure by introducing new Departments and Units, upgrading the bank's Zonal Offices and, elevating two Departments of Funds Mobilization and, Legal and Secretariat Services into Directorates.

Training and Development continued to be conducted in a more focused approach in line with the transformation that has taken place, to ensure the bank's human capital has the appropriate job related skills and knowledge needed for desired productivity. The bank offered opportunities for training to employees, both locally and abroad in order to update their skills and knowledge for improved performance. To ensure employees work with standard attitudes and behaviors, the bank operationalized the Codes of Conduct which have been designed

THE DIRECTORATE ALSO FACILITATED
ACQUISITION OF WORKING TOOLS TO
ENABLE STAFF MEMBERS TO LIVE IN
CONDUCTIVE WORKING ENVIRONMENTS
AND PERFORM THEIR FUNCTIONS
EFFECTIVELY AND EFFICIENTLY.

to make sure employees hold themselves ethically with dignity, respect and appropriate behaviors while conducting bank's business at all times.

During this period, the Directorate also managed to smoothly transfer about 25% of its workforce to a new subsidiary, the TIB Corporate Bank Limited and facilitated smooth relocation of the CBL and Rasilimali Limited (a second subsidiary) to a new office building in Samora. The bank succeeded in retaining about eighty nine percent (89%) of its workforce as a result of continuous efforts at improving staff welfare through review, formulation

and implementation of a range of sound human resources policies and practices.

In pursuit of service excellence, the Directorate continued to support the bank's Subsidiaries, Departments and Units by providing timely administrative services including working tools and thereby ensuring staff operate in a healthy and conducive working environment. In collaboration with other Departments, the Directorate embarked on preliminary stages for construction of TIB headquarters.

25%

OF ITS WORKFORCE TO
A NEW SUBSIDIARY

89%

OF ITS WORKFORCE AS A RESULT
OF CONTINUOUS EFFORTS AT
IMPROVING STAFF WELFARE

INFORMATION AND COMMUNICATION TECHNOLOGY



Robert J. Ndaki
Director of Information
& Communication
Technology

The Information and Communication Technology (ICT) Division is responsible for preparing, implementing, monitoring, and evaluating ICT Strategic plan for the bank to achieve its business objectives. The Division is responsible for ensuring that high quality information is maintained to support business decisions and generate business value from its ICT based investments. This helps the bank achieve its strategic goals and realize business benefits through effective and efficient use of the Information and Communication Technology by:-

1. Achieving operational excellence by ensuring the reliable and efficient application of technology
2. Maintaining IT- related risks at acceptable level
3. Optimizing costs of ICT services
4. Compliance with the law, regulations, contractual agreements and policies.

Division Structure and Department Reviews

The division is made up of three departments; Hardware and Network,

Systems and Applications, and E-banking business solutions.

Hardware and Network

This department is responsible for maintaining and managing the banks' network infrastructure and ICT equipment.

Systems and Applications

This department manages systems and core applications used by the bank to support business processes.

E-Banking Business Solutions

This department manages e-banking business solutions used by the bank to support electronic channels related processes.

Overview

During the year under review, the Division provided technical support to three entities i.e. TIB Development Bank Ltd, TIB Corporate Bank Ltd and TIB Rasilimali Ltd following restructuring of TIB into a two tier group. The support covered various areas related to systems and application software, hardware and network. Through

technical support, the Division carried out various customizations on the existing applications in order to meet the current business needs of the three entities. Further, the division coordinated user and technical trainings on all modules of T24 core banking system and credit risk management system (CreditQuest) in order to build internal capacity for business users and technical team. The Division also reviewed data and internet connectivity bandwidth to ensure network optimal performance.

The Division coordinated implementation and upgrades of various applications including implementation of the Electronic cheque clearing system to facilitate automation of cheque processes, customization of the core banking system interface to support mobile banking services as well as intra- and interbank funds transfer between Umoja Switch member banks, upgrade and customization of brokerage system for Rasilimali Ltd, and

implementation of the audit management application (ACL) including development of T24 interface as per the business requirement specifications to facilitate automated audit processes. Likewise, the Division finalized implementation of the payroll and human resources management system on five outstanding modules that include medical, loan, recruitment, training, and appraisal.

Due to increasing cybercrime, the Division also conducted a network security assessment to identify threats and vulnerabilities. Some of the countermeasures have been already implemented and some are planned for implementation in year 2016. In addition, the Division implemented a network monitoring tool to improve monitoring of network devices in order to reduce network downtime by resolving ICT related issues proactively. To ensure proper management of incidents, the Division implemented Helpdesk management. Furthermore, the Division

coordinated implementation of various projects financed through Prime Minister's Office (PMO) which include Procurement of IT hardware equipment, Upgrade and Customization of Credit Risk Management and Restructuring of Network Infrastructure into VoIP.

LEGAL AND SECRETARIAL SERVICES



Martha J. Maeda
 Legal Counsel &
 Secretary to the Board

Due to the increase in the bank’s operations and need to strengthen roles as well as modernize and improve efficiency, the Department of Legal and Secretariat Services was, in October 2015, elevated into a Division with three Departments each with specific functions. However, the Division’s main objectives continue to be provision of legal services to the Board and Management in all legal related matters as and when they arise or where the bank is part of that respective matter (be contract/agreement or litigation) with the main objective of ensuring that the bank is legally protected and is operating in accordance with the laws of Tanzania; and to minimize legal issues which may arise in the course of operations of the bank.

The Functions of the three Departments, each headed by a Manager, are as follows:

2. Preparation of litigation and law firms’ management policy and ensure adherence to the service level agreements (SLA) in respect of the matters Assigned.
3. Provision of advisory services on all labour related matters.
4. Provision of advisory services on all issues relating to the bank’s service providers such as valuers, insurance brokers, security service, ICT, etc. including preparation of SLAs, and monitoring their performance, etc.
5. Provision of advisory services to all Divisions, Departments, and Units in the bank.

Legal Advisory and Litigations

This Department is responsible for:

1. Overseeing all litigations, receiverships/liquidations in the bank handled in-house and by outside retained lawyers/advocates/law firms.

During the year, the Department handled all Court cases where the bank is a party thereto by either representing the bank or working very closely with the retained external lawyers/ law firms in prosecuting the same. A few of these cases were successfully

THE FIRST PERFORMANCE
AGREEMENT THAT WAS SIGNED
BETWEEN THE TREASURY REGISTRAR
AND THE BANK IN SEPTEMBER 2015

concluded in favour of the bank; while the rest are at different stages of prosecution and are being followed-up closely.

In year 2016 the Department shall prepare a Law Firm Management Policy following approval of the Outsourcing Policy. This is intended to manage the law firms and ensure they adhere to the service level agreements and thus speedy conclusion of the cases.

Board and Management Secretarial Services

The Department is responsible for:

1. Provision of secretarial services to all Board, Management, and other Committee meetings.
2. Maintaining the Board almanac and ensure implementation of Board and its Committees Charters; coordinate appointment, remuneration and all welfare of the Board of Directors.

3. Provision of secretarial services to the bank's subsidiaries, namely TIB Corporate Bank Ltd and TIB Rasilimali Ltd.
4. Provision of secretarial services to other affiliated institutions.
5. Incorporation of special purpose vehicles (SPVs) for the projects in the pipeline.

The Department successfully coordinated the Board and its Committees Meetings as well as Executive and Investment Committee Meetings. Secretarial services were also offered to the bank's subsidiary i.e. Rasilimali Limited.

The Department disseminated the resolutions/decisions of the various forums herein to the respective members of staff for implementation.

During the year in review, the Department prepared the first Performance Agreement that was signed between the Treasury Registrar and the bank in September 2015 – in compliance with Section 10 (2), (k) of the Treasury Registrar (Powers and Functions) Act, 2002 as amended in 2010. The main objective of this Agreement being to ensure that the objectives and targets are achieved by the bank; to monitor and measure performance against targeted output and to assess the suitability of the Board and achievement of the expected performance.

In this regard, the Department also submitted Board Assessment Forms, which were approved for evaluation by the board and the Managing Director.

Credit Management

The Credit Management Department is responsible for all credit related matters of the bank as follows:

1. Conducting official searches in all registries, Brela, Land Offices, TRA, etc.
2. Preparation of all loan documentation including registration at the relevant registries
3. Ensuring safe custody of all loan documentation specifically the security documents of the mortgaged assets
4. Ensuring that annual fees for all the security documents (i.e. Certificate of titles, car registration cards, insurance policies, share certificates, etc.) are promptly paid by clients;
5. Perform all loan recovery processes – from issuing of demand letters, statutory notices, appointment of law firms for instituting civil cases

6. Provision of business advisory services and transactional structures from negotiation stage, preparation of MOUs, due diligence and KYC.

During the year 2015, the Department carried out its activities as per the approved Action Program. The said activities included the preparation of various contracts/agreements such as credit facility agreements, debentures, mortgage deeds, guarantees both personal and corporate in respect of credit facilities granted to the bank's borrowers, and perfecting, conveyancing and registration of the same at the various registries within the country; Memorandum of Understanding; service contracts with all service providers; agreements for staff related issues; etc.

The Department was also able to finalize legal documentation for three lines of credit.

Members of the Division participated in various workshops organized by the Tanzania Law Society.

INTERNAL AUDIT



Isaac. E. Kiputa
Chief Internal Auditor

The Internal Audit Department provides an independent, objective assurance and consulting services designed to add value and improve the bank's operations. The department assists the board and management in discharging their responsibilities by evaluating and promoting the system of internal controls, risk management and corporate governance process for effective and efficient operations of the bank. The department is headed by the Chief Internal Auditor assisted by four senior internal auditors.

For the year 2015, the audit activities, mainly focused on implementation of the corporate strategy by strengthening corporate governance and management aimed at improving accountability and transparency, as well as improving development banking by ensuring compliance with the corporate policies, regulations, legal and regulatory requirements and acceptable accounting standards. The Internal Audit activities are

categorized into four groups, namely; operational audits assignments, governance activities, financial audits and other non-strategic activities. The results of the audit work on all activities were reported to the Board of Directors through the Audit and Risk Committee of the Board for directives and guidance in line with good corporate governance principles and practices.

Finance Division



Bernard P. Mono
Director of Finance

Background

The year 2015 marked an important milestone in TIB's transformation process as it was the first year of the operations under the envisaged two tier structure approved in the transformation strategy. The eagerly awaited commercial banking subsidiary started operations during the year and TIB Development Bank Ltd received its DFI license while the TIB Corporate Bank Ltd., received its commercial banking license both from the Bank of Tanzania. With the kick off of the operations of the subsidiary, the Finance division underwent major changes. The Treasury and Operations departments as well as the branches that were previously under the division were shifted to the commercial banking subsidiary.

Mandate

With the changes explained in the background, the Finance Division remained with the responsibility for accounting and resource mobilization. The resource mobilization responsibilities relate to the funding and managing liquidity and interest rates for the DFI. The accounting function covers budgeting, payment to service providers, financial and management report preparation and tax management issues in the bank. Accordingly the accounting function comprised of three departments separately responsible for Payments, Reconciliations and Reporting.

Division Structure

In 2015 the division was comprised of four departments namely Resource Mobilization, Payments Department, Reconciliation and Controls Department and Reporting and Budgeting departments.



2015 Operations

The operations for the year were overshadowed by the separation and the ensuing accounting issues. From both the reporting and funding angles it was a year of adjustments and it is with great pleasure to report that despite some challenges which continue to be addressed, the separation process went well and the bank recorded another profitable year.

Finance Function

The accounting function successfully accomplished all the activities in its 2015 annual plan. These included regulatory reporting where all the reports were submitted as required and the bank maintained a healthy working relationship with the regulators. The function also managed to prepare all management accounting reports within the stipulated timeframe that enabled

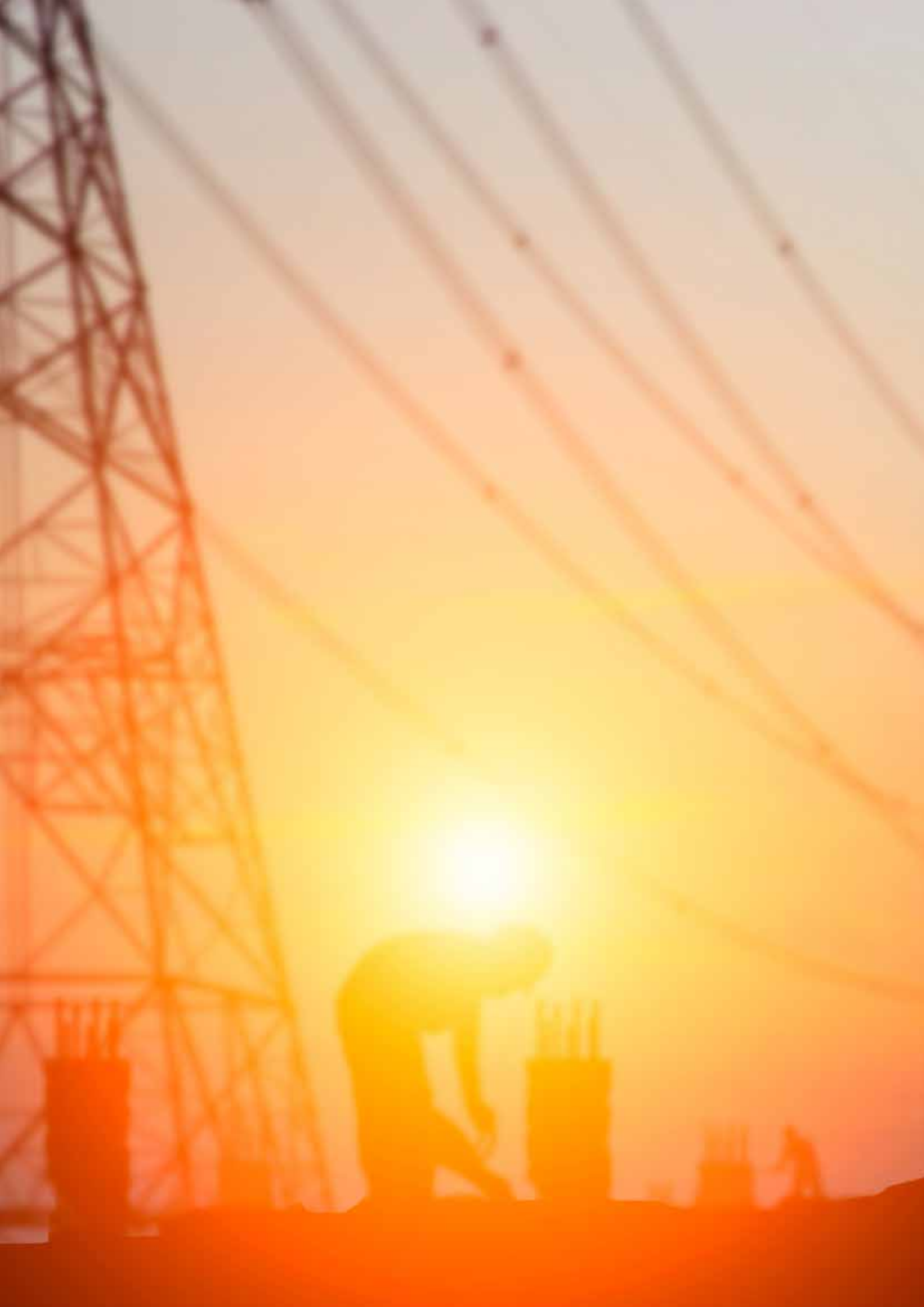
the bank to make informed decisions. The annual audited accounts have also been timely prepared and the bank received a clean audit report from the External Auditors.

Resources Mobilization Department

The Resource Mobilization department managed to conclude three lines of credit worth USD 30 million (total disbursed at the end of year was USD 20 million). The department also continued to mobilize deposits from the public and institutional investors to fund the bank's lending. At the same time the department had advanced in negotiations for lines of credit from two financiers totalling USD 50 million.

In line with the bank's strategy to shift to long term funding, the department initiated the process to issue the first corporate bond in

2016. The lead adviser and reporting accountants have already been identified and although the initial plan was to issue the bond in 2015, the adjustment had to be made due to high interest rates during the year. In order to provide a focused approach in resource mobilization in 2016, the Resource Mobilization will be elevated to an independent division.



fueling our nation with
progress



Directors' Report

1. INTRODUCTION

The Directors have pleasure to present this report together with the audited annual consolidated financial statements for the year ended 31 December 2015 which disclose the state of affairs of TIB Development Bank Limited (the "bank") and its subsidiaries TIB Corporate Bank Limited and TIB Rasilimali Limited (together, the "Group"). These financial statements have been authorised to be issued by the Board of Directors and can be amended by the Directors and regulatory bodies if found to be misleading after they have been issued to the public.

The consolidated financial statements for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors dated 30th March 2016.

2. INCORPORATION

The bank is incorporated in Tanzania under the Companies Act, 2002, and is licensed to undertake development banking business under Section 7 of the Banking and Financial Institutions Act, 2006.

The bank has a 100% controlling interest in two entities namely TIB Corporate Bank Limited which is incorporated in Tanzania and is licensed to undertake commercial banking business under Section 7 of the Banking and Financial Institutions Act, 2006; and TIB Rasilimali Limited which is incorporated in Tanzania and licensed by the Capital Markets and Securities Authority to deal with securities brokerage and other related services.

3. VISION AND MISSION

Vision statement:

To be the premier national development financing bank for promoting sustained economic growth and poverty alleviation.

Mission statement:

To provide development financing and complementary services for a diversified, vibrant and competitive national economy.

4. PRINCIPAL ACTIVITIES

The principal activity of the bank and its subsidiaries is the provision of development and commercial banking and related services as stipulated in the Banking and Financial Institutions Act, 2006. This includes among others, provision of:

- Short, Medium and long term credit facilities as well as leasing and equity financing
- Administration of Funds on behalf of the Government and other providers;
- Support services to Small and Medium-Sized Enterprises (SMEs) such as preparation of business plans and feasibility studies;
- Advisory and other fees based services

The activities of the bank are discharged through collaboration with its subsidiaries mentioned in section 2 above. Since year 2005 the bank embarked on a transformation process which was aimed to split it into two entities i.e. a Development Financing Institution (DFI) as well as a Commercial Bank. This exercise was completed during the year and the two entities were issued with BOT licences to operate as full-fledged development and commercial banks respectively. Under the arrangement, TIB Development Bank Limited will focus on medium and long term lending

(particularly to sectors of public interests) whereas TIB Corporate Bank Limited will continue to provide commercial banking services. With the support of TIB Rasilimali Limited which is another subsidiary of TIB, the bank will now be able to offer a wider range of financial services to its customers.

The DFI's principal function is to catalyse the process of national economic growth through provision of medium and long term financing for agribusinesses, agro-industries, and for infrastructure development in the country together with provisioning of technical support for efficient service delivery to economic sectors.

TIB Corporate Bank Limited, on the other hand provides strategic commercial banking services to both TIB-DFI and TIB Rasilimali Limited, their clients, and to the general public.

TIB Rasilimali Limited provides investment services in the capital market space such as investment advisory, share dealings and stock brokerage. Other activities of the Company include issuing and trading in fixed income products such as bonds and commercial papers (on behalf of TIB-Development Bank Limited and TIB-Corporate Bank Limited customers) and the general public.

5. COMPOSITION OF THE BOARD OF DIRECTORS

Majority of the members of the Board of Directors are non-executive directors. The tenure of the Board is three years. The Chairman of the Board and the Managing Director are presidential appointees, whereas all other members of the Board are appointed by the Minister for Finance.

During the year, the Board of Directors had eight (8) non-executive directors. Two new members namely Dr. Said Seif Mzee and Ms. Stella Urjo were appointed to the Board on 1st April 2015 while one member Dr. Hamis Mwinyimvua resigned from the Board following his appointment as Deputy Permanent Secretary in the Ministry of Finance.

The directors of the bank who held office during the year and to the date of this report, except as where otherwise stated were:

Table 1: Members of the Board of Directors

Name	Position	Age	Qualification/ discipline	Nationality
Prof. William Lyakurwa	Chairman	67	PhD in Economics	Tanzanian
Mr. Haruna Masebu	Director	60	MBA & Msc	Tanzanian
Mrs. Elipina Mlaki	Director	63	MBA	Tanzanian
Mr. Peter Noni	Managing Director	60	M.A in Economics.	Tanzanian
Dr. James Wanyancha	Director	63	PhD in Forest Genetics	Tanzanian
Dr. Hamisi Mwinyimvua*	Director	55	PhD in Economics	Tanzanian
Prof. Deogratias Rutatora	Director	61	PhD in Rural Sociology	Tanzanian
Dr. Huba Nguluma	Director	56	PhD in Built Environmental Analysis	Tanzanian
Dr. Said Seif Mzee	Director	48	PhD in Finance	Tanzanian
Ms. Stella Urjo	Director	43	Master of Science Degree	Tanzanian

5. COMPOSITION OF THE BOARD OF DIRECTORS (Continued)

- * Dr. Mwinyimvua resigned from the Board on 1st April 2015 following his appointment as Deputy Permanent Secretary – Ministry of Finance.

The company Secretary during the year was Ms. Martha Maeda who is a qualified Lawyer and is admitted as an advocate of the High Court of Tanzania and subordinate courts since 1995.

6. CORPORATE GOVERNANCE

The Board of Directors is comprised of eight (8) non-executive Directors and the Managing Director. The Board takes overall responsibility for the company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of the company against approved strategies and targets. The Board is also responsible for ensuring a comprehensive system of internal control policies and procedures is in place and for compliance with sound corporate governance principles.

In order to perform its duties properly the Board met at least once every quarter during the year. The Board delegates the day to day management of the business to Managing Director assisted by Senior Management. Senior Management is invited to attend Board meetings and facilitates the effective control of all the company's operations.

The Board is committed to the principles of good corporate governance and recognize the importance of integrity, transparency and accountability as well as the need to conduct the business in accordance with the generally accepted best practices. In so doing the Directors therefore confirm that:

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the bank and monitor executive management;
- The positions of Chairman and Managing Director are held by different people;
- The Chairman of the Board of Directors is non-executive;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and monitoring of the institution performance;
- The Board is not involved in day to day operations of the bank the task which is vested to management team.
- They bring skills and experience from their own spheres of business to complement the professional experience and skills of the management team.
- They are the driving force towards success of TIB Development Bank as a fully-fledged development bank.

The Board has formed Committees which act on behalf of the Board in specific areas to direct the bank effectively and accelerate the decision-making process.

Board and Committee Meetings

The Board has three (3) committees namely Board Executive Committee (BEC), Board Audit and Risk Committee (BARC) and Board Human Resources and Remuneration Committee (BHRRC). During the year, the Board and its committees held several meetings as detailed in the table below:

Table 2: Number of Meetings attended by Board members

Name	Full board	BEC	BARC	BHRC
Total number of meetings Held	12	1	8	3
Prof. William Lyakurwa	12	1	N/A	N/A
Mrs. Elipina Mlaki	9	1	6	N/A
Mr. Peter Noni	11	1	NA	3
Mr. Haruna Masebu	11	N/A	7	3
Prof. Deogratias Rutatora	11	1	8	N/A
Dr. James Wanyancha	8	1	N/A	3
Dr. Huba Nguluma	11	N/A	N/A	3
Dr. Said Seif Mzee	6	N/A	4	N/A
Ms. Stella Urjo	6	0	N/A	N/A

N/A – This means the respective board member is not a member to that Committee

Board Executive Committee

The Committee exercises the powers of the Board of Directors during the intervals between the meetings of the Board, to decide upon matters which go beyond the authority of management such as deliberation of credit applications and when it is not possible for the full Board to convene. The Committee also deliberates on other things as may be referred to it from time to time by the Board.

The Executive Committee members who served during the year are as detailed below:

Table 3: The Board Executive Committee Members

Name	Position	Nationality	Qualifications
Prof. William Lyakurwa	Chairman	Tanzanian	PhD in Economics
Dr. James Wanyancha	Member	Tanzanian	PhD in Forest Genetics
Mrs. Elipina Mlaki	Member	Tanzanian	MBA
Dr Deogratius Rutatora	Member	Tanzanian	PhD in Rural Sociology
Ms. Stella Urjo	Member	Tanzanian	Master of Science Degree
Mr. Peter Noni	Member	Tanzanian	M.A Economics

The Executive Committee reports to the main Board and met once during the year to deliberate on credit approvals.

Human resources and remuneration committee

The primary function of this Committee is to assist the Board in fulfilling its oversight responsibility to shareholders by ensuring coherent remuneration policies and practices that fairly and responsibly reward staff. It considers, and approves changes in philosophy and/or general composition of remuneration packages to staff and recommends to Treasury Registrar for changes of the Managing Director remuneration package and on fees and allowances to the other Directors. It also considers and recommends appointments, retirements, resignation or dismissals of members of the bank's Executive Management and oversees all human resource policies within the bank.

The Human Resources and Remuneration Committee members who served during the year are as indicated below:

Table 4: Human Resources and Remuneration Committee Members

Name	Position	Nationality	Qualification
Dr. James Wanyancha	Chairman	Tanzanian	PhD in Forest Genetics
Mr. Haruna Masebu	Member	Tanzanian	MBA, MSc
Dr. Huba Nguluma	Member	Tanzanian	PhD in Built Environmental Analysis
Mr. Peter Noni	Member	Tanzanian	M.A Economics

The Human Resources and Remunerations Committee reports to main Board and meets when there is an agenda to discuss. During the year the committee met thrice and deliberated on staff recruitments and placements.

Audit and risk committee

The functions of the Audit and Risk Committee are to assist the Board in meeting its responsibilities by setting an effective system of financial reporting, internal control and risk management; and to assist Board in discharging its responsibilities under the Banking and Financial Institutions Act, 2006 for 'keeping under review the internal financial controls of the bank with a view to securing the proper conduct of its financial affairs'.

The Committee is responsible for providing independent assurance to Board that the bank's risk and control procedures are adequate. The Committee, which meets regularly, has detailed terms of reference that include: receiving reports from, and reviewing the work of, the internal and external auditors; reviewing the annual financial statements prior to their submission to Board; considering the appropriateness of the accounting policies and procedures adopted and reviewing the bank's risk matrix and specific business controls.

The members who served on the Committee during year are as shown below:

Table 5: Audit and Risk Committee Members

Name	Position	Nationality	Qualification
Mr. Haruna Masebu	Chairman	Tanzanian	MBA, MSc
Prof. Deogratias Rutatora	Member	Tanzanian	PhD in Rural Sociology
Mrs. Elipina Mlaki	Member	Tanzanian	MBA
Dr Said Seif Mzee	Member	Tanzanian	PhD in Finance

The Audit and Risk Committee reports to main Board and met eight times (8) during the year and deliberated on financial reports, internal and external audit reports and risk and compliance reports covering different periods.

7. REMUNERATION POLICIES OF THE BOARD

The level of Directors fees and any other payments to the Board members are usually approved by the Annual General Meeting after which recommendations are sent to the Treasury Registrar for approval before they are implemented. The compensation of the key management is approved by the Board of Directors.

During the year the directors fees paid to all Board members in the entire group amounted to TZS 82 million (2014: TZS 28 million). The bank (DFI) only payments amounted to TZS 39 million (2014: TZS 28 million).

Other Board expenses as well as compensation of key management are shown on Note 37.

8. CAPITAL STRUCTURE AND SHAREHOLDING

Capital structure

The bank's capital structure for the year ended 31 December 2015 is shown below.

Table 6: Authorised, called up and fully paid

	2015 TZS million	2014 TZS million
Authorised share capital :1,000,000,000 ordinary shares of TZS 1,000 each	1,000,000	1,000,000
Issued and fully paid up shares: 152,137,661 shares @ TZS 1,000) – 2014: 152,137,661 shares @ TZS 1,000.	152,138	152,138

Shareholding

The total number of shareholders during the year was Two (2) following dissolution of Consolidated Holding Corporation (CHC) in June 2014. Initially CHC held 0.02% of the shares but following its dissolution the shares have been transferred to the Treasury Registrar.

None of the directors hold any shares of the bank.

The number and value of shares held by each shareholder during the year is as shown in the table below:

Table 7: List of Shareholders

Name of the shareholder	Number of Shares held	2015		2014		
		Value TZS million	%	Value TZS million	%	
Treasury Registrar (on behalf of the Government of Tanzania)	152,127,661	152,128	99.99	152,097,661	152,098	99.97
Consolidated Holding Corporation				30,000	30	0.02
National Insurance Corporation of Tanzania Limited	10,000	10	0.01	10,000	10	0.01
	152,137,661	152,138	100	152,137,661	152,138	100

9. MANAGEMENT OF THE BANK

The bank is under the supervision of the Board of Directors and the day-to-day management is entrusted to the Managing Director who is assisted by the Deputy Managing Director and Directors and Heads of independent departments and unit.

By end of 31 December 2015, organisational structure of the bank comprised of the following directorates/ independent departments/unit.

Directorates:

- Strategic Planning and Corporate Affairs;
- Development Financing;
- Portfolio Management;
- Managed Funds
- Finance;
- Information and Communications Technology;
- Human Resources and Administration; and

Independent departments and units:

- Risk and Compliance;
- Internal Audit;
- Legal and Secretarial Services
- Procurement Management Unit; and
- Technical Department

The Managing Director reports to the Board and in turn the Deputy Managing Director and all Directors, and Heads of independent departments/unit report to the Managing Director except the Chief Internal Auditor who functionally reports to the Board Audit and Risk Committee and administratively to the Managing Director. Directorates responsible for business namely Strategic Planning and Corporate Affairs, Development Financing, Portfolio Management, Managed Funds and Technical Department functionally report to the Deputy Managing Director.

10. ACCOUNTING POLICIES

The accounting policies used in the preparation of the accounts are set on Note 4 of the accounts and they are in line with the International Financial Reporting Standards (IFRS).

11. PERFORMANCE FOR THE YEAR

The financial statements show that the performance of the group was good having registered 39% growth in consolidated profit before tax from TZS 11.3 billion recorded in 2014 to TZS 15.7 billion in 2015. The group also recorded 56% growth in consolidated total assets from TZS 522.0 billion in 2014 to TZS 815.0 billion in 2015.

The performance of the bank (DFI) was equally good having recorded growth of 32% in total assets to TZS 689.0 billion compared to TZS 520.2 billion recorded in 2014 (despite the fact that 29% of the assets recorded in 2014 were transferred to the commercial banking subsidiary – see section 14 below). The DFI also recorded a profit before tax of TZS 9.2 billion compared to TZS 10.4 billion recorded in 2014. Considering the impact of the 29% assets transferred to the subsidiary at the beginning of the year, the Board still view this as a good performance.

Table 8: Summary of Performance (TZS billion)

	Consolidated	Bank (DFI)	Corporate Bank	Rasilimali
Profit Before Tax	15.68	9.24	5.30	1.11
Total Assets	815.02	688.97	219.10	4.27

Detailed information on the financial performance is contained on pages 19-24 and the accompanied notes.

12. KEY PERFORMANCE INDICATORS

The following key indicators are used by the bank to measure achievement of the bank's strategies. Although there are different trends the Board is satisfied with the overall performance of the institution bearing in mind that this performance has been recorded in the midst of the transformation process. The Board believes that now that the transformation is complete, there will be better performance going forward as the group benefit from the unified approach of operations.

The key performance ratios of the bank are indicated hereunder:

Table 9: Key Performance Indicators

Indicator	Definition and Formula	2015	2014	Change	2015	2014	Change
		GROUP			BANK (DFI)		
Return on Assets	Profit Before Tax/Average Total Assets	2.3%	2.4%	-0.1%	1.5%	2.2%	-0.7%
Return on Equity	Net Profit/Average Total Equity	4.7%	3.5%	1.2%	2.5%	3.2%	-0.7%
Non-interest income to Gross income	Non-Interest Income/(Interest + non-interest Income)	16.4%	14.0%	2.4%	13.6%	12.0%	1.6%
Interest Expense to Interest Income	Interest Expense/Interest Income	42.7%	24.6%	18.1%	46.1%	24.6%	21.5%
Operating expenses to gross income	Operating Expenses/(interest + non-interest income)	41.5%	40.7%	0.8%	37.9%	40.7%	-2.8%
Non-interest expense to gross income	Non-interest expenses (including provisions)/(Interest + non-interest income)	47.2%	62.6%	-15.4%	45.8%	63.1%	-17.3%
Non-performing loans to total advances	Non-Performing Loans / Gross Loans	13.4%	26.3%	-12.9%	14.1%	26.3%	-12.2%
Loans to total assets	Net Loans/Total Assets	80.0%	79.1%	0.9%	78.2%	79.4%	-1.2%
Growth of Loans and Advances	(Current –prev. year net loans)/prev. year Net Loans	57.9%	35.1%	22.8%	30.4%	35.1%	-4.7%
Growth of Assets	(Current –prev. year Total Assets)/prev. year Total Assets	56.1%	24.6%	31.5%	32.5%	24.5%	8.0%
Tier 1 Capital	Core Capital/Risk Weighted Assets (incl. Off B. sheet)	22.9%	33.9%	-11.0%	27.9%	33.9%	-6.0%

13. CASHFLOW AND LIQUIDITY MANAGEMENT

Most of the cash flow during the year came from resources mobilized from the public in the form of deposits and long term borrowing while utilization was mostly through additional loan disbursements.

The DFI as a long term lender is shifting from reliance on short term deposits to long term borrowing. As such during the year the bank concluded two important agreements that resulted into long term borrowing growing from TZS 17.4 billion in 2014 to TZS 56.1 billion in 2015 (one borrowing was for five years and the second for ten years). It is the plan of the board to grow this source of funding and in addition, if the market conditions will allow, the bank is planning to issue its first corporate Bond in 2016. The bank is also continuing to engage with the main shareholder to increase the paid up share capital to enable the bank to play a bigger role in development financing. The mobilization of the short term deposits by the subsidiary company (CBL) will continue to fund the short term assets created by the subsidiary.

The group places very high importance in liquidity management and details on liquidity risk management are covered under Note 41.

14. STATUS OF THE TRANSFORMATION PROCESS TO SPLIT THE BANK INTO A DEVELOPMENT FINANCIAL INSTITUTION (DFI) AND COMMERCIAL BANKING SUBSIDIARY

Year 2015 marked completion of the transformation process and separation of TIB into TIB Development Bank Limited and TIB Corporate Bank Limited. The two institutions were issued with BOT licences in June 2015 following completion of the transformation exercise and the operations in 2015 were based on the envisaged two tier structure. As it was laid down in the transformation plan TIB Development Bank Limited will continue to provide medium and long term financing to development sectors of the economy while TIB Corporate Bank Limited will focus on provisioning of commercial banking services to the TIB group and the public at large.

The transformation involved separation of assets as at 1st January 2015 into two institution whereby 71% of the existing assets were retained by the parent company (DFI) and 29% transferred to the subsidiary. These were the opening balances for the two institutions in 2015 and formed the basis for the full year performance recorded at the end of year. The composition of the assets split is contained in the table below:

Table 10: The splitting of bank assets and liabilities –Figures in TZS Millions

	Total before split	CBL	DFI
Cash and bank Balances	29,383	24,799	4,584
Treasury Bills	46,487	25,012	21,475
Loans	413,044	98,429	314,615
Inter-company Assets	-	46,451	-
Other Assets	31,252	1,433	29,819
Total	520,166	196,124	370,493
Deposits	282,680	191,213	91,467
Borrowing	17,353	-	17,353
Inter-company Liabilities	-	-	46,451
Other Liabilities	8,168	496	7,672
Equity	211,965	4,415	207,550
Total	520,166	196,124	370,493

15. MARKET OVERVIEW

The market condition during the year remained challenging with very volatile movements in interest rates as well as market anxiety that was caused by the national elections. The interest rates increased during the year and had an impact on the group's funding cost. Results of the Bank of Tanzania's Treasury Bills auction held on 30th December 2015 showed that the one year weighted average yield stood at 18.7%. A similar auction held on 17th December 2014 showed that the one year weighted average yield stood at 16.6% signifying that interest rates remained considerably high throughout the year although there were few periods of relief. These rates are used as a benchmark by most institutional depositors hence an impact on the bank's funding cost.

It is the view of the Board however, that based on the efforts being taken by the Government, interest rates are bound to correct downwards in 2016 and this is envisaged to have a positive impact on the bank's funding cost. Overall, the improving macro-economic variables in the country provide a good environment for the bank to

perform better. According to the National Bureau of Statistics, the inflation rate has improved consistently and stood at 6.8% at the end of December with further improvement expected. Meanwhile provisional GDP results for the fourth quarter (October – December) released by the Bureau show that the country registered growth of 7.1% compared to 4.1% registered in similar quarter of 2014. These results confirm the positive outlook in the operating environment the view held by the Board.

As a well-established development bank in the country, the need for development banking in the country – in form of infrastructure, agro-processing and industrial loans provides a very good opportunity for the bank to expand its operations.

The drive of the fifth phase government on infrastructure and industrialization, among others, augurs well with the bank's mandate and strategies and provide a ripe environment for excellent performance going forward.

Except for the commercial banking activities and the stock brokerage and advisory services offered by the subsidiaries which face fierce competition in the market, the bank does not view other players in the market as competitors but as collaborators since the main objective is to spur economic development. Most of the players in the market shy away from start-up operations and other risky projects that are usually undertaken by the development bank. As for the subsidiaries, they are well resourced to face the competition and bring desired results.

16. FUTURE DEVELOPMENT PLANS

TIB Development Bank has re-defined its role as a DFI in order to function proficiently in line with the Government priorities. Under the revised plan, the bank intends to finance bankable development projects with demonstrable economic impact in the chosen sectors and ensure that growth and investment is also environmentally friendly.

The strategic focus of the bank will remain to support Government initiatives such as on industrialization which goes hand in hand with the development of infrastructure that will facilitate the industrialization process. The bank has therefore taken the initiative to embed in the Government development planning process and is expected to play a key role in the Government infrastructure development and industrialization programme.

Now with completion of the separation process, the TIB group will be well equipped to offer a full range of services. The parent DFI will continue with the development financing activities while the commercial banking subsidiary will offer full commercial banking services to DFI and other customers. Rasilimali will continue to offer advisory services and will be key player in DFI resource mobilization strategies.

The group will continue to stimulate innovations and product offerings through continuous training and development of its staff complement and the use of cutting edge technology. This move will lead to increase of the products to the market, and improvement in service delivery, hence profitability and economic impact in the nation.

17. RESULTS AND DIVIDEND

During the year 2015, the group made a consolidated profit after tax of TZS 9.4 billion (2014: TZS 7.3 billion). The DFI only operations recorded a profit after tax of TZS 4.8 billion (2014: 6.6 billion).

The Board of Directors does not recommend the payment of a dividend for the year ended 31 December 2015 because the bank still requires more capital to build capacity to participate in bigger strategic projects for the country (2014: Nil).

18. PRINCIPAL RISKS

The group is inherently exposed to credit risk since lending activities form a bulk of its business. The other risks include liquidity risks and financial risks namely interest rate and foreign exchange risks.

In addition, the bank is exposed to operational risk.

Detailed information on these risks including definition and how the bank manages these risks is covered in Note 41 of the accounts.

19. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control system of the bank. The management ensures that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the bank's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible 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 of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2015 and the Directors are satisfied that they met accepted criteria.

The Board carries risk and internal control assessment through its Audit and Risk Committee on quarterly basis.

20. ADMINISTRATION OF GOVERNMENT AND OTHER STAKEHOLDERS' FUNDS

During the year the bank continued to manage different funds on behalf of the Government and different stakeholders and collected fees amounting to TZS 988 million compared to TZS 874 million in 2014. These fees are part of the Fees and commissions income shown in Note 8.

Table 11: Fees collected for managing funds

S/n	Details	2015 TZS million	2014 TZS million
1	Fees income on REA and TEDAP	149.2	228.3
2	Fees income on Flower Projects	299.7	275.5
3	Fees income on Commodity Import Support	100.0	75.0
4	Agency fee income from Agricultural Financing Window	118.7	213.4
5	Fees income from managing Mining Funds for small scale	171.1	-
6	Fees income from SNV	67.8	-
7	Fees income from THB	81.6	81.6
		988.1	873.8

Details on the managed funds are contained in Note 43.

21. SERIOUS PREJUDICIAL MATTER

As at the end of the reporting period the group did not have any uncertain issue warranting reporting.

22. SOLVENCY

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that TIB Development Bank Limited has adequate resources to continue in operational existence for the foreseeable future.

23. RESOURCES

Motivated and skilled staff team is a key resource to the success of the group. The group therefore continues to attract and retain a motivated staff team.

In addition to motivated and skilled team, the bank also boasts of its long and tested history in the market which has built a brand name in the market as far as development banking is concerned. The reputable and supportive shareholder which is the Government of the United Republic of Tanzania is also viewed as an important resource and the group is keen to manage these aspects carefully.

The section below on staff welfare expounds on the strategies of the group regarding its human resources.

24. EMPLOYEE WELFARE

Relationship between management and employees

There were continuous good relations between Employees and Management as well as Management with the Trade Union.

The Bank is an equal opportunity employer

The bank through its Human Resources policy gives an equal access to employment opportunities to all and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, ethnicity, religion or disability which does not impair ability to discharge duties.

Training

Training and development of staff capacity is one of the key priorities of the bank as re-orientation to development banking continues. The bank (on consolidated basis) spent TZS 879 million during the year (DFI only TZS 610 million) to train staff on various programs compared to TZS 760 million spent in 2014 (DFI only TZS 755 million). This is in addition to training programs that were either fully or partially funded by partner institutions such as SADC-DFRC and World Bank through Second Generation Financial Sector Reforms operated by the Bank of Tanzania. The bank will continue to train, re-train and develop staff in order to improve their service delivery and innovation in development financing.

Staff loans and advances

Loans are available to all confirmed employees depending on the assessment of the need and ability to pay in compliance with the Staff Loan Policy. The bank also supports staff to run a Savings and Credit Cooperative Society (SACCOS) to assist in improving their welfare.

Medical facilities

All members of staff plus a maximum of four dependants for each employee are availed with medical insurance paid for by the bank. Currently these services are provided by AAR Health Insurance (AAR).

Persons with Special Needs

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

Retirement benefits

The bank pays contributions to publicly administered pension plans on a mandatory basis which qualifies as a defined contribution plan. The average number of employees for the group during the year was 267 (2014: 209 employees).

With new developments on laws and regulations governing the social security funds, TIB new staff are at liberty of opting for any pension scheme of their choice.

Workers compensation fund

During the year, the Government introduced a workers compensation fund, which is an addition cover to employee in case of injury at work place. Under this arrangement, TIB Development Bank Limited as a public institution is required to contribute to the fund 5% of the monthly basic salaries it has paid to its staff for which all the dues were settled by end of December 2015.

25. GENDER PARITY

The bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind. As at 31 December 2015 the bank had the following distribution of employees by gender.

Table 11: Gender Parity

Gender	GROUP		BANK (DFI)	
	2015	2014	2015	2014
Male	167	136	108	132
Female	100	73	55	70
Total	267	209	163	202

26. RELATED PARTY TRANSACTIONS

Transactions with related parties during the year as well as balances outstanding from those transactions as at 31 December 2015 are disclosed in Note 37 to the financial statements.

27. POLITICAL AND CHARITABLE DONATIONS

The bank did not make any political donations during the year. However, some donations amounting to TZS 140 million (2014: TZS 122 million) were made to charitable organisations as part of the bank's Corporate Social Responsibility activities.

28. ENVIRONMENTAL CONTROL

The Bank believes in pursuing development without compromising on the sustainability of the environment in which it operates. To that effect the bank has in place a Social and Environmental Policy which takes into account best practises in dealing with social and environmental sustainability.

The bank operates in according to the provisions of its Social and Environmental Policy and as such it requires an Environmental Impact Assessment report approved by the National Environment Management Council (NEMC) for all projects viewed to have an impact to the environment. The bank monitors funded projects to assess their compliance to the environment policies.

In order to remain up to date the bank trains its staff on best practises and modern approach regarding social and environmental issues.

29. CORPORATE SOCIAL RESPONSIBILITY

The bank has a Corporate Social Responsibility (CSR) Policy whose approach to the funding of community development projects takes on a developmental approach in a manner that will upgrade the quality of life in under privileged communities. The aim is to develop an environment conducive to wealth creation, self-sufficiency and economic growth. The focus areas are Education, Health, Job Creation and Entrepreneurship.

During 2015, the bank invested about TZS 86 million of its CSR budget towards detailed designs for the Oysterbay Beach Development Project as part of Corporate Social Investment (CSI) on long term projects spanning a period of 3-5 years to ensure sustainability. The project will transform the area into a well-planned and safe beach development with accompanying infrastructure. It will also create employment to hundreds and will be a significant source of revenue for the Kinondoni Municipal Council. Other donations were made to the following charitable organizations or groups:

- Deaf Women Development Association in Tanzania (WEWODATA)
- Contribution for School desks - Meatu District
- Empowerment for women with disabilities- Seed Trust
- Contribution for the implementation of breast/cervical cancer awareness campaign-Tanzania Breast Cancer Foundation (TBCF)
- Donation for the development of Tanzania Tumauni University - Dar es Salaam
- Rehabilitation of Mapambano Primary School toilets in Dar es Salaam

30. RELATIONSHIP WITH STAKEHOLDERS

The bank maintained cordial relationship with all its stakeholders including staff, customers, shareholders, regulators and the public at large. The bank views this as an important aspect to be handled carefully in order to achieve its objectives. The group will therefore continue to cultivate good relationship with its stakeholders.



31. EVENTS AFTER REPORTING DATE

There are no events after the reporting period which warrant reporting.

32. AUDITORS

The Controller and Auditor-General (CAG) is the statutory auditor for the bank pursuant to the provisions of Article 143 of the Constitution of the United Republic of Tanzania of 1977 (as revised in 2005). However, in accordance with sections 30 – 33 of the Public Audit Act No. 11 of 2008, the CAG appointed Messrs KPMG to carry out on his behalf, the audit of the bank's financial statements for the year ended 31 December 2015.

BY ORDER OF THE BOARD

 Prof. William Lyakurwa Chairman	30/3/2016
 Haruna Masebu Director	30/3/2016
 Peter Noni Managing Director	30/3/2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation of consolidated financial statements that give a true and fair view of TIB Development Bank Limited comprising the statement of financial position as at 31 December 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' Report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002 as well as Banking and Financial Institutions Act, 2006.

The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the Company to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the consolidated financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements

The consolidated financial statements of TIB Development Bank Limited, as identified in the first paragraph, were approved by the board of directors on 02/04/ and signed by:

BY ORDER OF THE BOARD


..... 30/3/2016
Prof. William Lyakurwa
Chairman


..... 30/3/2016
Haruna Masebu
Director


..... 30/3/2016
Peter Noni
Managing Director

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To:

The Chairman
Board of Directors
TIB Development Bank Limited
P. O. Box 9373
Dar es Salaam

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE CONSOLIDATED FINANCIAL STATEMENTS OF TIB DEVELOPMENT BANK LIMITED FOR THE YEAR ENDED 31 DECEMBER 2015

Report on the financial statements

Introduction

I have audited the accompanying consolidated financial statements of TIB Development Bank Limited (“the Bank”) and its subsidiaries, TIB Corporate Bank Limited and TIB Rasilimali Limited (together “the Group”) which comprises the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 25 to 104.

Directors’ Responsibility for the financial statements

The Bank’s directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002, Banking and Financial Institutions Act, 2006 and Public Corporations Act, 1992, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditor

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted the audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on my judgement including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, I consider internal control relevant to the entity’s preparation of financial statements that give a true and fair view 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Director’s, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In my opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of TIB Development Bank Limited and its subsidiary as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002, Banking and Financial Institutions Act, 2006 and Public Corporations Act, 1992.

REPORT OF THE CONTROLLER AND AUDITOR GENERAL

Other matters

According to section 9 of the Public Audit Act, 2008, my specific responsibilities are to examine, enquire into, audit and report on the consolidated financial statements of TIB Development Bank Limited for the year ended 31 December 2015. In addition, section 10 (2) of the Public Audit Act, 2008 requires me to satisfy myself that the consolidated financial statements have been kept in accordance with generally accepted accounting principles; reasonable precautions have been taken to safeguard the collection of revenue, the receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed, expenditures of public monies have been properly authorised; and to satisfy myself whether the funds generated by TIB Development Bank Limited were used exclusively and judiciously to meet eligible expenditure with due regard to economy and efficiency.

Report on other legal and regulatory requirements

Public Procurement Act, 2011

Based on the work performed during my audit of the consolidated financial statements, nothing has come to my attention that the Bank has not complied with the Public Procurement Act, 2011 and its regulations issued in 2013.

Companies Act, 2002

As required by the Companies Act, 2002 we report that:

- In my opinion, proper accounting records have been kept by the Group;
- The individual accounts are in agreement with the accounting records of the Group; and
- I obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

Banking and Financial Institutions Act, 2006

As required by Banking and Financial Institutions Act, 2006 and its regulations we report that:

- Based on our audit, nothing has come to our attention that causes us to believe that the Bank has not complied with the Banking and Financial Institutions Act, 2006 and its regulations including computation of its capital position.



Prof. Mussa Juma Assad
Controller and Auditor General
National Audit Office,
Dar es Salaam

.....12/04/.....2016



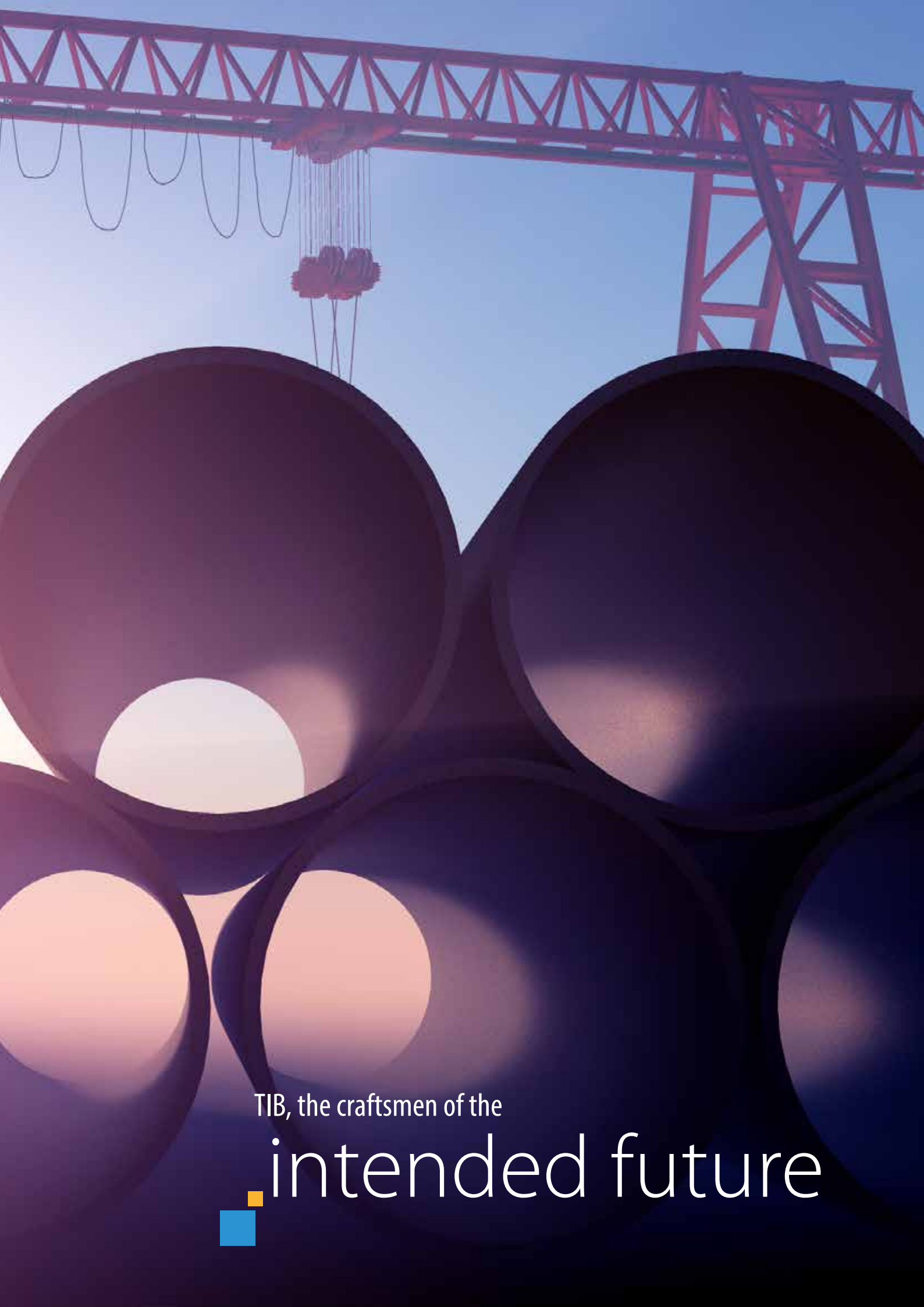
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	CONSOLIDATED		BANK	
		2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Interest and similar income	6	83,377	59,817	62,489	59,817
Interest and similar expense	7	(32,715)	(14,697)	(25,683)	(14,697)
Net interest income		50,662	45,120	36,806	45,120
Fees, commissions and other income	8	9,032	5,320	4,968	4,811
Foreign currency dealing, gains on value of shares and exchange income	9	3,193	2,669	953	1,589
Recoveries on charged off loans	10	2,824	1,733	2,824	1,733
Total operating income		65,711	54,842	45,551	53,253
Impairment losses on loans and advances	20	(11,946)	(15,223)	(11,852)	(15,223)
Net operating income		53,765	39,619	33,699	38,030
Personnel expenses	11	22,063	15,271	14,475	14,762
Occupancy expenses	12	5,202	3,343	2,799	3,341
General and administration expenses	13	9,275	6,732	6,012	6,604
Depreciation of property and equipment	26	934	944	720	936
Provision for impairment in equity investment		-	1,500	-	1,500
Amortization of leasehold improvements	27	371	250	213	250
Amortization of intangible assets	28	245	278	244	278
Total operating expenses		38,090	28,318	24,463	27,671
Profit before tax		15,675	11,301	9,236	10,359
Income tax expense	29	(6,235)	(4,017)	(4,393)	(3,749)
Profit for the year		9,440	7,284	4,843	6,610
Other comprehensive income					
Re-measurement (losses) / gains on employment benefit obligations	38	1,010	(1,000)	580	(1,000)
Income tax effect		(303)	300	(174)	300
Other comprehensive income, net of tax		707	(700)	406	(700)
Total comprehensive income for the year		10,147	6,584	5,249	5,910

The Notes on pages 25 to 104 form an integral part of these financial statements.

Auditors' report on pages 75 and 76.





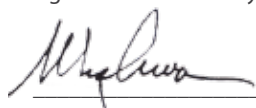
TIB, the craftsmen of the


intended future

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Notes	CONSOLIDATED		BANK	
		2015	2014	2015	2014
		TZS million	TZS million	TZS million	TZS million
Assets					
Cash and balances with Bank of Tanzania	14	10,136	5,581	-	5,581
Balance with other banks	15	6,989	6,596	16,387	6,388
Placements with other banks	16	24,980	17,414	21,177	17,414
Financial investment held for trading	17	3,494	2,505	-	-
Government and corporate securities held - to - maturity	18	74,404	46,487	54,488	46,487
Loans and advances	20	652,112	413,045	538,675	413,044
Accounts receivable and Prepayments	21	11,528	5,069	10,247	5,056
Grants receivable	22	-	74	-	74
Equity investment-available for sale	23	11,992	8,233	11,992	8,233
Investment in subsidiary	24	-	-	20,701	456
Investment property	25	11,500	11,500	11,500	11,500
Property and equipment	26	3,979	2,345	1,666	2,321
Leasehold improvements	27	2,649	1,177	110	1,177
Intangible assets	28	401	584	382	586
Tax recoverable	29	21	1,371	35	1,317
Deferred tax asset	29	834	69	1,608	532
Total assets		815,019	522,050	688,968	520,166
Liabilities and equity					
Deposits	30	522,776	282,643	406,151	282,680
Payables and Accruals	31	6,291	2,170	8,681	1,908
Deferred Income	32	3,281	2,314	2,926	2,314
Long-term Borrowing	33	56,123	17,353	56,123	17,353
Government Grants	34	157	384	157	384
Employment benefit liabilities	38	2,656	3,560	2,129	3,560
Total liabilities		591,284	308,424	476,167	308,199
Shareholders' equity					
Share capital	35	152,138	152,138	152,138	152,138
Advance towards share capital		5,281	5,281	5,281	5,281
Retained earnings		18,781	16,269	16,656	14,648
Non distributable reserve		42,535	34,900	33,726	34,900
Other reserves		5,000	5,038	5,000	5,000
Total equity		223,735	213,626	212,801	211,967
Total liabilities and equity		815,019	522,050	688,968	520,166

These financial statements were approved by the Board of Directors for issue on 30/3/ 2016 and were signed on its behalf by:


 Prof. William Lyakurwa
 Chairman


 Haruna Masebu
 Director


 Peter Noni
 Managing Director

The Notes on pages 85 to 162 form an integral part of these financial statements.
 Auditors' report on pages 75 and 76.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

CONSOLIDATED	Share capital	Retained earnings	*Non – Distributable Distributable	Asset Revaluation reserve	Technical assistance	Advance Towards Share capital	Total
	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million
2015							
At 01 January	152,138	16,269	34,900	38	5,000	5,281	213,626
Profit for the year	-	9,440	-	-	-	-	9,440
Other comprehensive income	-	707	-	-	-	-	707
Asset revaluation reserve	-	-	-	(38)	-	-	(38)
Transfer to regulatory reserve	-	(7,635)	7,635	-	-	-	-
As at 31 December	152,138	18,781	42,535	-	5,000	5,281	223,735
2014							
At 01 January	142,138	25,023	21,771	38	3,000	5,281	197,251
Additional capital injection	10,000	-	-	-	-	-	10,000
Profit for the year	-	7,284	-	-	-	-	7,284
Other Comprehensive Income	-	(700)	-	-	-	-	(700)
Transfer to technical reserve	-	(2,000)	-	-	2,000	-	-
Transfer to regulatory reserve	-	(13,129)	13,129	-	-	-	-
Other Adjustments	-	(209)	-	-	-	-	(209)
As at 31 December	152,138	16,269	34,900	38	5,000	5,281	213,626

*Regulatory reserve represents an amount set aside to cover additional provision for loan losses and 1% general provision of portfolio for commercial banks required to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution and is excluded in calculation of the Bank's core capital except 1% general provision which is part of Tier II capital for the TIB Corporate Bank.

The Notes on pages 85 to 162 form an integral part of these financial statements.

Auditors' report on pages 75 and 76.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

BANK	Share capital	Retained earnings	*Non – Distributable Distributable	Asset Revaluation reserve	Technical assistance	Advance Towards Share capital	Total
	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million
2015							
At 01 January	152,138	14,648	34,900	-	5,000	5,281	211,967
Profit for the year	-	4,843	-	-	-	-	4,843
Reserve of loans transferred to subsidiary	-	(4,415)	-	-	-	-	(4,415)
Other Comprehensive Income	-	406	-	-	-	-	406
Transfer to regulatory reserve	-	1,174	(1,174)	-	-	-	-
At 31 December 2015	152,138	16,656	33,726	-	5,000	5,281	212,801
2014							
At 01 January	142,138	24,076	21,771	-	3,000	5,281	196,266
Additional capital injection	10,000	-	-	-	-	-	10,000
Profit for the year	-	6,610	-	-	-	-	6,610
Prior year Adjustments	-	(209)	-	-	-	-	(209)
Other Comprehensive Income	-	(700)	-	-	-	-	(700)
Transfer to technical assistance	-	(2,000)	-	-	2,000	-	-
Transfer to regulatory reserve	-	(13,129)	13,129	-	-	-	-
At 31 December 2014	152,138	14,648	34,900	-	5,000	5,281	211,967

The Notes on pages 85 to 162 form an integral part of these financial statements.

Auditors' report on pages 75 and 76.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	CONSOLIDATED		BANK	
		2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Cash flow from operating activities					
Profit before tax		15,675	11,301	9,236	10,359
Adjustments for non-cash items:					
Depreciation and amortisation	26 & 28	1,187	1,222	964	1,214
Amortisation of leasehold improvements	27	371	250	213	250
Amortisation of grants		199	-	199	-
Profit on disposal		-	(13)	-	(13)
Gain on revaluation	26	(207)	-	-	-
Written off items		-	-	-	135
Impairment losses on loans and advances to customers	20	11,946	15,223	11,852	15,223
Impairment on Equity Investments	23	-	1,500	-	1,500
Change in fair value of investments held for trading	17	(132)	(1,080)	-	-
Impairment on sundry receivables	21	434	338	434	338
Change in employment benefit liabilities		106	2,504	(851)	2,504
Cash flow from operating profits before working capital changes		29,579	31,245	22,047	31,510
Changes in working capital					
Decrease / (Increase) in placements with other banks more than 3 months	16	4,476	(3,961)	4,456	(3,961)
Increase in loans and advances to customers		(251,013)	(126,831)	(137,483)	(126,977)
Increase in accounts receivable		(4,132)	(2,320)	(8,424)	(2,317)
Increase in deposits		240,133	70,236	123,471	70,217
Increase / (Decrease) in other liabilities		5,088	(2,223)	7,385	(2,265)
(Increase)/Decrease in Investment securities held to maturity		(31,962)	13,619	(16,421)	13,619
		(7,831)	(20,235)	(4,969)	(20,174)
Tax paid	29	(5,953)	(3,773)	(4,361)	(3,767)
Net cash inflow from operating activities		(13,784)	(24,008)	(9,330)	(23,941)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

	Notes	CONSOLIDATED		BANK	
		2015	2014	2015	2014
		TZS million	TZS million	TZS million	TZS million
Cash flow used in investing activities					
Purchases of property and equipment	26	(4,257)	(1,012)	(877)	(1,003)
Purchases of intangible assets	28	(60)	(538)	(40)	(538)
Purchase of leasehold improvements	27	(2,756)	(957)	(55)	(957)
Proceeds on disposal		-	15	-	15
Increase / (decrease) in financial assets held for trading	17	(857)	164	-	-
Investments in Equity	23	(3,759)	-	(3,759)	-
Investments in Subsidiaries	24	-	-	(20,140)	-
Net cash used in investing activities		(11,689)	(2,328)	(24,871)	(2,483)
Cash flow from financing activities					
Loan repayment	33	(4,290)	(323)	(4,290)	(323)
Proceeds from Borrowing	33	43,060	16,610	43,060	16,610
Proceeds from capital injection		-	10,000	-	10,000
Decrease in grants	34	(352)	-	(352)	-
		38,418	26,287	38,418	26,287
Increase in cash and cash equivalents		12,945	(49)	4,217	(137)
Cash and cash equivalents					
At the beginning of the year	19	37,002	37,051	36,794	36,931
At the end of the year	19	49,947	37,002	41,011	36,794

The Notes on pages 85 to 162 form an integral part of these financial statements.

Auditors' report on pages 75 and 76.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. REPORTING ENTITY

TIB Development Bank Limited is domiciled in Tanzania and its registered offices and current physical address of the bank are at Mlimani City Office Park, Building No. 3 Sam Nujoma Road, Dar es Salaam.

These financial statements are for the bank and its subsidiaries namely TIB Corporate Bank Limited and TIB Rasilimali Limited. TIB Corporate Bank is registered for provisioning of commercial banking services whereas TIB Rasilimali Limited is for stock brokerage and investment advisory roles. The group therefore is primarily involved in providing development financing and other commercial banking services as well as investment advisory services.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The financial statements have been prepared on the historical cost basis except for available-for-sale financial assets which are measured at fair value and investment property reported at revalued amount.

Functional and presentation currency

The financial statements are presented in Tanzania Shillings (TZS) which is the functional currency of the bank. The figures have been rounded to the nearest million shillings except where explicitly stated.

Presentation of financial statements

The bank presents its statement of financial position broadly in order of liquidity. An item in the statement of financial position is classified current if its recoverability or settlement is within 12 months after the reporting date and if is more than 12 months after the reporting date the item is classified non-current as is presented in note 41.

Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are explained in Note 5.

Basis of consolidation

a) Subsidiaries

The consolidated financial statements comprise the financial statements of TIB Development Bank Limited and its subsidiaries i.e. TIB Corporate Bank Limited, and TIB Rasilimali Limited for the year ended 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

a) Subsidiaries (Continued)

Subsidiaries are those entities controlled by the Group. Control exists when the holding company is exposed to, or has rights; variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The bank owns 100% shares in both TIB Corporate Bank Limited and TIB Rasilimali Limited and has full control over the subsidiaries. Any transaction between the subsidiaries is at arm length otherwise resources from each entity are not freely accessible to the members of the group.

b) Non-controlling interest

Non-controlling interest at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

c) Transactions eliminated on consolidation

Inter-company transactions, balances and any unrealised income and expenses arising from intra company transactions are eliminated. Unrealised losses are eliminated on the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(i) Standards adopted during the year

The accounting policies adopted are consistent with those of the previous financial year.

(ii) New and amended standards and interpretations in issue but not yet effective for the year/period ended 31 December 2015.

At the date of authorisation of the financial statements for the year ended 31 December 2015, the following relevant Standards were in issue but not yet effective:

Effective for the financial year commencing 1 January 2016

- Disclosure Initiative (Amendments to IAS 1)

Effective for the financial year commencing 1 January 2018

- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments

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.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments also clarify presentation principles applicable to the order of notes, OCI of equity accounted investees and subtotals presented in the statement of financial position and statement of profit or loss and other comprehensive income.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

IFRS 15 Revenue from contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have a significant impact on the bank, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Bank is currently in the process of performing a more detailed assessment of the impact of this standard on the bank and will provide more information in the year ending 31 December 2016 financial statements.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will have a significant impact on the Bank, which will include changes in the measurement bases of the Bank's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Bank.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The Bank is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that 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:

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 (EIR), 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 rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

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

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

Fees earned for the provision of services over a period of time such as from administration of Government Funds are accrued over the respective period. These fees include commission income, asset management, custody and other management and advisory fees.

Loan facility fees are apportioned over the life of the loan facility. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised 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 recognized over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Net operating income and other 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.

Dividend income

Dividend income is recognised when the bank's right to receive the payment is established.

Employees' benefits including pensions and post-employment benefits

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

Pension obligations

The bank operates a defined contribution plan whereby each of its employees and the bank contribute to the state owned and managed (statutory) funds namely the Parastatal Pensions Fund (PPF), Public Service Pensions Fund (PSPF) or the National Social Security Fund (NSSF) and Local Authority Pensions Fund (LAPF). The bank contributes 15% of basic salary for each employee who is a member of PPF, PSPF, LAPF and 10% of gross salary for each employee who is a member of NSSF, while the employees contribute 5% and 10% respectively. Apart from these monthly contributions, the bank has no further commitments or obligations to the funds. The contributions are charged to the profit or loss in the year to which they relate.

Post-employment obligations

Under defined benefit plans, the bank provides certain post-retirement benefits at retirement and long-time service award and at certain milestones during the period of employment.

The expected costs of these benefits are accrued over the period of employment and the present value of the obligation is determined by reference to market yields on high quality corporate bonds, where there is no deep market in such bonds, the market yields on government bonds is used at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Post-employment obligations

These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Re-measurements, comprising of actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income (OCI) in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Bonus plans

The bank recognises a liability and expense for bonuses based on a formula that takes into account the profit attributable to the Government (the ultimate shareholder). The bank recognises a provision for bonuses when there is a contractual obligation or a past practice that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated by the bank before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The bank recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after reporting date are discounted to present value.

Other employee benefits

The bank provides free medical treatment to staff and their dependants. The cost is charged to the profit or loss. The estimated monetary liability for employees' accrued leave entitlement at the reporting date is recognized as an expense accrual.

Provisions

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 the profit or loss net of any reimbursement.

Property and equipment

Property and equipment (including equipment under operating leases where the bank is the lessor) is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Description of items	Useful lives
Furniture and equipment	8 Years
Machinery and automation	4 Years
IT equipment	4 Years
Motor vehicles	4 Years
Buildings	25 years

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' in the profit or loss in the year the asset is derecognized. The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

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 recognized as an expense in the profit or loss on a straight line basis over the lease term. Contingent rental payable are recognized 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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leasehold improvements

Leases of leasehold improvements are classified as operating leases, these includes improvements made on leased bank buildings for its head office and branches. The total payments made under operating leases are charged to the profit and loss account 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 recognized as an expense in the period in which termination takes place.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold improvements (Continued)

Leasehold improvements are stated at cost, less accumulated amortization and accumulated impairment losses. Leasehold improvement amortizations 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 amortization rates in use are:

Description of items	Useful lives
Leasehold improvements	3 – 5 years

Intangible assets

The bank's intangible assets include the value of computer software (license for use of T24 – Core Banking System), Credit Quest and Smart Stream, Swift Integrator and Security Systems.

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortized over the useful economic life.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

The amortization expense on intangible assets with finite lives is recognized in the profit or loss in the expense category consistent with the function of the intangible asset. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Description of items	Useful lives
Computer software	4 years

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of profit or loss and comprehensive income unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the bank.

Impairment of non-financial assets

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds 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 the profit or loss.

Financial instruments - initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognized 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 time frame generally established by regulation or convention in the market place.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivatives recorded at fair value through profit or loss

The bank uses derivatives such as cross-currency swaps, forward foreign exchange contracts and foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the profit or loss.

Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities and equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition.

Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss on financial assets and liabilities designated at fair value through profit or loss. Interest is earned or incurred or accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in profit or loss when the right to the payment has been established.

Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the bank immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

Available-for-sale financial investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss.

Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. The bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized in other comprehensive income and accumulated in equity in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in profit or loss in 'Other operating income'. Where the bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate (EIR).

Dividends earned, whilst holding available-for-sale financial investments are recognized in the profit or loss as 'Other operating income' when the right of the payment has been established.

The losses arising from impairment of such investments are recognized in the profit or loss in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

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 amortized cost using the effective interest rate (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognized in the profit or loss and other comprehensive income.

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.

Due from banks and loans and advances to customers

'Due from banks' and 'Loans and advances to customers', 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, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortized cost using the effective interest rate (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due from banks and loans and advances to customers (Continued)

The amortization is included in 'Interest and similar income' in the profit or loss. The losses arising from impairment are recognized in the profit or loss in 'Impairment loss expense'.

The bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Long term borrowed funds

Where the loan, on drawdown, is expected to be retained by the bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event). Financial instruments issued by the bank that are not designated at fair value through profit or loss, are classified as liabilities under 'Other borrowed funds', where the substance of the contractual arrangement results in the bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component. An analysis of other borrowed funds is disclosed in Note 33 (Long term Borrowing).

Derecognition 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 derecognized 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 recognized to the extent of the bank's continuing involvement in the asset.

In that case, the bank also recognizes 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 derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognized 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 with similar instruments for which market observable prices exist, for relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the bank's best estimate of the most appropriate model assumptions.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (Day 1 profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 39.

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 reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets carried at amortized cost

For financial assets carried at amortized 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, recognized 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 recognized in the 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 realized 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 recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment losses expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (EIR). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate (EIR). If the bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate (EIR) determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized 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. See Note 20 for an analysis of the impairment allowance on loans and advances by class.

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 amortized cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the 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.

Available-for-sale (AFS) financial investments include equity investments securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

The interest income from available for sale financial investments 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 recognized in the profit or loss, the impairment loss is reversed through the statement of comprehensive income.

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 effective interest rate (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 effective interest rate (EIR).

Collateral valuation

The bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the bank's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources. (See note 42 for further analysis of collateral).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collateral repossessed

The bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the bank's policy.

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 current enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of financial position.

Acceptances and letters of credit

Acceptances and letters of credit are accounted for as items not recognized in the statement of financial position and disclosed as part of contingent liabilities off – balance sheet.

Financial guarantees

In the ordinary course of business, the bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within 'other liabilities') at fair value, being the premium received.

Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized, and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the profit or loss in 'Impairment loss'. The premium received is recognized in the profit or loss in 'Other operating income' on a straight line basis over the life of the guarantee.

Cash and cash equivalents

Cash and cash equivalents referred in the statement of cash flows 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, held to maturity investments and investments with maturity periods of three months or less in money market instruments.

Borrowing costs

Borrowing costs 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 are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currency translation

The financial statements are presented in Tanzania Shillings (TZS). Items included in the financial statements are measured using that functional currency.

Transactions and balances

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

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

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 at 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 recognized for all taxable temporary differences, except:

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

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes (Continued)

Deferred tax (Continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it 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 realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the profit or loss.

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

Value added tax

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

Dividends on ordinary shares

Dividends on ordinary shares are recognized 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.

Capital and revenue grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognized as deferred income and released as income in equal instalments over the expected useful life of the related asset.

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

When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

Grants received from donor agencies and other private organizations of revenue nature are dealt with in the profit and loss account over the period in which the related expense is incurred.

Regulatory Reserve

Regulatory reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution. Regulatory reserves are excluded in calculations of the bank's core capital.

Other reserves

Other reserves represent asset revaluation reserve for TIB Rasilimali Limited, the reserve is used to record increases in the fair value of fixed assets and decreases to the extent that such decrease relates to an increase on the same asset previously recognized to equity. The reserve can only be used in limited circumstances.

Technical assistance reserve

This reserve was established by a resolution of the bank's Board of Directors in 2007. The purpose of the reserve is to provide funds for financing technical support and training to new development projects whereby the government has identified those projects as strategic projects for national development and community support.

In the process of applying the bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 39.

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 the 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on loans and advances (Continued)

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 utilization, 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). The impairment loss on loans and advances is disclosed in more detail in Note 20.

Deferred tax assets

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

Held to maturity investments

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the bank evaluates its intention and ability to hold such investments to maturity. If the bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class of investment as an available-for-sale financial asset. The investments would therefore be measured at fair value not amortized cost.

5. 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.

Credit impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets in the bank. The directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available for sale equity investments

The bank determines whether available-for-sale equity investments are impaired when there has been a significant decline in the fair value from its cost. This determination of what is significant requires judgment. In making this judgment, the bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment and their residual values. The rates are set out in Note 4.

Held to maturity investments

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the bank evaluates its intention and ability to hold such investment to maturity. If the bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value.

Taxes

The bank is subjected to several taxes and levies by the government and quasi- government regulatory bodies. As a rule of thumb, the bank recognises liabilities for the anticipated tax/ levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes/ levies. Should it come to the attention of Management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

6. INTEREST AND SIMILAR INCOME

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Loans and advances	70,035	49,865	54,805	49,865
Government/Corporate securities - held to maturity	8,358	7,608	6,177	7,608
Placements	4,984	2,344	1,507	2,344
	83,377	59,817	62,489	59,817

7. INTEREST AND SIMILAR EXPENSE

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Fixed deposits	19,739	10,333	17,503	10,333
Savings deposits	1,075	236	-	236
Others - notice and borrowings	11,901	4,128	8,180	4,128
	32,715	14,697	25,683	14,697

8. FEES, COMMISSIONS AND OTHER INCOME

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Loans appraisal fee	2,856	1,965	2,321	1,965
Advisory fee	946	-	946	-
Income from Collections and Agency	57	71	57	71
Commission on REA, TEDAP	149	228	149	228
Fees from Flower Projects	300	276	300	276
Fees income from Commodity Import Support	100	75	100	75
Agency fees from Agricultural Window	119	213	119	213
Mining Projects Management fee	171	-	171	-
Results Based Management fee	68	-	68	-
Fees income from THB liquidation	82	82	82	82
Rental income	49	35	49	35

8. FEES, COMMISSIONS AND OTHER INCOME (Continued)

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Write back over accrued expenses	272	250	272	250
Commitment and restructuring fees on loans	23	175	23	175
Income From Grants	227	227	227	227
Dividend Income	66	-	66	-
TISS Service charge	67	36	-	36
Teller charges and commissions	335	193	-	193
Cash withdrawal charges	157	121	-	121
LC Commissions and collections	374	344	-	344
Guarantees commissions	239	478	-	478
ATM commission	33	23	-	23
Recovery from bad debtors	-	-	-	-
Income from assets disposal	-	13	-	13
Other income	2,342	515	18	6
	9,032	5,320	4,968	4,811

9. FOREIGN CURRENCY DEALING, GAINS ON VALUE OF SHARES AND EXCHANGE INCOME

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Foreign currency dealing (buying and selling of forex)	3,061	1,588	953	1,588
Translation gains/(loss)	-	1	-	1
Gain on Fair value of shares	132	1,080	-	-
	3,193	2,669	953	1,589

10. RECOVERIES FROM CHARGED OFF LOANS

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Recoveries from charged off loans	2,824	1,733	2,824	1,733
	2,824	1,733	2,824	1,733

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

11. PERSONNEL EXPENSES

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Wages and salaries	14,283	9,565	9,545	9,275
Social security contributions	1,920	1,273	1,267	1,238
Skills and Development Levy	841	560	584	545
Sub-total	17,044	11,398	11,396	11,058
Training cost	879	760	610	755
Staff passage and leave allowances	1,120	1,058	902	1,058
Staff bonus	1,326	29	789	-
Staff medical insurance	624	580	419	573
Staff terminal benefit	158	38	153	38
Staff transfer/1st appointments	122	25	103	25
Office sundries	121	100	72	100
Employment benefits (Note 38)	200	1,091	(258)	1,091
Staff loan fair valuation expenses	377	-	255	-
Other employment costs	92	192	34	64
Sub-total	5,019	3,873	3,079	3,704
Grand total	22,063	15,271	14,475	14,762

The average number of employees during the year and at the end of the year was 163 (2014:202) for the bank.

12. OCCUPANCY COSTS

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Rent (Bank premises)	4,052	2,552	1,932	2,552
Repairs and maintenance (Bank premises and residential houses)	627	305	551	305
Repairs and maintenance (Office machines and automation)	67	37	34	37
Repairs and maintenance (Office furniture & equipment)	71	93	42	91
Water and light	372	347	227	347
Insurance premium on furniture and equipment	11	7	11	7
Other occupancy cost (land rates)	2	2	2	2
	5,202	3,343	2,799	3,341

13. GENERAL AND ADMINISTRATION EXPENSES

	CONSOLIDATED		BANK	
	2015	2014	2015	2014
	TZS	TZS	TZS	TZS
	million	million	million	million
Auditors' remuneration	340	252	212	233
Directors' emoluments	82	28	39	28
Board of Directors expenses	661	368	364	357
Correspondent Bank and SWIFT Charges	154	194	6	190
Communication costs	621	370	410	357
Travelling and accommodation	893	582	797	577
Local authority service charges	104	169	69	169
Insurance cost	595	481	227	481
Marketing and advertising cost	1,678	1,519	1,324	1,516
Printing, consumables and stationeries	278	315	201	295
Repairs and fuel motor vehicles	579	285	387	285
Security cost	582	481	170	481
Transformation costs	42	9	42	9
Umoja switch expenses	203	143	-	143
System management fees and license	581	466	175	463
Consultancy expenses	313	332	292	322
Regional integration costs	15	5	15	5
Subscription and contribution	111	79	83	79
Expense on disposal of fixed assets	-	10	-	10
Provisions on sundry receivables	434	338	434	338
Written off Assets	-	135	-	135
TUICO and Workers counsel expenses	25	31	21	31
Borrowing costs	380	67	380	67
Excise duty	416	-	281	-
Expenses on loan recovery	37	-	37	-
Other operating expenses	151	73	46	33
	9,275	6,732	6,012	6,604

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

14. CASH AND BALANCES WITH BANK OF TANZANIA

	CONSOLIDATED		BANK	
	2015 TZS Millions	2014 TZS Millions	2015 TZS Millions	2014 TZS Millions
Cash				
Cash in hand-Local currency	2,006	1,847	-	1,847
Cash in hand-Foreign currency	1,930	1,290	-	1,290
	3,936	3,137	-	3,137
Balances with Bank of Tanzania				
Balance in local currency	1,908	759	-	759
Balance in foreign currency	2,292	1,685	-	1,685
	4,200	2,444	-	2,444
Statutory Minimum Reserve	2,000	-	-	-
	10,136	5,581	-	5,581

15. BALANCE WITH OTHER BANKS

Balance in local currency	3,505	2,072	9,104	1,864
Balance in foreign currency	3,484	4,524	7,283	4,524
	6,989	6,596	16,387	6,388

16. PLACEMENTS WITH OTHER BANKS

Maturity within three months	24,980	12,938	21,157	12,938
Maturity after three months	-	4,476	20	4,476
	24,980	17,414	21,177	17,414

17. FINANCIAL INVESTMENT HELD FOR TRADING

	Equities –In Units				Equities (Market Values) – In million TZS			
	At 1 Jan	Additions	Disposals	At 31 Dec	At 1 Jan	Additions/ Disposals	Fair value gain / (loss)	At 31 Dec
2015								
Tanzania Breweries Ltd	135,940	39,910		175,850	1,903	606	94	2,603
Tanzania Cigarette Company Ltd	6,045	4,000		10,045	103	66	-9	160
Uchumi Supermarket Limited	19,389	-		19,389	4	-	-	4
Simba Cement Co. Limited	24,112	-		24,112	109	-	-45	64
SWISSPORT	52,767	-		52,767	269	-	119	388
CRDB Bank Plc.	9,980	256,637		266,617	4	102	2	108
Dar-es-Salaam Community Bank	127,480	-		127,480	92	-	-19	73
Twiga Cement Co. Limited	40	15,000		15,040	0	45	-0	45
NMB Bank Plc	6,281	13,370		19,651	21	38	-10	49
Total	382,034	328,917		710,951	2,505	857	132	3,494

	Equities –In Units				Equities (Market Values) – In million TZS			
	At 1 Jan	Additions	Disposals	At 31 Dec	At 1 Jan	Additions/ Disposals	Fair value gain / (loss)	At 31 Dec
2015								
Tanzania Breweries Ltd	151,210	1,730	(17,000)	135,940	1,209	(113)	807	1,903
Tanzania Cigarette Company Ltd	6,045	-	-	6,045	52	-	51	103
Uchumi Supermarket Limited	-	19,389	-	19,389	-	5	(1)	4
Simba Cement Co. Limited	24,112	-	-	24,112	49	-	60	109
SWISSPORT	52,767	-	-	52,767	141	-	128	269
CRDB Bank Plc.	209,980	-	(200,000)	9,980	58	(56)	2	4
Dar-es-Salaam Community Bank	127,480	-	-	127,480	64	-	28	92
Twiga Cement Co. Limited	40	-	-	40	0	-	0	0
NMB Bank Plc	6,281	-	-	6,281	16	-	5	21
Total	577,915	21,119	(217,000)	382,034	1,589	(164)	1,080	2,505

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

18. GOVERNMENT AND CORPORATE SECURITIES HELD TO MATURITY

	CONSOLIDATED		BANK	
	2015 TZS Millions	2014 TZS Millions	2015 TZS Millions	2014 TZS Millions
Treasury bills-held to maturity				
Maturity within three months	4,223	9,823	-	9,823
Maturity after three months	19,260	15,189	13,153	15,189
	23,483	25,012	13,153	25,012
Treasury and corporate bonds held to maturity				
Maturity within three months	3,619	2,064	3,467	2,064
Maturity within two years	37,122	15,613	27,688	15,613
Maturity after two years	10,180	3,798	10,180	3,798
	50,921	21,475	41,335	21,475
Total	74,404	46,487	54,488	46,487

The group holds various fixed income securities issued by the Government. Treasury bills and bonds are issued at a fixed coupon rate and the group holds them to maturity. As at year end, a total of TZS 57.69 billion were pledged as collateral, for short term inter-bank borrowing.

19. CASH AND CASH EQUIVALENTS

	Notes	CONSOLIDATED		BANK	
		2015 TZS Millions	2014 TZS Millions	2015 TZS Millions	2014 TZS Millions
Cash and balances with Bank of Tanzania	14	10,136	5,581	-	5,581
Balance with other banks	15	6,989	6,596	16,387	6,388
Placements with other banks maturing within 3 months	16	24,980	12,938	21,157	12,938
Government securities held to maturity within 3 months	18	7,842	11,887	3,467	11,887
		49,947	37,002	41,011	36,794

The group's policy on cash and cash equivalents is that only placements and investments in Government securities maturing within 3 months together with cash and bank balances are considered as cash and cash equivalents. This policy has been used consistently.

20. LOANS AND ADVANCES

	CONSOLIDATED		BANK	
	2015 TZS Millions	2014 TZS Millions	2015 TZS Millions	2014 TZS Millions
Advances to customers (gross)	635,102	402,328	526,135	402,328
Accrued interest receivable	26,497	12,427	26,050	12,427
	661,599	414,755	552,185	414,755
Less: Allowances for losses on loans and advances	(17,991)	(7,327)	(17,897)	(7,327)
Advances to customers net	643,608	407,428	534,288	407,428
Loans and Advances to staff	9,615	5,609	5,504	5,608
Accrued interest on staff loans	13	8	7	8
Staff loans fair value provisions	(1,124)	-	(1,124)	-
Net loans and advances	652,112	413,045	538,675	413,044
Maturity analysis (gross loans to customers)				
Repayable on demand	50,491	124,768	46,471	124,767
Maturity of 3 months or less	111,502	10,627	40,710	10,627
Maturity of 3 months and 1 year	182,923	49,763	156,658	49,763
Maturity of more than 1 year	316,683	229,597	308,346	229,598
	661,599	414,755	552,185	414,755

Out of the total loans and advances an amount equivalent to TZS 301,612 million is denominated in foreign currencies (2014: TZS 160,729 million was denominated in foreign currencies)

Movement in allowance for impairment losses on loans and advances:

At 01 January	7,327	9,577	7,327	9,577
Charge for the year	11,946	15,223	11,852	15,223
Charged off and written-off loans	(1,282)	(17,473)	(1,282)	(17,473)
At 31 December	17,991	7,327	17,897	7,327

Non - performing loans

For the bank, non-performing loans and advances amounts TZS 78,507 million (2014: TZS 110,582 million). In the opinion of directors credit enhancement in respect of these loans and advances fair values are TZS 149,324 million (2014: TZS 318,501 million) and such collaterals the bank has the right to sell. For the group, non-performing loans and advances amounts TZS 89,678 million.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

20. LOANS AND ADVANCES (Continued)

Lending concentration

Economic sector risk concentrations within the customer's loan and advances portfolio as at 31 December 2015 and 2014 were as follows:

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Agriculture and Agro processing	147,638	123,713	136,939	123,713
Oil Company /Lease and Gas	146,453	4,316	146,453	4,316
Electricity	10,158	1,003	10,158	1,003
Manufacturing	63,120	39,382	40,909	39,382
Real Estate	59,844	66,501	59,844	66,501
Building ,Construction	37,364	6,552	2,829	6,552
Transport and communication	10,501	9,410	10,501	9,410
Tourism and Forestry	43,745	39,253	43,745	39,253
Trade	35,000	38,693	5,514	38,693
Mining and Quarrying	61,192	23,160	61,192	23,160
Education and Health	11,298	8,226	11,298	8,226
Hotel & Restaurants	10,880	5,416	10,880	5,416
Financial Intermediaries	5,576	7,624	5,576	7,624
Leasing	1,232	16,100	1,232	16,100
Individuals and SMEs	10,353	10,065	5,511	10,065
Fishing	109	389	109	389
Other Services	16,764	20,568	5,006	20,568
	671,227	420,371	557,696	420,371

The table below shows the classification of the group loans and respective impairment against each class. Loans classified as Substandard, Doubtful and Loss are classified as Non-Performing.

	CONSOLIDATED			
	2015		2014	
	Exposure TZS million	Impairment TZS million	Exposure TZS million	Impairment TZS million
Current	581,550	1,212	309,790	1,688
Substandard	38,256	3,038	78,194	2,154
Doubtful	14,462	7,264	6,904	1,865
Loss	36,959	6,477	25,483	1,620
Net loans and advances	671,227	17,991	420,371	7,327

	BANK			
	2015		2014	
	Exposure TZS million	Impairment TZS million	Exposure TZS million	Impairment TZS million
Current	479,189	1,276	309,790	1,688
Substandard	28,162	3,038	78,194	2,154
Doubtful	13,757	7,170	6,904	1,865
Loss	36,588	6,413	25,483	1,620
Net loans and advances	557,696	17,897	420,371	7,327

21. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	CONSOLIDATED		BANK	
	2015	2014	2015	2014
	TZS million	TZS million	TZS million	TZS million
Accounts receivable	9,805	5,917	9,768	5,906
Prepaid expenses	3,773	821	2,529	820
	13,578	6,738	12,297	6,726
Less: Allowances for losses	(2,050)	(1,669)	(2,050)	(1,670)
	11,528	5,069	10,247	5,056

Other assets are non-interest bearing instruments made up of accrued income and prepayments which are receivable within one year.

Movement in allowance for losses on accounts receivable

At 01 January	1,670	1,317	1,670	1,317
Expenses for the year	434	338	434	338
(Recoveries)/Charge offs	(54)	14	(54)	15
At 31 December	2,050	1,669	2,050	1,670

As at 31 December, the ageing analysis of accounts receivable is as follows:

Neither past due nor impaired	7,517	2,384	7,480	2,373
Past due but not impaired				-
Less than 30 days	90	1,306	90	1,306
Within 30 - 60 days	469	511	469	511
Within 60 - 90 days	47	320	47	320
Over 90 days	1,682	1,396	1,682	1,396
	9,805	5,917	9,768	5,906

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

22. GRANTS RECEIVABLE

	CONSOLIDATED		BANK	
	2015	2014	2015	2014
	TZS million	TZS million	TZS million	TZS million
Opening balance	74	27	74	27
Utilised during the year	125	74	125	74
Received during the year	(199)	(27)	(199)	(27)
Grants Receivable	-	74	-	74

Revenue grant receivable represents funds for training and capacity buildings activities, of which the bank finances the scheduled activities after being approved for reimbursement. During the year 2015 there was a donation by Word Bank amounting to TZS 125 million.

23. EQUITY INVESTMENT (AVAILABLE FOR SALE)

	CONSOLIDATED		BANK	
	2015	2014	2015	2014
	TZS million	TZS million	TZS million	TZS million
Unquoted shares of Tanzania Mortgage Refinance Company Limited(TMRC)	1,450	1,450	1,450	1,450
Unquoted shares of Umoja Switch Company Limited	20	20	20	20
Unquoted shares of NORSAD Finance Limited	7,151	5,763	7,151	5,763
Unquoted shares of SAAFI Limited	2,500	2,500	2,500	2,500
Preference shares of NORSAD Finance Limited	2,371	-	2,371	-
Total	13,492	9,733	13,492	9,733
Provision for Impairment in Equity Investment	1,500	1,500	1,500	1,500
Net Equity Investments	11,992	8,233	11,992	8,233

The Bank holds unquoted equity shares in the Companies listed above. The Bank has been allotted 1,450,000 shares @ TZS 1,000 each of Tanzania Mortgage Refinancing Company Limited, 20 shares @ TZS 1,000,000 each of Umoja Switch Company Limited, 400 shares @ USD \$ 8,303.6 each of NORSARD Finance Limited and 25,000 shares @ 100,000 each of SAAFI Limited . All shares held by the bank are not quoted in any stock market and there is no reliable information to determine their fair values. The bank assesses the value of the investments at the end of reporting period and calculates impairment where realizable value is lower than the carrying value of the investment. The provision for impairment is recognized in profit or Loss.

24. INVESTMENT IN SUBSIDIARY

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Investment in TIB-Corporate Bank Limited	-	-	20,000	-
Investment in Rasilimali	-	-	701	456
	-	-	20,701	456

The Bank owns 100% of the issued and paid up ordinary share capital of TIB Corporate Bank Limited and TIB Rasilimali Limited. These two companies are incorporated in Tanzania under the Tanzanian Companies Act, 2002. The principal activities of TIB-Corporate Bank Limited are commercial banking services and for TIB Rasilimali Limited are securities dealing and Investment advisory services.

25. INVESTMENT PROPERTY

At 1 January	11,500	11,500	11,500	11,500
Additions	-	-	-	-
As at 31 December	11,500	11,500	11,500	11,500

Investment Property comprises plots owned by the bank in prime areas which are yet to be developed.

It is the policy of the bank to report the investment at fair value. The value is assessed each year using a qualified and registered internal property valuer. Independent external valuers are used after every three years. The plots were last valued by independent valuer in 2013 by URES and Associates a registered valuer.

During the year, TZS 553.67 million was used for maintaining and securing the plots. No income was generated from the plots.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

26. PROPERTY AND EQUIPMENT

CONSOLIDATED	Buildings	Motor vehicles	Machinery and automation	IT Equipment	Furniture and equipment	Total
	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million
2015						
Cost						
At 01 January	252	1,580	732	2,109	1,801	6,474
Additions	-	1,381	752	806	1,318	4,257
Transfer to CBL	-	-	(405)	(813)	(1,426)	(2,644)
Gain on Revaluation	-	-	-	50	157	207
Transfer to Rasilimali	-	-	(1)	-	(119)	(120)
At 31 December	252	2,961	1,078	2,152	1,731	8,174
Depreciation						
At 01 January	181	1,331	582	1,401	633	4,128
Charge for the year	10	339	60	306	219	934
Transfer to CBL	-	(233)	-	(405)	(222)	(860)
Depreciation on Revaluation	-	-	-	3	5	8
Transfer to Rasilimali	-	-	-	-	(15)	(15)
At 31 December	191	1,437	642	1,305	620	4,195
Net book value						
At 31 December	61	1,524	436	847	1,111	3,979
2014						
Cost						
At 01 January	252	1,580	722	1,833	1,176	5,563
Adjustments	-	-	(9)	-	(4)	(13)
Additions	-	-	24	297	691	1,012
Disposal	-	-	(5)	(21)	(62)	(88)
At 31 December	252	1,580	732	2,109	1,801	6,474
Depreciation						
At 01 January	171	1,076	472	1,058	476	3,253
Charge for the year	10	255	116	363	200	944
Disposal	-	-	(5)	(20)	(40)	(65)
Adjustments	-	-	-	-	(3)	(3)
At 31 December	181	1,331	583	1,401	633	4,129
Net book value						
At 31 December	71	249	150	708	1,168	2,345

BANK	Buildings	Motor vehicles	Machinery And automation	IT Equipment	Furniture And equipment	Total
	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million
2015						
Cost						
At 01 January	252	1,580	732	2,084	1,781	6,429
Additions	-	552	12	178	135	877
Transfer to CBL	-	-	(405)	(408)	(732)	(1,545)
Transfer to Rasilimali	-	-	(1)	-	(119)	(120)
At 31 December	252	2,132	338	1,854	1,065	5,641
Depreciation						
At 01 January	181	1,331	582	1,390	624	4,108
Transfer to CBL	-	-	(357)	(282)	(199)	(838)
Transfer to Rasilimali	-	-	-	-	(15)	(15)
Charge for the year	10	255	56	282	117	720
At 31 December	191	1,586	281	1,390	527	3,975
Net book value						
At 31 December	61	546	57	464	538	1,666
2014						
Cost						
At 01 January	252	1,580	722	1,809	1,135	5,498
Adjustments	-	-	(9)	-	(4)	(13)
Additions	-	-	24	288	691	1,003
Disposal	-	-	(5)	(13)	(41)	(59)
At 31 December	252	1,580	732	2,084	1,781	6,429
Depreciation						
At 01 January	171	1,076	471	1,045	459	3,222
Adjustments	-	-	-	-	(3)	(3)
Charge for the year	10	255	116	358	197	936
Disposal	-	-	(5)	(13)	(29)	(47)
At 31 December	181	1,331	582	1,390	624	4,108
Net book value						
At 31 December	71	249	150	694	1,157	2,321

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

27. LEASEHOLD IMPROVEMENTS

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Cost				
At 1 January	2,952	1,995	2,952	1,995
Additions	2,756	957	55	957
Transfer to CBL	(961)	-	(957)	-
Revaluation	-	-	-	-
As at 31 December	4,747	2,952	2,050	2,952
Amortization				
At 1 January	1,775	1,525	1,775	1,525
Amortisation during the year	371	250	213	250
Transfer to CBL	(48)	-	(48)	-
As at 31 December	2,098	1,775	1,940	1,775
Net book value				
As at 31 December	2,649	1,177	110	1,177

28. INTANGIBLE ASSETS

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Cost				
At 1 January	3,058	2,520	3,056	2,518
Additions	60	538	40	538
As at 31 December	3,118	3,058	3,096	3,056
Amortization				
At 1 January	2,472	2,196	2,470	2,192
Amortisation during the year	245	278	244	278
As at 31 December	2,717	2,474	2,714	2,470
Net book value				
As at 31 December	401	584	382	586

29. TAXATION

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
a) Tax expense				
Current year income tax	7,303	3,890	5,643	3,890
Deferred tax liability/(asset)	(1,068)	127	(1,250)	(141)
	6,235	4,017	4,393	3,749
b) Reconciliation of tax expense to tax based on accounting profit:				
Accounting profit before taxation	15,675	11,301	9,236	10,359
Tax applicable rate of 30%	4,703	3,390	2,771	3,108
Effects of non-qualifying capital allowances	52	300	38	300
Permanently disallowed expenditure	71	327	91	341
(Under)/ over provision of Prior year taxes -Deferred	24	-	24	-
Under provision of Prior year taxes -current	1,385	-	1,469	-
Tax (income)/expense	6,235	4,017	4,393	3,749
c) Deferred tax				
Accelerated depreciation for tax purposes	(673)	(180)	(725)	(184)
Adjusted tax losses	-	(385)	-	-
Change in fair value of investment	13,585	1,952	11,500	-
Re-measurement gains on employment benefits actuarial valuation	709	(1,000)	580	(1,000)
General provisions	(16,401)	(12,117)	(16,714)	(12,088)
	(2,780)	(11,730)	(5,359)	(13,272)
Deferred tax (assets)/ liability thereon at 30%	(834)	(3,519)	(1,608)	(3,982)
Deferred tax liability on fair valuation	-	3,450	-	3,450
	(834)	(69)	(1,608)	(532)
Less: opening deferred tax	(69)	104	(532)	(91)
Deferred tax (asset) / liability release	(765)	(173)	(1,076)	(441)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

29. TAXATION (Continued)

Statement of profit or loss and other comprehensive income break-down

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Charged to profit or loss	(1,068)	127	(1,250)	(141)
Charged to other comprehensive income	303	(300)	174	(300)
	(765)	(173)	(1,076)	(441)

The subsidiary company TIB Rasilimali Limited has accumulated tax losses of which deferred tax assets has not been recognized in the financial statements as the company is not certain as to when the deferred tax assets would be utilized.

d) Tax recoverable

Tax payable brought forward	(1,371)	(1,488)	(1,317)	(1,440)
Tax charge for the year	7,303	3,890	5,643	3,890
Tax payments during the year	(5,953)	(3,773)	(4,361)	(3,767)
Tax (recoverable)/ Payable	(21)	(1,371)	(35)	(1,317)

30. CUSTOMER DEPOSITS

	CONSOLIDATED		BANK	
	TZS million	TZS million	TZS million	TZS million
Interest bearing deposits				
Customer accounts	255,944	130,579	201,260	130,579
Banks and other financial institutions	192,882	110,223	194,599	110,223
	448,826	240,802	395,859	240,802
Non-interest bearing deposits				
Customer accounts	73,950	41,841	10,292	41,878
	522,776	282,643	406,151	282,680
Maturity analysis				
Repayable on demand	27,133	41,647	10,292	41,690
With maturity of 3 months or less	395,740	138,195	301,367	138,195
With maturity of 3 months	99,903	102,801	94,492	102,795
	522,776	282,643	406,151	282,680

31. PAYABLES AND ACCRUALS

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Accrued expenses	2,800	1,358	6,55	1,218
Other liabilities	3,491	812	2,126	690
	6,291	2,170	8,681	1,908

Movement in accounts payable

Carrying amount at the beginning of the period	2,170	4,806	1,908	4,587
Addition made during the period	5,441	280	8,133	277
Obligation honoured during the period	(1,360)	(2,706)	(1,360)	(2,706)
Amount reversed during the year	40	(210)	-	(250)
Carrying amount at the end of the period	6,291	2,170	8,681	1,908

32. DEFERRED INCOME

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Deferred fees income on loans	2,982	2,214	2,926	2,214
Deferred income on guarantees fees	299	100	-	100
	3,281	2,314	2,926	2,314

Deferred Income on loans represents amount received as appraisal fee on long term loans, being 1% of approved facilities, which is non-refundable, while the deferred income on guarantee fee constitute the fee charged on issued letters of credit and guarantees all the amounts are amortised over the period of the facilities.

33. LONG TERM BORROWINGS

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
At the beginning of the period	17,353	-	17,353	-
New Loan facility	43,060	17,676	43,060	17,676
Repayment during the period	(4,290)	(323)	(4,290)	(323)
At the end of the period	56,123	17,353	56,123	17,353

During the year 2015 the bank entered into agreements with two financial institutions for two different loan facilities. First institution is M/s East Africa Development Bank who provided USD 10 million being part of the loan facility amounting USD 20 million for ten years. The remaining USD10 million will be received in early 2016. Another Institution is M/s Shelter-Afrique who gave the bank a total line of credit of USD 10 million for five years. The bank closed the year with three facilities another one being USD 6 million from M/s NORASAD which existed since year 2014.

Long term borrowing facilities had outstanding balance of TZS 56,123 million as at end of 2015 (2014: TZS 17,353).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

34. GOVERNMENT GRANTS

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Capital grants				
At the beginning of the period	384	611	384	611
Released to the statement of profit or loss	(227)	(227)	(227)	(227)
As at 31 December	157	384	157	384

Capital Grants are the IT equipment received from the World Bank through the facility managed by the Bank of Tanzania to support bank's operations, capital grants are amortised to profit or loss based on estimated useful life assessed.

35. SHARE CAPITAL

Authorised share capital	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
The total authorized share capital of the bank is 1,000,000 shares of TZS 1,000 each.	1,000,000	1,000,000	1,000,000	1,000,000
Authorized, called up and fully paid				
152,137,661 ordinary shares of TZS 1,000 each (2014: 152,137,661 ordinary shares)	152,138	152,138	152,138	152,138
Advance towards share Capital	5,281	5,281	5,281	5,281

36. REGULATORY CAPITAL

The bank complied with minimum capital requirements as required by sections 16 and 17 of the Banking and Financial Institutions Act, 2006 and the Bank of Tanzania Capital Adequacy Regulations 2008. The bank's capital is computed in accordance with these regulations as follows:

	CONSOLIDATED		BANK	
	2015	2014	2015	2014
	TZS million	TZS million	TZS million	TZS million
Share capital	152,138	152,138	152,138	152,138
Retained earning	18,781	16,269	16,656	14,648
	170,919	168,407	168,794	166,786
Less:				
Prepaid expenses	3,773	821	2,529	820
Deferred charges	3,281	2,314	2,926	2,314
Intangible assets	401	584	382	586
Deferred tax assets	834	69	1,608	532
	8,289	3,788	7,445	4,252
Core capital(Tier1)	162,630	164,619	161,349	162,534
Add: Supplementary capital(Tier2)	-	-	-	-
Tier1 Capital&Tier2 Capital	162,630	164,619	161,349	162,532
Required capital	50,000	50,000	50,000	50,000
Risk - weighted assets				
On financial position	689,852	441,079	584,148	441,079
Off financial position	24,128	28,612	-	28,612
Total risk - weighted assets	713,980	469,691	584,148	469,691
Capital Ratios				
Tier 1 Actual	23%	35%	28%	35%
Tier 1 + Tier 2 Actual	23%	35%	28%	35%
Tier 1+Tier 2-Required	15%	15%	15%	15%
Non distributable reserve				
Gross BoT Provision	59,307	40,537	50,411	40,537
Less:				
IFRS impairment	(17,991)	(7,327)	(17,897)	(7,327)
Collective Impairment	1,218	1,690	1,212	1,690
Non distributable reserve	42,534	34,900	33,726	34,900
Retained Earnings Movement				
At 01 January	16,269	25,023	14,648	24,076
Profit for the year	9,440	7,284	4,843	6,610
Prior year Adjustments	-	(209)	-	(209)
Transfer to technical assistance	-	(2,000)	-	(2,000)
Reserve transfer to subsidiary			(4,415)	
Other Comprehensive Income	707	(700)	406	(700)
Transfer to regulatory reserve	(7,635)	(13,129)	1,174	(13,129)
Retained Earning	18,781	16,269	16,656	14,648

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

37. RELATED PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
a. Loans:				
At the beginning of the year	8,053	537	8,053	537
Loans issued during the year	7,996	7,835	5,838	7,835
Loan repayments during the year	(7,424)	(319)	(7,264)	(319)
As at the end of the year	8,625	8,053	6,627	8,053
b. Cash and short term investments				
TIB Corporate Bank Limited	-	-	16,264	-
c. Accounts Receivables				
TIB Corporate Bank Limited	-	-	1,237	-
TIB Rasilimali Limited	-	-	222	-
As at the end of the year	-	-	1,459	-
d. Deposits:				
At the beginning of the year	135	162	135	162
Deposits received during the year	4,894	-	100	-
Deposits repaid during the year	(4,682)	(27)	-	(27)
As at the end of the year	347	135	235	135
e. Interbank borrowings and deposits				
TIB Corporate Bank Limited	-	-	16,333	-
As at the end of the year	-	-	16,333	-
Fees received from the Government for managing projects				
Managed funds Note 43	988	874	988	874
Key management compensation				
Salaries and other short-term benefits	4,101	1,755	2,257	1,652
Contributions to Pension funds	298	194	178	178
Post-employment benefits	233	151	233	151
	4,632	2,100	2,668	1,981
Key management comprise of Managing Director, Directors and Independent Departmental Heads.				
Directors' remuneration				
Made up of:				
Directors' emoluments (Note 13)	82	28	39	28
Board of Directors expenses (Note 13)	661	368	364	357
	743	396	403	385

Transactions entered into with the related parties are at an arm's length in the ordinary course of business. These transactions are carried out on normal commercial terms and at prevailing market rates. During the year the bank complied with all regulatory requirements.

38. EMPLOYMENT BENEFIT OBLIGATION

With effect from June 2013, the Bank operates an unfunded lump sum Gratuity Agreement. As the arrangement is unfunded, gratuity benefits are paid out of the Bank's general revenues. Upon retirement, and having more than ten (10) years of service, the arrangement provides a benefit of 12 times monthly Basic Salary. The Bank also provides long service awards to permanent staff. In respect of Contract employees at the Bank, a benefit equal to 25% of the gross salary drawn by the respective employee during the contractual term. No benefits are provided on withdrawn or death in service.

The amounts recognized in the statement of financial position are as follows:

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Present value of unfunded obligation	2,129	3,560	2,129	3,560
Fair value of the scheme assets	-	-	-	-
Net underfunding in funded plan	2,129	3,560	2,129	3,560
Defined benefit obligation/(asset) recognized in the statement of financial position	2,129	3,560	2,129	3,560
Reconciliation of benefit obligation				
Opening benefits obligation	3,560	2,056	3,560	2,056
Transfer to CBL	-	-	(593)	-
Adjustment in the current period	(758)	-	(758)	-
Current service cost (employer)	812	465	516	465
Interest cost	350	504	266	504
Actuarial (gain)/loss due to change in assumptions	(2,891)	1,000	(2,127)	1,000
Actuarial (gain) / loss due to Experience	1,881	-	1,547	-
Benefit paid	(298)	(465)	(282)	(465)
Closing Benefit obligation	2,656	3,560	2,129	3,560
Reconciliation of assets				
Employer Contributions	267	465	282	465
Benefits paid	(267)	(465)	(282)	(465)
Closing market value of assets	-	-	-	-
The amount recognized in profit or losses is as follows				
Service costs				
Current service cost (employer)	812	465	516	465
Losses/(gains) on curtailments and settlements	-	-	-	-
Total service costs	812	465	516	465
Interest cost				
Interest cost on defined benefit obligation	350	504	266	504
Net Interest cost on benefits sheet liability	350	504	266	504
Total included in profit or loss in respect of scheme	1,162	969	782	969

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

38. EMPLOYMENT BENEFIT OBLIGATION (Continued)

Re-measurement in other comprehensive income (OCI)

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Actuarial (gain)loss-obligation	(1,010)	1,000	(580)	1,000
Amount recognized in OCI	(1,010)	1,000	(580)	1,000
Reconciliation				
Net liability at start of the period	3,560	2,056	3,560	2,056
Transfer to CBL	-	-	(593)	-
Adjustment in the current period	(758)	-	(758)	-
Net expense recognized in profit or loss	1,162	969	782	969
Employer contributions	(298)	(465)	(282)	(465)
Amount recognized in OCI	(1,010)	1,000	(580)	1,000
Net liability at end of period	2,656	3,560	2,129	3,560

39. FAIR VALUE MEASUREMENT

Determination of fair value

The bank establishes fair value for held to maturity financial assets using valuation technique that takes into account discount and interest earned at the reporting date. The current market information is available on the Bank of Tanzania website for market interest rates on loans and advances, deposits and borrowings.

The bank establishes fair value of available for sale financial assets based on the share prices of unquoted equity shares available from the issuer of the equity instrument at the reporting date. Fair values of held for trading financial assets are established based on prices/market information of such instrument available on Dar es Salaam Stock Exchange website at the reporting date.

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. This level includes listed equity securities and debt instruments on exchanges;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices, interest and yield curves) or indirectly (that is, derived from prices Central Bank Auction prices for Government securities); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs to valuation techniques).

CONSOLIDATED	Level 1	Level 2	Level 3	Total
	Quoted price in active market	Significant observable inputs	Significant unobservable inputs	
31 December 2015	TZS million	TZS million	TZS million	TZS million
Financial investment held for trading	3,494	-	-	3,494
Government and Corporate Securities held to maturity	-	74,404	-	74,404
Available-for-sale investment securities	-	11,992	-	11,992
Loans and advances	-	-	652,112	652,112
	3,494	86,396	652,112	742,002

	Level 1	Level 2	Level 3	Total
	Quoted price in active market	Significant observable inputs	Significant unobservable inputs	
31 December 2014	TZS million	TZS million	TZS million	TZS million
Financial investment held for trading	2,504	-	-	2,504
Government and Corporate Securities held to maturity	-	46,487	-	46,487
Available-for-sale investment securities	-	8,233	-	8,233
Loans and advances	-	-	413,044	413,044
	2,504	54,720	413,044	470,268

BANK	Level 1	Level 2	Level 3	Total
	Quoted price in active market	Significant observable inputs	Significant unobservable inputs	
31 December 2014	TZS million	TZS million	TZS million	TZS million
Financial investment held for trading	-	-	-	-
Government and Corporate Securities held to maturity	-	54,488	-	54,488
Available-for-sale investment securities	-	11,992	-	11,992
Loans and advances	-	-	538,675	538,675
	-	66,480	538,675	605,155

	Level 1	Level 2	Level 3	Total
	Quoted price in active market	Significant observable inputs	Significant unobservable inputs	
31 December 2014	TZS million	TZS million	TZS million	TZS million
Financial investment held for trading	-	-	-	-
Government and Corporate Securities held to maturity	-	46,487	-	46,487
Available-for-sale investment securities	-	8,233	-	8,233
Loans and advances	-	-	413,044	413,044
	-	54,720	413,044	467,764

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

39. FAIR VALUE MEASUREMENT (Continued)

Financial instruments at amortized costs

The Bank does not have a very accurate basis for calculating the fair value of the other financial instruments at amortized cost. However, its overall assessment is that their fair values would not be significantly different from the amortized cost at which they are stated because the majority are short term or reprice in the short term.

CONSOLIDATED	2015 Carrying amount TZS million	2015 Fair value TZS million	2014 Carrying amount TZS million	2014 Fair Value TZS million
Financial assets				
Cash and balances with Bank of Tanzania	10,136	10,136	-	-
Balance with other banks	6,989	6,989	-	-
Placements with other banks	24,980	24,980	-	-
Loans and advances	652,112	652,112	-	-
Government securities	74,404	74,404	-	-
Equity investment-available for sale	11,992	11,992	-	-
	780,613	780,613	-	-
Financial liabilities				
Deposits	522,776	522,776	-	-
Payables and Accruals	6,291	6,291	-	-
Long Term Borrowing	56,123	56,123	-	-
	585,190	585,190	-	-

BANK	2015 Carrying amount TZS million	2015 Fair value TZS million	2014 Carrying amount TZS million	2014 Fair Value TZS million
Financial assets				
Cash and balances with Bank of Tanzania	-	-	5,581	5,581
Balance with other banks	16,387	16,387	6,388	6,388
Placements with other banks	21,177	21,177	17,414	17,414
Loans and advances	538,675	538,675	414,044	414,044
Government securities	54,488	54,488	46,487	46,487
Equity investment-available for sale	11,992	11,992	8,283	8,283
	642,719	642,719	498,197	498,197
Financial liabilities				
Deposits	406,151	406,151	282,680	282,680
Other liabilities	8,681	8,681	1,908	1,908
Long Term Borrowing	56,123	56,123	17,353	17,353
	470,955	470,955	301,941	301,941

40. CAPITAL MANAGEMENT

The Bank of Tanzania who is the regulator of the bank sets and monitors capital requirements for the banking industry as a whole. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a bank's capital. In implementing current capital requirements, the Bank of Tanzania requires the bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

- To comply with the capital requirements as a set out under the banking and Financial Institutions Act, 2006 this is monitored by the Bank of Tanzania. Under the Development Finance Institutions (DFI) Regulations, the regulator requires that:
 - a) A DFI shall commence operations with and maintain at all times the minimum of core capital of not less than Fifty Billion Shillings or such higher amount as the Bank of Tanzania may prescribe by order published in the Gazette;
 - b) Every DFI shall at all times maintain a core capital of not less than thirteen percent of its total risk-weighted assets and off financial position exposure; and
 - c) Every bank shall at all times maintain total capital of not less than fifteen per cent of its total risk weighted assets and off financial position exposure.
- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits on other stake holders; and
- To maintain a strong capital base to support the development of the group's business.

The bank's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealized gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capitals. Tier 1 capital (Core capital) are also subjected to various limits like limitation in risk weighted assets by 10%, premises investments are not supposed to exceed 50% of core capital and movable assets are subjected to 20% limitation of core capital.

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised in addition to recognizing the need to maintain a balance between the higher returns and that may be possible with greater gearing and the advantages and security afforded by sound capital position. The bank has complied with capital regulatory requirement, the capital position at 31 December 2015 and 2014 is disclosed on Note 36.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT

In the course of conducting its business, the bank is exposed to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risks (mainly Foreign exchange and interest rate risks)
- Operational risk

The Board of Directors is ultimately responsible for all risks taken by the bank. Risk taking is an integral part of business.

The bank's risk management approach is that:

- All risks must be identified and managed, and that the returns must be commensurate with the risks taken, relative to the bank's risk appetite;
- The effectiveness of risk management processes is ensured through formal governance and comprehensive regular reporting processes in a well-defined control environment; and
- It is the responsibility of each individual, relative to their position, to identify themselves with the declared priority of risk management, to recognize real or anticipated risk and to take appropriate action.

Risk management is guided by several principles, the most important being:

- The assignment of appropriate responsibility and accountability for all risks and resulting returns;
- The adoption of a Risk Management Framework for integrated risk management which applies across all business units and all risk types for the protection of the bank's reputation;
- Comprehensive risk assessment, measurement, monitoring and reporting;
- Independent review; and
- Formal risk governance processes.

Our strategic and operating changes have been consistent with the economic and financial situation obtained in Tanzania. The restructuring of TIB into a two tier organization, comprised of a Development Finance Institution (DFI) and a subsidiary Corporate Bank Limited, shall assist in effective deployment of resources and skills in both the development financing role and the supporting commercial bank.

Risk management structure

As a development finance institution, the bank has been constantly evaluating its internal capacities to ensure a good balance between its corporate results and its mandate.

In 2015 the bank continued with program to implement team oriented approach in the credit process. This shall ensure full deployment of the bank's technical skills in the evaluation of projects at the appraisal stage.

Risk is inherent in the bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls.

This process of risk management is critical to the bank's continuing profitability and each individual within the bank is accountable for the risk exposures relating to his or her responsibilities. The bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

The independent risk control process does not include business risks such as changes in the environment,

technology and industry. The bank's policy is to monitor those business risks through the bank's strategic planning process.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Board Audit and Risk Committee

This is the Board's committee responsible for risk management issues. The committee receives periodic risk management reports and provides guidance to the management as well as advising the Board of Directors on risk management and related issues.

Risk and Compliance Department

The Risk & Compliance department is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Risk Management Framework prescribes the periodic reports to be submitted to both the Management and the Board to ensure that these two organs execute their oversight responsibilities related to the risk management function in the bank.

Bank Resource Department (under Finance division)

Following conclusion of the transformation the Treasury department function was shifted to the subsidiary and a new department for Resource Mobilization formed in order to link with the subsidiary's Treasury and co-ordinate management of the bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the bank.

Internal Audit

The bank's policy is that risk management processes throughout the bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit and Risk Committee.

The bank's activities expose it to a variety of financial risks including credit risk, liquidity risk, market risks, operational risks and interest rate risks. The bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the bank's financial performance.

The bank's risk management policies are established to identify and analyse the risks faced by the bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

a) Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the bank considers and consolidates all elements of credit risk exposure.

Management of Credit Risk

The Board has delegated responsibility for the management of credit risk to the Development Finance division which is responsible for appraisal function and Portfolio Management division responsible for follow up of credit. These are two key divisions in the Credit Committee which, among others, is responsible for:

1. Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements;
2. Ensure that the appraisal process is effective and informed.
3. Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to various officers at different levels with higher facilities requiring Board approval. Credit Department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process;
4. Limiting concentrations of exposure. The Board approved delegated authority restricts exposure for any group/sector;
5. Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to Credit Committee/Board in respect of the quality of loan portfolio;
6. Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

During the year the bank enhanced its Credit management process by forming the office of the Deputy Managing Director to oversee the entire business process. As such all business divisions are now co-ordinated through the office of the Deputy Managing Director.

The bank also formed a Technical Department comprised of Engineers, Quantity Surveyors, Valuers and other disciplines required for proper implementation of the projects. Their expertise is not only used in monitoring but also enhances the projects approval process.

Regular audits of both Development Finance and Portfolio Management divisions are undertaken by Internal Audit Department. Loans and advances graded 3, 4 and 5 in the banks' internal credit risk grading system are classified as non-performing and are impaired. These are advances for which the bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. Specific impairment losses are made on these grades.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular project finance loans. Except where project is still under implementation, all rescheduled loans have been assigned a classification of substandard or worse as per Bank of Tanzania directive hence they form part of non-performing loans unless prior approval is given by the Bank of Tanzania. The internal rating scale 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;
- Deterioration in the value of collateral.

The bank's policy requires the review of individual financial assets regularly and grading of accounts is done every month where provision on non-performing loans is raised based on the guidelines of the Bank of Tanzania.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the bank's credit policy and accompanying manuals include specific guidelines to focus on maintaining a diversified portfolio with limits set for each sector. Identified concentrations of credit risks are controlled and managed accordingly.

Risk limit control and mitigation policies

The exposure to any one borrower including banks is further restricted by limits approved by the Board as set in the Credit Policy and ALCO approvals. 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 lending limits appropriately.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties

The bank also obtains guarantees from Bank of Tanzania for loan issued to projects qualifying under the export or SME guarantee schemes. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the policy of the bank to require a security cover not less than 1.25 times.

It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use. The bank also makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master netting arrangements do not normally result in an offset of financial position assets and liabilities unless certain conditions for offsetting apply.

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realized;
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.

Charged off loans

During the year non-performing loans and advances amounting to TZS 1.3 billion were charged off (2014: TZS 17 billion) and thus they do not form part of loan portfolio reported in the statement of financial position. For follow up purposes, charged off loans are maintained in a separate memorandum records. As at 31 December 2015 the cumulative balance of charged off accounts was TZS 41 billion (2014: TZS 37 billion) this excludes TZS 2.8 billion recovered during the year (2014: TZS 1.7 billion). Interest is usually calculated and added to the exposure unless there are legal issues preventing that.

Write-off policy

The bank writes off loans as and when the Board reviews and accepts the recommendations by the management that the loans are irrecoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Debt securities, treasury bills and other eligible bills

The only investment securities held by the bank are treasury bills and bonds issued by the Government of the United Republic of Tanzania.

Collateral

Repossessed assets are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. During the year, the bank has not obtained any assets by taking possession of collateral held as security.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Table 41 (1-a)

Geographical analysis	CONSOLIDATED				Total TZS million
	Tanzania TZS million	Europe TZS million	America TZS million	Others TZS million	
2015					
Financial assets					
Cash and balances with Bank of Tanzania	10,136	-	-	-	10,136
Balance with other banks	6,989	-	-	-	6,989
Placements with other banks	23,702	498	751	29	24,980
Government securities held to maturity	74,404	-	-	-	74,404
Loans and advances	652,112	-	-	-	652,112
Equity investment available for sale	6,229	-	-	5,763	11,992
	773,572	498	751	5,792	780,613
Financial liabilities					
Deposits	522,776	-	-	-	522,776
Borrowing	-	-	-	56,123	56,123
	522,776	-	-	56,123	578,899
2014					
Financial assets					
Cash and balances with Bank of Tanzania	5,581	-	-	-	5,581
Balance with other banks	3,532	1,555	1,433	76	6,596
Placements with other banks	17,414	-	-	-	17,414
Government securities held to maturity	46,487	-	-	-	46,487
Loans and advances	413,044	-	-	-	413,044
Equity investment available for sale	2,470	-	-	5,763	8,233
	488,527	1,555	1,433	5,839	497,357
Financial liabilities					
Deposits	282,680	-	-	-	282,680
Borrowing	-	-	-	17,353	17,353
	282,680	-	-	17,353	300,034

Table 41 (1-b)

Geographical analysis	BANK				Total TZS million
	Tanzania TZS million	Europe TZS million	America TZS million	Others TZS million	
2015					
Financial assets					
Cash and balances with Bank of Tanzania	-	-	-	-	-
Balance with other banks	16,387	-	-	-	16,387
Placements with other banks	21,177	-	-	-	21,177
Government securities held to maturity	54,488	-	-	-	54,488
Loans and advances	538,675	-	-	-	538,675
Equity investment available for sale	2,470	-	-	9,522	11,992
	633,197	-	-	9,522	642,719
Financial liabilities					
Deposits	406,151	-	-	-	406,151
Borrowing	-	-	-	56,123	56,123
	406,151	-	-	56,123	462,274
2014					
Financial assets					
Cash and balances with Bank of Tanzania	5,581	-	-	-	5,581
Balance with other banks	3,531	1,555	1,226	76	6,388
Placements with other banks	17,414	-	-	-	17,414
Government securities held to maturity	46,487	-	-	-	46,487
Loans and advances	413,045	-	-	-	413,045
Equity investment available for sale	2,470	-	-	5,763	8,233
	488,528	1,555	1,226	5,838	497,148
Financial liabilities					
Deposits	282,680	-	-	-	282,680
Borrowing	-	-	-	17,353	17,353
	282,680	-	-	17,353	300,034

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Table 41(3-a) Credit quality by class of transactions

CONSOLIDATED	Neither past due nor impaired		Past due but not impaired TZS million	Past due and impaired TZS million	Total TZS million
	Current	Especially mentioned			
	TZS million	TZS million			
2015					
Cash and balances with Bank of Tanzania	10,136	-	-	-	10,136
Balance with other banks	6,989	-	-	-	6,989
Placements with other banks	24,980	-	-	-	24,980
Government and corporate securities held - to - maturity	74,404	-	-	-	74,404
Loans and advances	513,923	67,626	60,416	29,262	671,227
Equity investment-available for sale	11,992	-	-	-	11,992
Total	642,424	67,626	60,416	29,262	799,728
2014					
Cash and balances with Bank of Tanzania	5,581	-	-	-	5,581
Balance with other banks	6,595	-	-	-	6,595
Placements with other banks	17,414	-	-	-	17,414
Government and corporate securities held - to - maturity	46,487	-	-	-	46,487
Loans and advances	359,729	55,654	4,988	-	420,371
Equity investment-Available for sale	8,233	-	-	-	8,233
Total	444,039	55,654	4,988	-	504,681

Table 41(3-b) Credit quality by class of transactions

The credit quality of financial assets is managed by the bank using internal credit ratings. The table below shows the credit quality by class of financial assets exposed to credit risk, based on the bank's internal credit rating system. The amounts presented are gross of impairment allowances.

BANK	Neither past due nor impaired		Past due but not impaired TZS million	Past due and impaired TZS million	Total TZS million
	Current	Especially mentioned			
	TZS million	TZS million			
2015					
Cash and balances with Bank of Tanzania	-	-	-	-	-
Balance with other banks	16,387	-	-	-	16,387
Placements with other banks	21,177	-	-	-	21,177
Government and corporate securities held - to - maturity	54,488	-	-	-	54,488
Loans and advances	447,691	31,498	51,343	27,164	557,696
Equity investment-available for sale	11,992	-	-	-	11,992
Total	551,735	31,498	51,343	27,164	661,740
2014					
Cash and balances with Bank of Tanzania	5,581	-	-	-	5,581
Balance with other banks	6,388	-	-	-	6,388
Placements with other banks	17,414	-	-	-	17,414
Government and corporate securities held - to - maturity	46,487	-	-	-	46,487
Loans and advances	359,729	55,654	4,988	-	420,371
Equity investment-Available for sale	8,233	-	-	-	8,233
Total	443,832	55,654	4,988	-	504,474

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

b) Liquidity risk

Liquidity risk is defined as the risk that the bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The bank maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. In accordance with the bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

As a lender of long term loans, the bank depends on long term sources of funds. Currently the Government has committed to increase the capital of the bank through budgetary allocation from time to time. During the year 2015, the bank did not receive any additional capital from the Government. However, there is still commitment from the Government to increase the paid up capital of the bank.

Net liquid assets are liquid assets less all funds maturing in the next 30 days from wholesale market sources and from customers who are deemed to be professional. The bank defines liquid assets for the purposes of the liquidity ratio as cash balances, short-term interbank deposits and highly rated debt securities available for immediate sale and for which a liquid market exists.

Management of liquidity risk

The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation.

The Resource Mobilization department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the bank as a whole. All liquidity policies and procedures are subject to review and approval by the Board of Directors after recommendation of the Assets and Liabilities Committee. The bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels.

Analysis of financial assets and liabilities by remaining contractual maturities

The table no 41(4) summarizes the maturity profiles of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December 2015 based on the remaining period to the contractual maturity date. Deposits from customers shown as maturing within 90 days relate to savings, call and fixed account balances. Although classified in this band, previous experience has shown these to be stable and of a long term nature.

Table 41 (4-a)

CONSOLIDATED	1 month TZS million	3 months TZS million	6 months TZS million	12 months TZS million	1 year TZS million	Total TZS million
2015						
Financial assets						
Cash and balances with Bank of Tanzania	10,136	-	-	-	-	10,136
Balance with other banks	6,989	-	-	-	-	6,989
Placements with other banks	20,635	4,345	-	-	-	24,980
Government securities held to maturity	4,366	9,149	21,739	8,440	30,710	74,404
Loans and advances	103,210	32,258	116,766	71,723	328,155	652,112
Equity investment available for sale	-	-	-	-	11,992	11,992
Total undiscounted financial assets	145,336	45,752	138,505	80,163	370,857	780,613
Financial liabilities						
Deposits	132,898	153,864	114,716	43,043	4,305	448,826
Borrowing	-	2,153	2,152	4,305	47,513	56,123
	132,898	156,017	116,868	47,348	51,818	504,949
Net liquidity gap	12,438	(110,265)	21,637	32,815	319,039	279,159
Cumulative gap	12,438	(97,827)	(76,190)	(42,375)	275,664	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Table 41 (4-a)

CONSOLIDATED	1 month	3 months	6 months	12	1 year	Total
	TZS million	TZS million	TZS million	months TZS million	TZS million	
2014						
Financial assets						
Cash and balances with Bank of Tanzania	5,581	-	-	-	-	5,581
Balance with other banks	6,596	-	-	-	-	6,596
Placements with other banks	12,938	-	-	20	4,474	17,414
Government securities held to maturity	127	11,759	11,661	9,611	13,329	46,487
Loans and advances	21,032	53,177	58,010	43,121	237,705	413,045
Equity investment-Available for sale	-	-	-	-	8,233	8,233
Total undiscounted financial assets	46,274	64,936	69,671	52,734	263,741	497,356
Financial liabilities						
Deposits	128,184	77,833	48,416	26,720	1,527	282,680
Borrowings	-	1,738	1,735	1,735	12,145	17,353
Total liabilities	128,184	79,571	50,151	28,455	13,672	300,035
Net liquidity gap	(81,910)	(14,635)	19,520	24,279	250,069	197,323
Cumulative gap	(81,910)	(96,545)	(77,025)	(52,746)	197,323	-

Table 41 (4-b)

BANK	Up to 1 month TZS million	Up to 3 months TZS million	Up to 6 months TZS million	Up to 12 months TZS million	Above 1 year TZS million	Total TZS million
2015						
Financial assets						
Cash and balances with Bank of Tanzania	-	-	-	-	-	-
Balance with other banks	16,387	-	-	-	-	16,387
Placements with other banks	11,828	4,325	5,004	20	-	21,177
Government securities held to maturity	426	3,041	8,376	11,935	30,710	54,488
Loans and advances	24,374	32,258	103,634	58,590	319,819	538,675
Equity investment available for sale	-	-	-	-	11,992	11,992
Total undiscounted financial assets	53,015	39,624	117,014	70,545	362,521	642,719
Financial liabilities						
Deposits	79,931	164,156	114,715	43,043	4,305	406,150
Borrowing		2,153	2,153	4,305	47,513	56,124
	79,931	166,309	116,867	47,348	51,818	462,274
Net liquidity gap	(26,916)	(126,684)	146	23,197	310,703	180,445
Cumulative gap	(26,916)	(153,600)	(153,454)	(130,257)	180,446	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Table 41 (4-b)

BANK	1 month TZS million	3 months TZS million	6 months TZS million	12 months TZS million	1 year TZS million	Total TZS million
2014						
Financial assets						
Cash and balances with Bank of Tanzania	5,581	-	-	-	-	5,581
Balance with other banks	6,388	-	-	-	-	6,388
Placements with other banks	12,938	-	-	2	4,474	17,414
Government securities held to maturity	127	11,759	11,661	9,611	13,329	46,487
Loans and advances	21,031	53,177	58,010	43,121	237,705	413,044
Equity investment-Available for sale	-	-	-	-	8,233	8,233
Total undiscounted financial assets	46,065	64,936	69,671	52,734	263,741	497,147
Financial liabilities						
Deposits	128,184	77,833	48,416	26,720	1,527	282,680
Borrowings	-	1,738	1,735	1,735	12,145	17,353
Total liabilities	128,184	79,571	50,151	28,455	13,672	300,032
Net liquidity gap	(82,118)	(14,634)	19,520	24,279	250,069	197,115
Cumulative gap	(82,118)	(96,753)	(77,233)	(52,954)	197,115	-

The table below shows the analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled.

Table 41 (5-a) Maturity of Financial Assets and Liabilities

CONSOLIDATED	Less than 12 months TZS million	Over 12 months TZS million	Total TZS million
2015			
Assets			
Cash and balances with Bank of Tanzania	10,136	-	10,136
Balance with other banks	6,989	-	6,989
Placements with other banks	24,980	-	24,980
Government and corporate securities held to maturity	43,189	30,710	74,404
Loans and advances	323,957	328,155	652,112
Equity investment available for sale	-	11,992	11,992
Total assets	413,251	370,857	780,613
Liabilities			
Deposits	518,471	4,305	522,776
Long term borrowings	8,610	47,513	56,123
Other liabilities	6,291	-	6,291
Total liabilities	533,372	51,818	585,190
Net	(120,121)	319,039	195,423

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Table 41 (5-a) Maturity of Financial Assets and Liabilities (Continued)

BANK	Less than 12 months TZS million	Over 12 months TZS million	Total TZS million
2015			
Assets			
Cash and balances with Bank of Tanzania	-	-	-
Balance with other banks	16,387	-	16,387
Placements with other banks	21,177	-	21,177
Government and corporate securities held to maturity	23,778	30,710	54,488
Loans and advances	218,856	319,819	538,675
Equity investment available for sale	-	11,992	11,992
Total assets	280,198	362,521	642,719
Liabilities			
Deposits	401,846	4,305	406,151
Long term borrowings	8,610	47,513	56,123
Other liabilities	8,681	-	8,681
Total liabilities	419,137	51,818	470,954
Net	(138,939)	310,703	171,765

Table 41 (5-b) Maturity of Financial Assets and Liabilities

BANK	Less than 12 months TZS million	Over 12 months TZS million	Total TZS million
2014			
Assets			
Cash and bank balances with Bank of Tanzania	-	-	-
Balance with other banks	6,388	-	6,388
Placements with other banks	12,939	4,474	17,414
Government securities held to maturity	33,159	13,327	46,487
Loans and advances	175,339	237,705	413,044
Equity investment available for sale	-	8,233	8,233
Total assets	233,406	263,739	497,147
Liabilities			
Deposits	281,153	1,527	282,680
Other liabilities	1,908	-	1,908
	283,061	1,527	284,588
Net	(49,655)	262,212	212,559

c) 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 rates and foreign currencies, 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. The bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in the bank's treasury department and monitored regularly. Regular reports are submitted to the Board of Directors and ALCO. Trading portfolios include those positions arising from market-making transactions where the bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities.

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.

Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily and reports to ALCO monthly. The table no 41(7) summarizes the bank's exposure to interest rate risks. It includes the bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The bank does not bear any interest rate risk on off financial position item.

The exposure to interest rates fluctuations on assets and liabilities denominated in currencies other than US dollar is minimal.

Interest risk exposure

The bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest re-pricing that may be undertaken. Consequently, the interest sensitivity effect on profit or loss would not be significant given the re-pricing frequency.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, if there was an increase of interest rates by 200 basis points (bps) the groups profitability would be reduced by TZS 1,729 million (2014: TZS 822 million) due to increase in annual interest expense. The impact of this increase on capital of the group is reduction by TZS 1,210 million (2014: TZS 575 million). However, with the core capital of TZS 162,631 million (see note 36) the amounts are not expected to significantly impair the ability of the bank to operate profitably.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

Interest rate sensitivity (Continued)

Table 41 (6) Impact of interest movement

	CONSOLIDATED		BANK	
	2015	2014	2015	2014
	TZS million	TZS million	TZS million	TZS million
Assets re-pricing after 6 months	319,479	174,927	209,652	174,927
Liabilities re-pricing after 6 months	405,918	216,028	352,815	216,028
Interest rate Gap	(86,439)	(41,101)	(143,163)	(41,101)
Impact of interest rate rise by additional 200 bps	(1,729)	(822)	(2,863)	(822)
Impact in Capital	(1,210)	(575)	(2,004)	(575)

Table 41 (7-a) Interest risk exposure

CONSOLIDATED	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Non- interest Bearing	Total
	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million
2015							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	10,136	10,136
Balance with other banks	6,989	-	-	-	-	-	6,989
Placements with other banks	20,635	4,345	-	-	-	-	24,980
Government and corporate securities held - to - maturity	4,366	9,149	21,739	8,440	30,710	-	74,404
Loans and advances	103,210	32,258	116,766	71,723	328,155	-	652,112
Equity investment available for sale	-	-	-	-	-	11,992	11,992
Total assets	135,200	45,752	138,505	80,163	358,866	22,128	780,613
Liabilities							
Deposits	132,898	153,864	114,715	43,043	4,305	73,950	522,776
Borrowing	-	2,153	2,153	4,305	47,513	-	56,123
Other liabilities	-	-	-	-	-	6,291	6,291
Total liabilities and equity	132,898	156,017	116,868	47,348	51,818	80,241	585,190
Interest sensitivity gap	2,302	(110,265)	21,637	32,815	307,047	(58,113)	195,423

Interest risk exposure (Continued)

BANK	Up to 1 month TZS million	1 - 3 months TZS million	3 - 6 months TZS million	6 - 12 months TZS million	Over 1 year TZS million	Non- interest Bearing TZS million	Total TZS million
2015							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	-	-
Balance with other banks	16,387	-	-	-	-	-	16,387
Placements with other banks	20,635	4,345	5,004	20	-	-	21,177
Government and corporate securities held - to - maturity	426	3,041	8,376	11,935	30,710	-	54,488
Loans and advances	24,374	32,258	103,634	58,590	319,819	-	538,675
Equity investment available for sale	-	-	-	-	-	11,992	11,992
Total assets	53,012	39,624	117,014	70,545	350,529	11,992	642,719
Liabilities							
Deposits	79,931	153,865	114,715	43,043	4,305	10,292	406,151
Borrowing	-	2,152	2,153	4,305	47,513	-	56,123
Other liabilities	-	-	-	-	-	8,681	8,681
Total liabilities and equity	79,931	156,017	116,868	47,348	51,818	18,973	470,954
Interest sensitivity gap	(26,916)	(116,392)	146	23,197	298,711	(6,981)	171,765

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

Table 41 (7-b) Interest risk exposure

BANK	Up to 1 month TZS million	1 - 3 months TZS million	3 - 6 months TZS million	6 - 12 months TZS million	Over 1 year TZS million	Non- interest bearing TZS million	Total TZS million
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	5,581	5,581
Balance with other banks	6,388	-	-	-	-	-	6,388
Placements with other banks	12,938	-	-	2	4,474	-	17,414
Government and corporate securities held - to - maturity	127	11,759	11,661	9,611	13,329	-	46,487
Loans and advances	20,866	53,177	58,010	43,121	237,704	166	413,044
Equity investment available for sale	-	-	-	-	-	8,233	8,233
Other assets	-	-	-	-	-	5,056	5,056
Total assets	40,319	64,936	69,671	52,734	255,507	19,036	502,203
Liabilities							
Deposits	128,184	35,955	48,416	26,720	1,527	41,878	282,680
Borrowings	-	1,738	1,735	1,735	12,145	-	17,353
Other liabilities	-	-	-	-	-	1,908	1,908
Total liabilities	128,184	37,693	50,151	28,455	13,672	43,786	301,941
Interest sensitivity gap	(87,865)	27,243	19,520	24,279	241,836	(24,750)	200,262

Foreign currency risk

The bank operates within Tanzania and has got investments in foreign currencies which are reported in the financial statements in local currency. As at the reporting date the bank was not exposed to significant foreign currency exposure, although there are certain deposits and placements/bank balances are denominated in United States dollars and euros. Foreign currency risk is managed at an operational level and monitored by the Resource Mobilization department (Treasury department in the subsidiary). Exposure to losses from foreign currency deposits is managed through prompt settlement of the foreign currency denominated obligations.

The bank maintains minimal net open position in line with the Bank of Tanzania regulations. According to the regulation, the bank is not allowed to hold more than 5.5% of its core capital as a net open position.

Foreign currency sensitivity

The tables 41(9) demonstrate the sensitivity to a reasonably possible change in USD and GBP exchange rates, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The impact on the Company's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges. The Company's exposure to foreign currency changes for all other currencies is not material.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The bank's exposure to the risk of changes in foreign exchange rates relates primarily to the bank's operating activities (when revenue or expense is denominated in a different currency from the bank's presentation currency).

The bank's exposure to foreign exchange is guided by the Bank of Tanzania regulation which limits the exposure to 5.5% of the core capital. Based on the exposure carried at the end of the year a 20% depreciation of the shilling would have caused a consolidated loss of TZS 2,839 million (2014: profit of TZS 2,047 million). It is the view of the Board that such movements do not significantly impair the capital adequacy of the bank which stood at TZS 162,631 million (see note 36) at the end of the year.

Table 41 (8) Impact of Foreign exchange movement

	CONSOLIDATED		BANK	
	2015 TZS million	2014 TZS million	2015 TZS million	2014 TZS million
Foreign Currency Denominated Assets	355,948	224,241	320,117	224,241
Foreign Currency Denominated Liabilities	370,164	214,006	314,066	214,006
Net open Position	(14,216)	10,235	6,051	10,235
USD/TZS Exchange rate	2,153	1,735	2,153	1,735
Impact of 20% Depreciation of the TZS against the USD	(2,839)	2,047	1,208	2,047

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

41. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

Table 41 (9-a) Foreign currency exchange risk exposure

CONSOLIDATED	TZS TZS million	USD TZS million	GBP TZS million	Euro TZS million	Others TZS million	Total TZS million
Assets						
Cash and balances due from banks	12,568	4,222	22	290	23	17,125
Placements with other banks	23,000	-	634	1,317	29	24,980
Financial investment held for trading	3,494					3,494
Government and corporate securities held - to - maturity	74,404					74,404
Loans and advances	302,701	349,413	-	-	-	652,114
	416,167	353,635	656	1,607	52	772,117
Liabilities						
Deposits	210,275	310,434	656	1,411	-	522,776
Borrowing	-	56,123	-	-	-	56,123
Payables and Accruals	4,751	1,540	-	-	-	6,291
Total liabilities	215,026	368,097	656	1,411	-	585,190
Net Open Position	201,141	(14,462)	-	196	52	186,927

Foreign currency exchange risk exposure

The bank maintains trade with the customers and other correspondent banks which its foreign currency exposure as at 31 December 2015 was TZS 7,283million (2014: TZS 4,524million). The various currencies to which the bank is exposed at 31 December 2014 are summarised in the table below (All amounts expressed in millions of Tanzania Shillings).

Table 41 (9-b) Foreign currency exchange risk exposure

BANK	TZS TZS million	USD TZS million	GBP TZS million	Euro TZS million	Others TZS million	Total TZS million
2015						
Cash and balances due from banks	9,104	7,283	-	-	-	16,387
Placements with other banks	21,177	-	-	-	-	21,177
Government and corporate securities held - to - maturity	54,488	-	-	-	-	54,488
Loans and advances	237,063	301,612	-	-	-	538,675
	321,832	308,895	-	-	-	630,727
Liabilities						
Deposits	149,749	256,402	-	-	-	406,151
Borrowing	-	56,123	-	-	-	56,123
Payables and Accruals	7,141	1,540	-	-	-	8,681
Total liabilities	156,890	314,065	-	-	-	470,955
Net Open Position	164,942	(5,170)	-	-	-	159,772

Exchange rates during the year were as follows:

	USD	GBP	Euro
On 01 January 2015	1,735	2,703	2,105
On 31 December 2015	2,153	3,190	2,343

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

42. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments arise in the normal course of the bank's business activities. To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other un-drawn commitments to lend.

Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank. Letters of credit and guarantees (including standby letters of credit) commit the bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

At year end, the bank had claims from various parties with estimated exposure. The bank had claims amounting to TZS 36,330 million (2014: TZS 21,968 million) in court cases related to defaulting customers whom the bank is executing recovery measures. However the bank does not expect the final outcome of any such case to have a material adverse effect on its financial position as the bank has strong defence.

Off – balance sheet items

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

	2015 TZS million	2014 TZS million
Outstanding letters of credit :		
- Foreign currency	38,699	1,002
Outstanding guarantees and indemnities:		
- Foreign currency	-	9,318
- Local currency	-	24,429
	38,699	34,749

Letters of credit, guarantees (including standby letters of credit) commit the bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same credit risk as loans.

Commitments:

	2015 TZS million	2014 TZS million
Commitments to extend credit – undrawn balance	79,983	67,505
Capital commitments		
Capital expenditure that has been approved by the Board but not contracted for	1,149	2,420

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific 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. Capital commitments comprise capital expenditure for fixtures and equipment, computers and motor vehicles.

Operating lease commitments

The bank has entered in commercial leases on premises for its head office and branches. These leases have an average life of between three to five years with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2015 TZS million	2014 TZS million
Within one year	1,932	2,552
After one year but not more than five years	7,728	10,208
More than five years	280	807
Total	9,940	13,567

43. MANAGED GOVERNMENT AND OTHER STAKEHOLDERS' FUNDS

Among the principal activities of the bank is to administer Government funds disbursed for special projects on behalf of the Government. Establishment, design and approval of special projects rests with the Government under the Ministry of Finance. All risks and rewards arising from special projects are directly channelled to the Ministry of Finance.

The administrative activities in respect of those Funds among others include, vetting applications for advances received from eligible applicants, monitoring the performance of the advances provided as well as collection/and or recovery of the advances from the borrowers, except for grants.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

43. MANAGED GOVERNMENT AND OTHER STAKEHOLDERS' FUNDS (Continued)

Balances in these funds do not form part of the bank financial statements but are maintained off balance sheet. The bank receives management fees and agency fees from these projects at agreed rates depending on the nature and complexity of projects. During the year the bank received fees from the funds as indicated in the table below.

S/n	Details	2015 TZS million	2014 TZS million
1	Fees income on REA and TEDAP	149.2	228.3
2	Fees income on Flower Projects	299.7	275.5
3	Fees income on Commodity Import Support	100.0	75.0
4	Agency fee income from Agricultural Financing Window	118.7	213.4
5	Fees income from managing Mining Funds for small scale	171.1	-
6	Fees income from SNV	67.8	-
7	Fees income from THB	81.6	81.6
		988.1	873.8

The table below summarises the bank balance movement in the Funds /Grants accounts for the year ended 31 December 2015.

	AFW TZS million	FF TZS million	REA TZS million	RBF TZS million	CIS TZS million	TEDAP TZS million	SMDG TZS million	NEEC TZS million
2015								
Balance at 1 January 2015	5,807	1	1,167	998	414	701	2,142	250
Funds received from the Government or stakeholder during the year	-	-	128,230	-	-	774	6,644	-
Funds disbursed during the year	(6,977)	-	(128,908)	(196)	-	(774)	(6,481)	-
Funds collected from the customers during the year	6,087	1,620	-	-	12	1,967	145	-
Management fees and other operating expenses	(139)	(173)	(93)	(20)	(100)	-	(194)	-
Funds invested	-	-	-	-	-	-	-	-
Interest earned on funds invested	-	-	-	-	-	-	-	-
Balance at 31 December 2015	4,778	1,448	396	782	326	2,668	2,256	250

2014	AFW	FF	REA	RBF	SAAFI Limited	CIS	TEDAP	SMDG	NEEC
	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million	TZS million
Balance at 1 January 2014	7,263	-	1	-	-	517	-	249	-
Funds received from the Government or stakeholder during the year	144	-	221,229	1,120	-	-	904	652	-
Funds disbursed during the year	(7,425)	-	-219,929	(179)	-	-	(904)	(636)	-
Funds collected from the customers during the year	4,677	2,287	-	(15)	26	40	701	-	-
Management fees and other operating expenses	(144)	(187)	(204)	-	(26)	(143)	-	-	-
Funds invested	-	-	-	-	-	-	-	-	(250)
Interest earned on funds invested	21	-	-	8	-	-	-	-	-
Balance at 31 December 2014	4,538	2,100	1,097	935	-	414	701	266	(250)

Key:

AFW	Agricultural Financing Window
FF	Floriculture Funds
REA	Rural Energy Agency
RBF	Results Based Fund
WGL	Wentworth Gas Limited
CIS	Commodity Import Support
TEDAP	Tanzania Energy Development and Access Expansion Programme
SMDG	Miners Development Grant
NEEC	National Economic Empowerment Council

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

44. TRANSFORMATION - SPLIT OF ASSETS

Year 2015 marked completion of the transformation process and separation of TIB into TIB Development Bank Limited and TIB Corporate Bank Limited. The two institutions were issued with BOT licences in June 2015 following completion of the transformation exercise and the operations in 2015 were based on the envisaged two tier structure. As it was laid down in the transformation plan TIB Development Bank Limited will continue to provide medium and long term financing to development sectors of the economy while TIB Corporate Bank Limited will focus on provisioning of commercial banking services to the TIB group and the public at large.

The transformation involved separation of assets as at 1st January 2015 into two institution whereby 71% of the existing assets were retained by the parent company (DFI) and 29% transferred to the subsidiary. These were the opening balances for the two institutions in 2015 and formed the basis for the full year performance recorded at the end of year. The composition of the assets split is contained in the table below:

The split of assets and liabilities

	Total before split TZS million	CBL TZS million	DFI TZS million
Cash and bank Balances	29,383	24,799	4,584
Treasury Bills	46,487	25,012	21,475
Loans	413,044	98,429	314,615
Inter-company Assets	-	46,451	-
Other Assets	31,252	1,433	29,819
Total	520,166	196,124	370,493
Deposits	282,680	191,213	91,467
Borrowing	17,353	-	17,353
Inter-company Liabilities	-	-	46,451
Other Liabilities	8,168	496	7,672
Equity	211,965	4,415	207,550
Total	520,166	196,124	370,493

45. EVENTS AFTER REPORTING DATE

There were no events warranting reporting.

46. COMPARATIVES

Comparatives are consistent with the previous year; and where need be a restatement has been made.

