

ANNUAL REPORT



FOCUSED TOWARDS INDUSTRIALISATION



**TIB
DEVELOPMENT
BANK**
Your Partner for Growth

Contents	Page
General information	5
Directors' report	56 – 71
Statement of directors' responsibility	72
Report of the controller and auditor general	74 – 77
Financial statements:	
Consolidated statement of profit or loss and other comprehensive income	78
Consolidated statement of financial position	79
Consolidated statement of changes in equity	80 – 81
Consolidated statement of cash flows	82
Notes to the consolidated financial statements	83– 150





**TIB
DEVELOPMENT
BANK**
Your Partner for Growth

GENERAL INFORMATION

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Dar es Salaam,

Company secretary

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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, Tanzania

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.

Innovation



Transmittal Letter

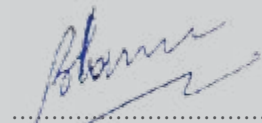
TIB Development Bank,
P.O. Box 9373,
Dar es Salaam.

Hon. Dr. Philip I. Mpango (MP),
Minister for Finance and Planning,
P.O.Box 9111,
Dar es Salaam.

Dear Honorable Minister,

I hereby submit, on behalf of the Board of Directors, The Annual Report and Audited Financial Statements of TIB Development Bank Limited for the period from 1st January to 31st December 2016 as approved by the Board of Directors, on 22nd March 2017.

Yours Faithfully



.....
Brig.Gen (rtd) Mabula B. Mashauri
Ag. Chairman of the Board of Directors



Brig. Gen. (rtd) Mabula B. Mashauri
Ag. CHAIRMAN OF THE BOARD

Introduction

It is my pleasure to present to you the Annual Report and Audited Financial Statements of TIB Development Bank Limited for the year ended December 2016. Our report is being presented at the time when monetary policy in Tanzania was geared towards aligning inflation to the medium-term target of 5% and supporting output growth projection of 7.3%. During the year under review, the Bank continued to consolidate reforms and taking necessary steps to ensure two tier bank groups operate effectively and make a strong contribution to the economy. The bank launched a new strategy aligning its direction to that of the National Five Year Development Plan (FYDP II) and redirecting financing towards industries and creating an enabling environment for the financed industries to undertake operations efficiently. This necessarily meant focusing on various infrastructure projects that link industries to raw materials supplies and markets.

Economic Outlook

Tanzania's maintained a stable macro-economic environment during 2016. GDP grew at 7.0% enabling the country to continue in an upward trajectory trail towards a middle income economy by the year 2025. Operating under this strong environment, the bank's strategy rests on financing projects that will stimulate a higher rate of growth, preferably around 12% per annum, as a means to ensure resilience to any economic shocks.

According to the 2016/17 budget Gross Domestic Product (GDP) was forecasted to grow by 7.2% in 2016 as compared to 7% in 2015; driven by rising private consumption and strong growth in the telecommunications, construction, port and service sectors. Services contributed almost 50% of GDP and driven by private-sector activity in telecommunications and financial services. In the context of the prevailing outlook, Tanzania ranked 139 out of 189 economies in starting a business as per the ease of doing business report, 2016. Poor access to finance and inadequate infrastructure were seen as the largest barriers to doing business. In his regard the Tanzanian government named these sectors as some of the main focus areas in the 2016/17 budget.

Inflation in the year ending 2016 according to IMF, Economic Intelligence Unit decline slightly in 2016 to about 5.4% with the effects of continued depreciation of the Tanzanian shilling (TZS) off-sited by the impact of lower oil and food prices. As fiscal policy is continue to be tightened and the introduction of the Bank of Tanzania's planned inflation targeting regime to bolster the effectiveness of monetary policy Inflation is projected to

return to the 7-8% range in 2016-19. A relatively stable inflation environment nonetheless bodes well for future investment planning and consumption, which would spur demand for credit from corporate and individual. Despite conducive economic environment the bank deliberately slowed down lending activities in order to align its operations to structural reforms undertaken in 2015

The Bank's performance

The bank recorded loss before tax of TZS. 33,588 million in 2016 compared to the previous year's profit of TZS. 9,236 million. During 2016, the Bank was able to hold its net asset level at TZS. 811,788 million compared to TZS. 688,968 million recorded in 2015. The gross loan portfolio reached at TZS. 703,891 million in 2016 compared to TZS. 538,675 million recorded in 2015. Total assets grew from TZS 688,968 million in 2015 to TZS 811,788 recorded in 2016; an increase of 17.8%. Loan disbursements reached TZS 103,178 million against TZS 125,631 million recorded in 2015; a decrease of 18%.

The financial performance during 2016 was not outstanding showing a substantial loss of TZS 33,586 million from the profit before tax of TZS 9,236 million recorded in year 2015. The substantial loss was fundamentally attributed to impairment provisions resulting from measures taken by the bank to clean up its loans portfolio. I am glad to report that the bank's balance sheet growth of TZS 811,788 million was recorded in 2016 which is above the TZS 740,655 million recorded in 2015. I am delighted to report that financial performance attained during the year was a result of conscious decision clean-up the balance sheet and slowdown in lending.

Within bank's setting, I am pleased to report that during 2016, the bank started alignment of its operations with the new mandate to spearhead industrialization while restructuring to focus on development financing. With this new emphasis, the bank offloaded some of the non-developmental projects to TIB Corporate Bank.

Business environment

I am pleased to report that, a current stable macro-economic variable in the country provides a good business environment for the bank to perform better in 2017. National Bureau of Statistics indicates that inflation has generally remained stable and is projected to remain at single digit through the years; that to TIB this is a

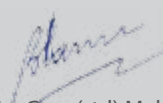
positive outlook in the operating environment. Overall, the drive of the fifth phase government on infrastructure and industrialization, among others, augurs well with the bank's mandate and strategies; and it provides a right setting and environment for excellent performance going forward.

Changes in the Board

I would also like to highlight the changes in the board during the year under review. In July 2016, President Dr. John Pombe Magufuli appointed new Chairman Professor Palamagamba J. Kabudi, whereas the Minister for Finance and Planning appointed a new Board of Directors for TIB Development Bank Ltd. The new Board of Directors consists of 8 members: Prof. Palamagamba J. Kabudi, Maduka P. Kessy, Dr. Said S. Mzee, Dr. Arnold M. Kihale, Ms Rose J. Aiko, Prof. Joseph R. Buchweishaija, Brig.Gen. (rtd) Mabula B. Mashauri and Mr. Charles G. Singili - who is also a newly appointed Managing Director following the retirement of Mr. Peter Noni. The new Board was formally inaugurated by the Minister for Finance and Planning in October 2016. In January 2017, The President appointed Professor Kabudi as a Member of Parliament which relieved him of his board membership. Following this development Brig.Gen. (rtd) Mabula B. Mashauri is serving as the interim Board Chairman.

Appreciation

Finally, I wish to express my sincere appreciation to the team that has enabled us make our repositioning to pursue industrialization strategy on a more strong footing. Many thanks to my fellow members of the Board of Directors for their support and valuable contribution during the year, Management and staff of TIB Development Bank for their hard work, our customers for their unwavering support and last but not least to all our partners and stakeholders who have kept their faith in us throughout this journey. I specifically thank the Government for its continued commitment to support TIB Development Bank. Once again I am looking forward to your continued collaboration with the current Board of Directors to make 2017 a very successful year.



Brig. Gen. (rtd) Mabula B. Mashauri
Ag. CHAIRMAN OF THE BOARD OF DIRECTOR



Mr. Charles G. Singili
Ag. MANAGING DIRECTOR

Introduction

I take this opportunity to present to you this Annual Report which highlights the performance of the bank's operations for the year ended December, 2016. The last twelve months have been a special period as the bank consolidated restructuring of its organization and financial position. I wish to sincerely appreciate combined endeavors and commitment of our Board, Management and staff, through whom we were able to overcome challenges and ensure continuity of the business.

During 2016, the bank started to position its operations within the new mandate to spearhead industrialization. In line with this mandate, we restructured our operations to focus on financing long-term development projects.

With this new focus, we took a strategic decision to re-allocate some of our non-development projects to TIB Corporate Bank and write off non-performing assets related to unviable development projects. These strategic measures negatively impacted the size of our balance sheet, but have laid a solid foundation and repositioned TIB to effectively carry out its new mandate. TIB remains committed to fulfilling its mandate and contribute to Tanzania's economic transformation toward a semi-industrialized, middle income nation.

You may recall that the Second Five Year Development Plan (FYDP II) 2016/17-2020/21 set aside TZS 107 trillion to finance priority industrial projects. TIB supports FYDP industrialization targets by financing projects in manufacturing, mining, and tourism with the aim of raising economic contribution of the sector to reach 23.7% of GDP. To enable effective industrialization, the bank also finances roads, railways, ports, airports, water supply and power infrastructure so as to create an enabling environment for industrial undertakings. Creation of enabling environment means the bank working hand-in-hand with other public institutions such as SIDO and EPZA to finance establishment of special economic zones,

economic processing zones and industrial parks. As a development finance institution with the mandate to provide long term loans, TIB will remain a key player and partner in driving the government's development initiatives towards achieving its vision 2025. We count on the continued support of the government in linking TIB's services with key government sectors and agencies in development projects with huge and wide economic benefits for our country and its people.

Operational performance

I am pleased to inform you that during the year we strengthened our business credit procedure to ensure that all projects are thoroughly administered before accessing loan facility, with a view to minimizing non-performing assets. A new subcommittee, the Business Review Committee (BRC) was also introduced and commenced its activities during the year. The BRC approves business concepts for projects solicited by zones gauging the bank's appetite and clearing them for the bank's appraisal system.

During the year the bank opened a new zone - Dar es Salaam Zone in order to extend services to a wider customer base. This brings the number of Zones to four. Under the new process, bank's zone offices have taken the main front office role in originating business, monitoring performance and managing client relationships in their zones. The changes separated the Head Office's Directorate of Development Finance from day to day involvement with (Zone) client management activities

The financial performance of the bank accomplished for the year 2016 was an outcome of deliberate action involving balance sheet cleaning-up and slowing down lending. As a result profit for the year was lower than prior year. Given our focus on national development plans and projects in support of the Vision 2025 and implementation of the FYDP-II, the bank found it necessary to undertake some changes in

its organizational and operational set-up.

During the year we implemented a number of initiatives. These included asset and resource mobilization through syndications with other Development Finance Institutions (DFIs) and local sources of funds such as Pension Funds. Also the bank engaged itself in providing advisory services for some government projects identified its five year development plan.

However, the bank's limited capital base remained a constraint to funding larger projects.

The Bank continued on its quest to reposition itself as the Premier Development Finance Institution (DFI). To this end, tremendous strides were made in the implementation of the strategic plan during 2016. This culminated with realigning the bank's focus in line with FYDP II 2016/17-2020/21 that brought to the fore the need to re-emphasise the critical role of management in our operations.

Achievements

I am pleased to report that during the 2016, the Bank continued to engage with Local Government Authorities (LGAs) in the initiation of standalone revenue generating projects through signing of Memorandum of Understanding (MOUs) between the bank and the then Prime Minister's Office for Regional Administration and Local Government (PMORALG). TIB's commitment to LGAs aims to support the financing of Local Government infrastructure projects that in addition to increase LGA sources of revenue will improve the quality and delivery of amenities to local communities. During the year, a partnership was strengthened 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.

Further, I am pleased to report that notwithstanding stiff competition, for three consecutive years, the bank maintained a winning streak at the 38th and 39th and 40th Saba Saba Trade Fair respectively whereby it clinched the coveted top prize in the Financial Institutions Category. This victory was a result of the bank's innovative presentation portraying the bank's commitment to the development of infrastructure in the transport and energy sectors that was a crowd-puller and enchanted the judges during the Fair.

On observing environmental standards, I am glad to report that apart from ensuring funded projects complied with international environment principles, the bank prepared environmental and social policies and procedures with an outlook to continue to integrate them into existing credit process. In this respect, the bank throughout the year devoted to ensure that it complies with the national as well as international environmental and social management practices that sustain the quality of its funds.

Future Outlook

2017 is projected to be a challenging year as the Government puts in the necessary measures to ensure fiscal consolidation and setting austerity measures on resource use. We look forward to implementing key strategic interventions as the need arises to enable the Bank continue to build upon the achievements it has achieved so far.

Conclusion

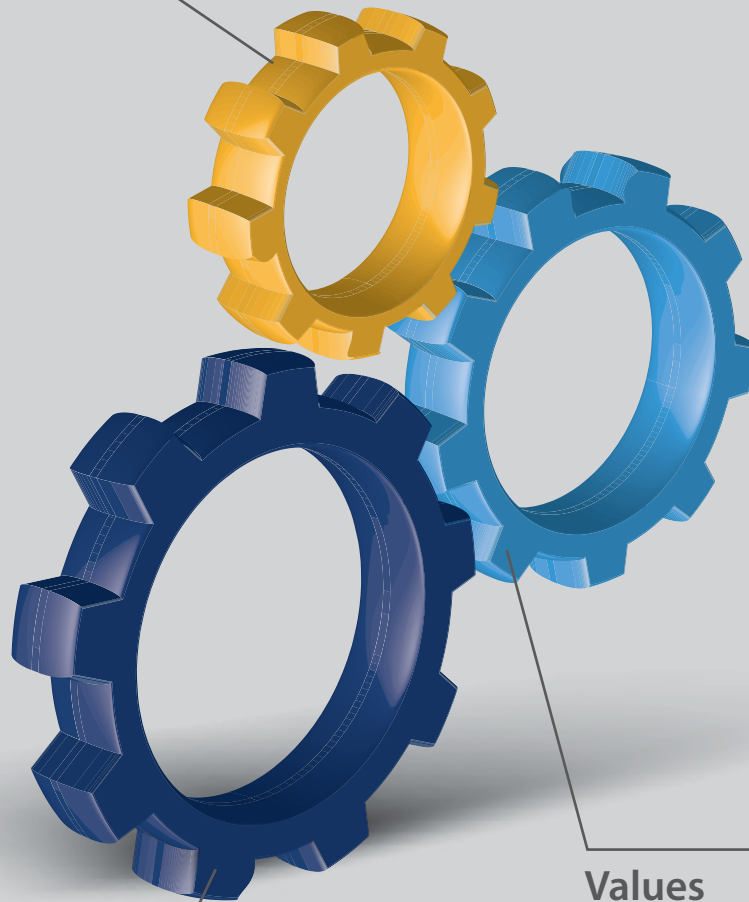
Finally, I wish to pay a special tribute to the shareholders for their unequivocal support during the year. I also express my appreciation to our Board of Directors, to Management, and to staff for their contributions and commitment throughout the year. I congratulate the hardworking staff of the Bank for their continued dedication and effort.



Mr. Charles G. Singili
A.g MANAGING DIRECTOR

Vision

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

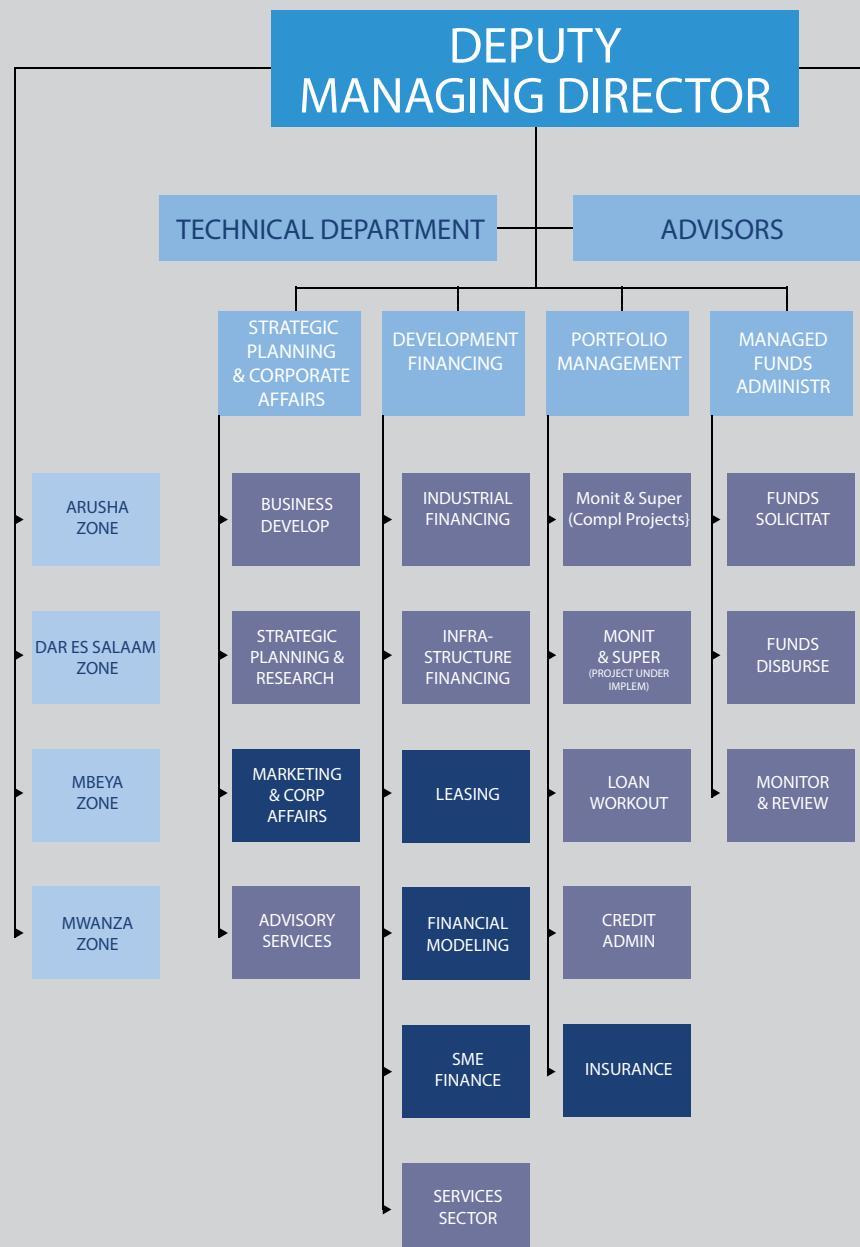


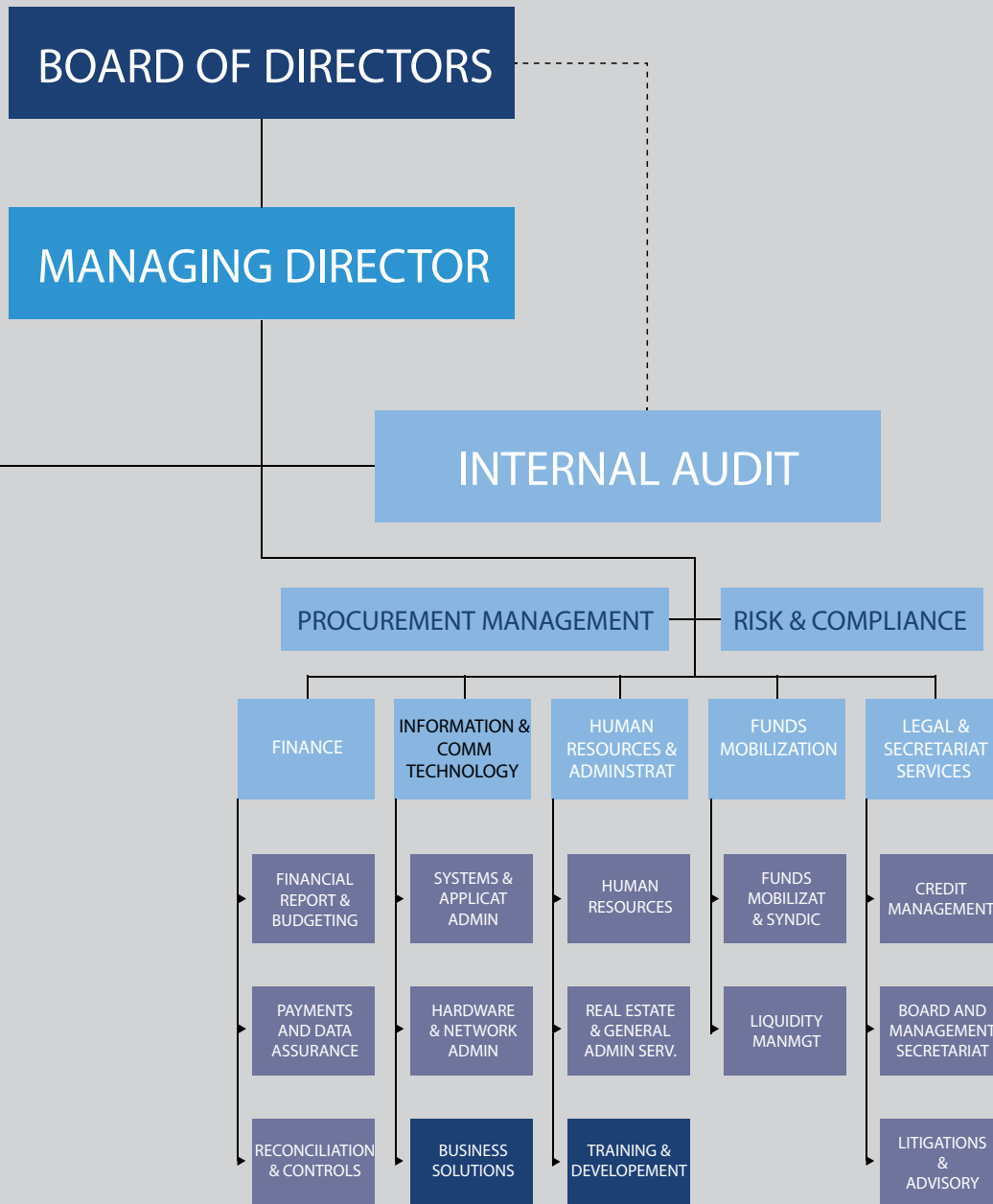
Mission

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

Values

Ethical
Teamwork
Innovative
Quality
Inspiring









Board of Directors

Front Row: Left to Right

Ms. Rose J. Aiko
(Director of the Board)

Brig. Gen (rtd) Mabula B. Mashauri
(Ag. Chairman of the Board)

Mr. Charles G. Singili
(Ag. Managing Director)

Back Row: Left to Right

Mr. Crispin B. Mwebesa
(Ag. Secretary of the Board)

Dr. Said S. Mzee
(Director of the Board)

Dr. Arnold M. Kihaule
(Director of the Board)

Mr. Maduka P. Kessy
(Director of the Board)

Prof. Joseph R. Buchweishaija
(Director of the Board)
not in the photo



Focused Towards
Industrialisation



Corporate Social Responsibilities

The CSR Policy's approach to funding community development projects has a developmental angle seeking to 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.

Adopt a school

Adopt a School is a TIB Development Bank initiated campaign which aims at raising funds for government schools in under privileged areas. This campaign was launched in 2015 when TIB adopted Mapambano Primary School in Sinza, Dar Es Salaam. Following President's call for individuals to participate in environment clean up to reduce the outbreak of cholera.

Rehabilitation of 16 toilets and installation of water connection, Construction of 3 new toilets and Installation of two water tanks. All these three projects were completed and students together with the teachers are now benefiting with the projects outcomes.

A number of CSR activities were implemented in 2016.

In fulfilling our social responsibility to the community we allocated funds on various development activities towards focused Corporate Social Responsibility (CSR) initiatives.

Despite those pasts' efforts, still there are other crucial needs at the schools. The school still required a concrete fence wall in order to avoid truancy and trace passers who might be source of harm to the children. In 2016 again staff and other stakeholders donated and managed to raise a total of TZS 42,000,000. The fund will be used to construct a fence wall at the school. We believe this project will bring the expected outcomes to the lives of children at Mapambano and Shekilango primary school.



SME Training

A total of ten SME clients who have already benefited from the loans attended the full sponsored SME training in the area of Marketing and Financial Management. The training was conducted during the 40th Dar es Salaam International Trade Fair (DITF). One of the Bank's key targeted clients are small and medium sized companies in agribusiness value chains that have the potential to become large in the future. The range of clients includes agro processing, livestock production, service, manufacturing and telecommunications all these have benefited from investment funds from the bank.

However performance of some of the SME's has been below expectation which has led to default, main reason being poor competence in managing businesses as they grow. The bank observed that the owners and managers have to learn a number of critical competence so that they can simultaneously grow sales, market their products comply with systems and relevant laws.

The training began on June 28th – July 4th 2016 and was conducted by professional facilitators and the cost of the training was full covered by the bank. Different modules were covered these include Financial Management, Marketing, Compliance and Governance as well as Project Management. The objective of the training was to equip SME's with knowledge that will address the challenges faced in their operations. This was also an opportunity for businesses from different sectors to share best practices.

Charitable Donation

As part of the bank's Corporate Social Responsibility activities, the bank has made some donations during the year. These includes one off donations towards Bukoba earthquake TZS 10,000,000 and TZS 1,200,000/- supporting international day of the blind.

Integrity





Divisional Performance Reviews



STRATEGIC PLANNING AND CORPORATE AFFAIRS

Patrick M. Mongella

The Directorate's obligation is to initiate the strategic direction of the Bank. This was achieved during the year through the development of new strategic projects in the strategic sectors of the economy including playing a role of advising the government agencies and ministries on a number of strategic project assessments and seeing to the completion of prevailing projects under the Local government Authorities (LGAs) which together added to the bank's growing balance sheet. The Directorate played a fundamental role in developing, coordinating and communicating the bank's next five years corporate strategic plan 2017/2021. The plan depicted on lessons learnt from the preceding years and also anchored around the county's anticipated FYDPII implementation plan specifically focusing on nurturing industrialization for economic transformation and human development. The directorate tasks among others were discharged through its four departments. These are Business Development, Advisory Services, Research and Strategic Planning and Marketing and Corporate Affairs.

Business Development Department

The main purpose of the business development department is to build a strong pipeline of bankable development oriented projects ready for the bank's financing thereby growing the DFI business. Through a lean structure of three business development professionals, the department identified eligible projects from public and private sector and worked with developers to ensure that their projects are developed



to a level that whets the bank's appetite for financing the projects. 2016 was a busy year for the department. Focus on drumming up the business for the bank meant the department attending various events and visiting different places around the country to orate the bank's desire to support development projects.

Business development endeavours during 2016 were influenced by the country's industrialization drive which is articulated in the second Five Year Development Plan as well as the glaring infrastructure gap which poses a great hindrance to social-economic development in Tanzania. Under this backdrop, and guided by the bank's strategic objectives, the department pursued targets around seven key areas. First and foremost was the identification and development of industrial and infrastructure projects at national and local government level. Working within the confinements of the countries prudential guidelines for development financial institutions, the department reviewed 22 projects concepts guiding them through the process to achieve bankability.

The department played a key as custodians of the bank's strategic risk, technical assistance and business development policies and frameworks. These guiding documents were reviewed and updated to suit the prevailing business and economic environment. A key development was the introduction of a new credit process whereby the department spearheaded introduction of project concept review mechanism and provided secretarial services for the bank's Business Review Committee.

Year 2016 also found the bank strengthening relationships with regional and other multilateral development finance institutions such as World Bank, DBSA, IFC, AfDB, BADEA, NORSAD and PTA bank. Projects were jointly identified in various sectors such as water, power, transport, railways, airports, economic zones and municipal infrastructures.

International and domestic financial institutions played a key role in the department's endeavours to support the private sector, particularly small and medium scale enterprises, so as to ensure they gain access to finance and infrastructure for growth of their businesses. In this particular area the bank worked with Japan International Cooperation Agency (JICA) to develop a financial product for SMEs. To enable smooth take-off of SME industries, TIB and SIDO identified six areas for development of industrial parks which shall be rented to small industrial enterprises.

Business relations with central and local government authorities strengthened as the bank and public entities worked together to identify and develop economically viable projects. The bank's four zonal offices complemented head office efforts by building closer relations with government and state owned entities through frequent face to face contact with clients thus ensuring customer receive the much needed financial support.

The department has actively participated in various meetings and conferences where interactions with various stakeholders enabled the bank to identify key development challenges in the various sectors and gained an opportunity to establish new contacts and relationships with potential customers. The 40th Dar es Salaam International Trade Fair provided an avenue for business development officers to meet and explain to customers, the bank's various financial solutions suitable for development projects in the country.

As the year progressed towards the end, the department consolidated services to customers by assisting preparation of industrial and infrastructure projects in various parts of the country and maintained the bank's role as the project promoters' partner for growth.

Advisory Services Department

During the year, the internal focus for advisory services was on developing credit origination templates which would support the Business Risk Committee decision making process. This business entry point application would address the project concepts; identify key risks in order for the bank to have an overview of the application and its relevance to the bank's strategic direction.

Externally advisory service was provided at various levels to the Ministry of Finance and Planning. Project specific advisory service was extended to projects under the Ministry of Works, Infrastructure and Communication i.e. rail, ports and airports.

From a governance perspective an advisory services policy was developed in response to the growing demand of the services sought. Previously the policy was embedded with the business development policy.

Strategic Planning & Research Department

Research and planning department implement an integral role in the life cycle of business development and projects with bank's loan under execution. Research and planning supports the bank through sector profiling done by offering in-house data studies and when necessary contract-out consultancies and studies of strategic importance to the bank's business. During 2016 research and planning offered support by providing in-house studies to enable an informed decision making and developing and reviewing financials models for mega national projects comprising EPZAs i.e. Bagamoyo Port, Kurasini logistic center, financial structuring of ATCL, financial structuring for central rail standard gage and on mining projects enabling production of Joint ore resource committee(JORC).TIB like any other financial institution relies on reserve estimates and reports in evaluating whether or not to advance finance to a resource company. The department maintains its intimate knowledge base of the requirements and

terms of analyzing financial structuring on mega projects to safeguard the projects encounter those criteria for financing.

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.

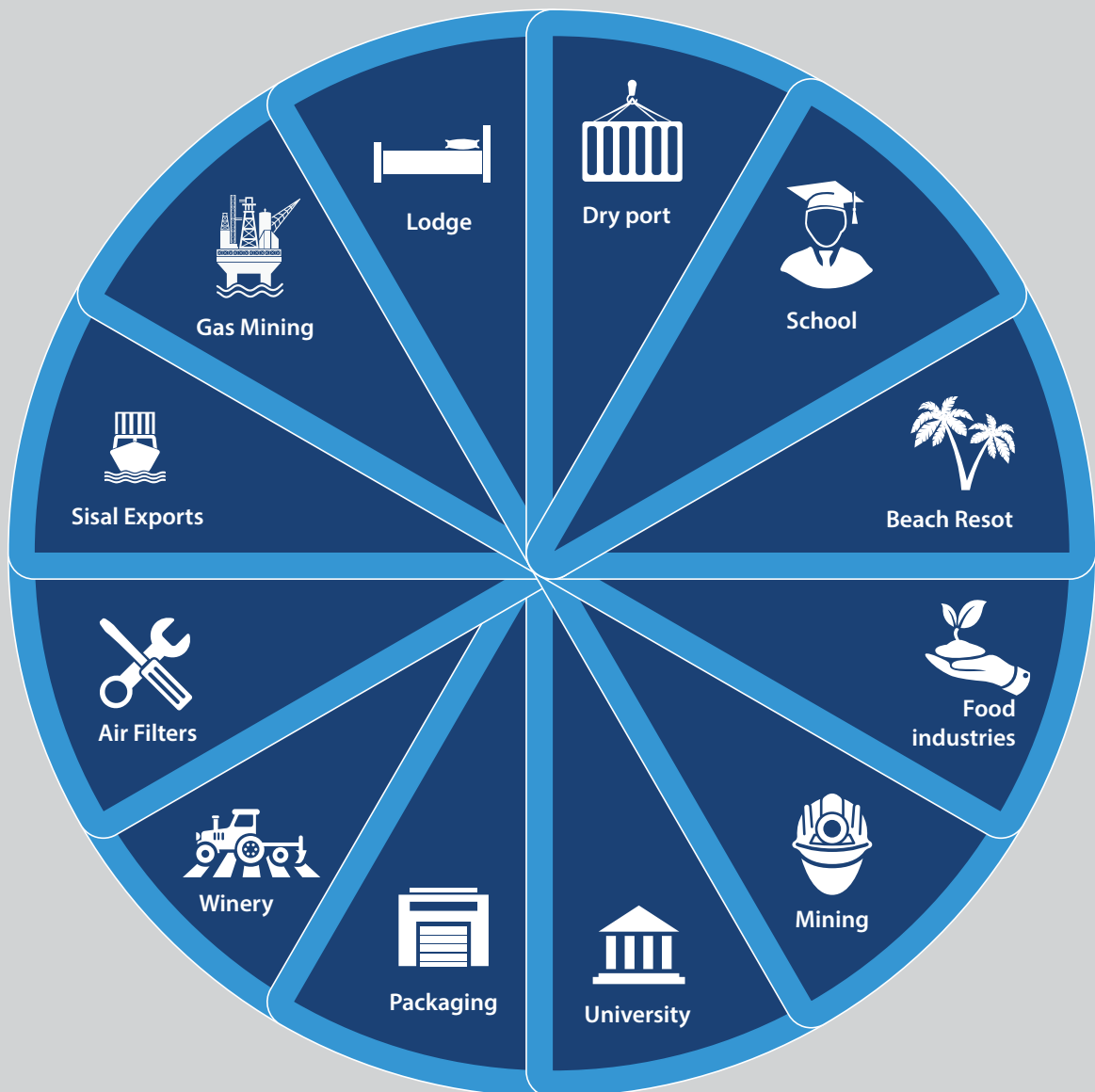
In 2016 the department's highlights include organizing and management of various corporate events. The department was responsible with branding of the venue and managing PR of the event, these include Board Inauguration in October and sponsorship of Association of Local Authorities General Assembly (ALAT) both took place in Dodoma.

The department continued to take advantage of the accessible technology to improve working environment and operational efficiency. Website reconstruction and launching was such a success in 2016, TIB Development Bank website is now found on www.tib.co.tz.

Participating in the 40th Dar es Salaam International Trade Fair is another notable achievement. The bank won the 3rd position in the Financial Institution category. Corporate Social responsibility was well realized through provision of one -off donation towards Bukoba earthquake victims where the bank donated Tshs. 10,000,000 and Tshs. 1,200,000/- supporting international day of the blind. Apart from that Tshs 42,000,000/- was fundraised to support fence construction for Mapambano and Shekilango Primary schools in Dar es Salaam.

The Marketing team manages all Marketing and Corporate Affairs activities of TIB subsidiaries (TIB Rasilimali and TIB Corporate Bank).

Projects





RISK AND COMPLIANCE

Julius B. Mukoji



2016 was a challenging year. It was the first full year of operations for a restructured TIB group, comprised of the development finance institution, TIB Development Bank, a commercial bank, TIB Corporate Bank, and the capital market player, TIB Rasilimali. It was also the first year of the 2nd Five Year Development Plan, 2016/17 – 2021/2022. The realignment of the bank's strategic objective to the national development plan, inevitably required that a big part of the legacy business had to be reallocated either to the Corporate bank subsidiary, or downsized.

The challenges associated with the above scenario were well articulated by the new Board of Directors, and as we look back at the decisions and actions that have been taken in the last 12 months, we have all the reasons to have a healthy and strong development bank, properly aligned to the Vision 2015 goals and the 2nd Five Year Development Plan, (FYDP II).

In line with the new challenges, the bank started reviewing its investment policy, to include new tools to reflect the new mandate as expected. The Internal Credit Risk Rating was completed in 2016. Credit Risk Stress Testing methodology was tested and is expected to provide a comprehensive enterprise-wide assessment of the bank's credit risk vulnerabilities, results of which shall serve as a basis for determining





capital levels and required buffer for unexpected shocks. In 2017, a Liquidity Stress Testing methodology shall be tested to provide a similar tool for managing liquidity risk in its pursuit of financial strength and viability to sustain its development efforts.

The results of these tools shall be aligned to the bank's business and integrated in the strategic planning exercise. The alignment of the bank's strategy to the 2nd FYDP is crucial to the bank's attainment of its capital and liquidity levels, supported by a revised risk appetite.

The risk management function continued to implement its mandate, including ensuring compliance to all policies and manuals is assured throughout all levels of the organisation, instituting a culture of risk awareness and a risk-based approach to decision-making. Management of risk is guided and monitored by various Board committees such as the Board Audit and Risk Committee (BARC), Board Investment Committee (BIC), Board Human Resources Committee (BHRC). These are supported by various management committees monitoring credit, market, asset liability, operational and liquidity risks.

Management and the Board are provided with detailed analysis of the bank's portfolio and a comprehensive assessment of its overall risk profile to serve as guide in both operational and strategic evaluations.

Credit Risk is the bank's biggest risk exposure arising mainly from its lending and project implementation and funding source challenges. Past due and non-performing loans have consistently been monitored and reported to Management and Board.

Given the bank's mandate, the bank's loan portfolio is generally concentrated on developmental loans, typically characterized by large and long-term exposures to agro-processing and infrastructure sectors. The turnaround of the bank's primary thrust to industrialization has been adopted and strategic inputs are being validated based on the government's

industrialization strategy's priority sectors. The bank manages its credit risk at all relevant levels of the organization through its business origination evaluation and assessment process, supported by credit policies, controls and monitoring structures. It has established a credit limit structure which provides for safeguards to manage credit concentration risk brought about by significant exposures to single name/group borrowers, and industry sectors. In addition, credit risk mitigation is instituted through the acceptance of eligible collaterals and guarantees. An internal credit risk rating system enables monitoring of the portfolio risk level and accounts needing remedial action.

Liquidity risk is the bank's next biggest risk. The bank's funding profile is being turned around from a deposit base to stable, longer tenor and lower interest rates. This is critical for the bank's attainment of its objectives spelled out its annual and medium term strategy.

This turn around shall be monitored and informed through stress testing methodologies and liquidity ratio analyses to determine significant changes in the bank's liquidity profile and enable timely identification of potential points of liquidity stress.

The bank's results on monitoring credit, liquidity, market, compliance, operational and strategic risks are periodically reported to the bank Management and Board Audit and Risk Committee.



DEVELOPMENT FINANCING

Lazaro N. Kilahala





The directorate is responsible for project appraisal, structuring and advising the bank on whether or not to invest in respective projects guided by bank's Investment Policy, Corporate Strategic Plan, National Development Vision 2025, and the 2nd Five Year Development Plan, (FYDP II).

The directorate has a total of four (4) departments and two (2) units formulated with a view to create specialized product knowledge which enhances quality of appraisal and of the investments made. The departments and units are:-

- (i) Industrial Financing Department
- (ii) Infrastructure Financing Department
- (iii) Service Sector Financing Department
- (iv) Financial Leasing Unit
- (v) SME Financing Department
- (vi) Financial Modelling Unit

The directorate contributes toward realizing bank's annual targets through attainment of (1) new loans approval target, and (2) appraisal fees collection target. Other targets are qualitative with regard to compliance and administrative issues.

Performance of the directorate for the year ending December 2016 is narrated below (TZS):

S/N	Target Name	Achievement
1	New loans approval	20,650,000,000/=
2	Collection of appraisal fees	139,400,000/=

The performance is reflective of bank's decision to slow down new business creation and focus on balance sheet clean-up exercise throughout the second half of the year aimed at removing investments which are not aligned to the bank's new mandate in a move to reposition the bank towards delivering per its new mandate.



PORTFOLIO MANAGEMENT DIRECTORATE

Mansoor M. Baragama

The directorate is comprised of four departments and one unit, namely; Projects Under Implementation, Completed Projects, Credit Administration, Loan Work Out and Recovery Departments, as well as Insurance Unit. Collectively, the division consists of 22 staff members.

The Portfolio Management Directorate 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. Also, the directorate is responsible for the workout and recovery of non – performing and charged off loans. In addition, the directorate is also dealing with insurance brokerage services for bank's assets, staff and borrowers assets pledged as securities for projects financed by the bank.

Monitoring and Supervision of Projects Under Implementation Department

This department is responsible to ensure that project implementation for all approved facilities is carried out according to the approved covenants in the 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 Zonal office for monitoring.

Monitoring and Supervision of Completed Projects Department

This department monitors the performance of operational projects in the TIB entire portfolio according to risk management Policy standards and the approved business strategies. The department is also responsible to coordinate Zonal office activities at the head office and provide continued feedback on the projects progress to Project Appraisal Team (PAT) to enable the bank to improve the chance of a project's success. The same feedbacks are also used as the basis for improving the bank's investment processes, policies, and procedures.

Credit Administration Department

This department acts as the 'intelligence' unit for the Directorate 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 Work out and Recovery Department

This department is responsible for turning around those distressful projects. Principally the department aimed at capacitating a struggling project that was financed by the bank to regain cash flow generating capacity and resume debt servicing and repay the entire (agreed) outstanding loan balances. Further, the department has also mandated to institute and manage recovery measures on bad loans.

Insurance Unit

TIB insurance unit is a registered broker under the name TIB Development Bank limited issued by Tanzania insurance regulatory authority (TIRA). It operates as a unit under Portfolio Management Directorate of the bank.

The main objective of the brokerage unit is to work in line with the bank's core business to ensure that all bank's assets, staff and borrowers assets pledged as securities are adequately insured to protect the interest of the bank. In line with the stated objective, the brokerage unit also adding the stream of revenue to the bank's income for insurance services offered to the bank's clients. For the year under review the brokerage unit create the revenue in tune of TZS 296.1 Million from the insurance services.

Overall Review

As at December 31st, 2016 the bank had an on – balance sheet gross portfolio amounting to TZS 703,890 million, the growth of about 26% compared to the year ended 2015. The on balance sheet portfolio is comprised of 138 projects (out of which Term Loans are 84%, Overdraft 15% & 1% staff loans of the total loan portfolio.)

By ownership; the public projects account for 34 % of the entire portfolio, whereas private projects contribute 66 % of the same.

From a sector perspective, TIB Loan comprised of the following sectors: Gas 27.7%; Agriculture and Agroprocessing 21.2 %; Manufacturing 10.6%; Mining and Quarrying 9.3%; Tourism, Hotels & Restaurants 8.9%; Real Estate 8.4%; Electricity 5.1%; Trade 2.8%; Education 1.7%; Transportation and Communication 1.3%; Financial Intermediaries 0.9%; Personal 0.7%; Building and Construction 0.6%; Other Services 0.5%; Leasing 0.2%; Fishing 0.1%; and Health 0.02% of the total loan portfolio. The distribution according to priority sectors was in compliance with the TIB Development Bank Limited's Investment Policy, but also they aligned with the Bank of Tanzania (BOT) sectorial categories.

The portfolio is regionally distributed among five zones namely Dar es salaam 50.5%; Lake 31.0%; Arusha 15.5%; Zanzibar 1.5%; and Mbeya 1.5%.

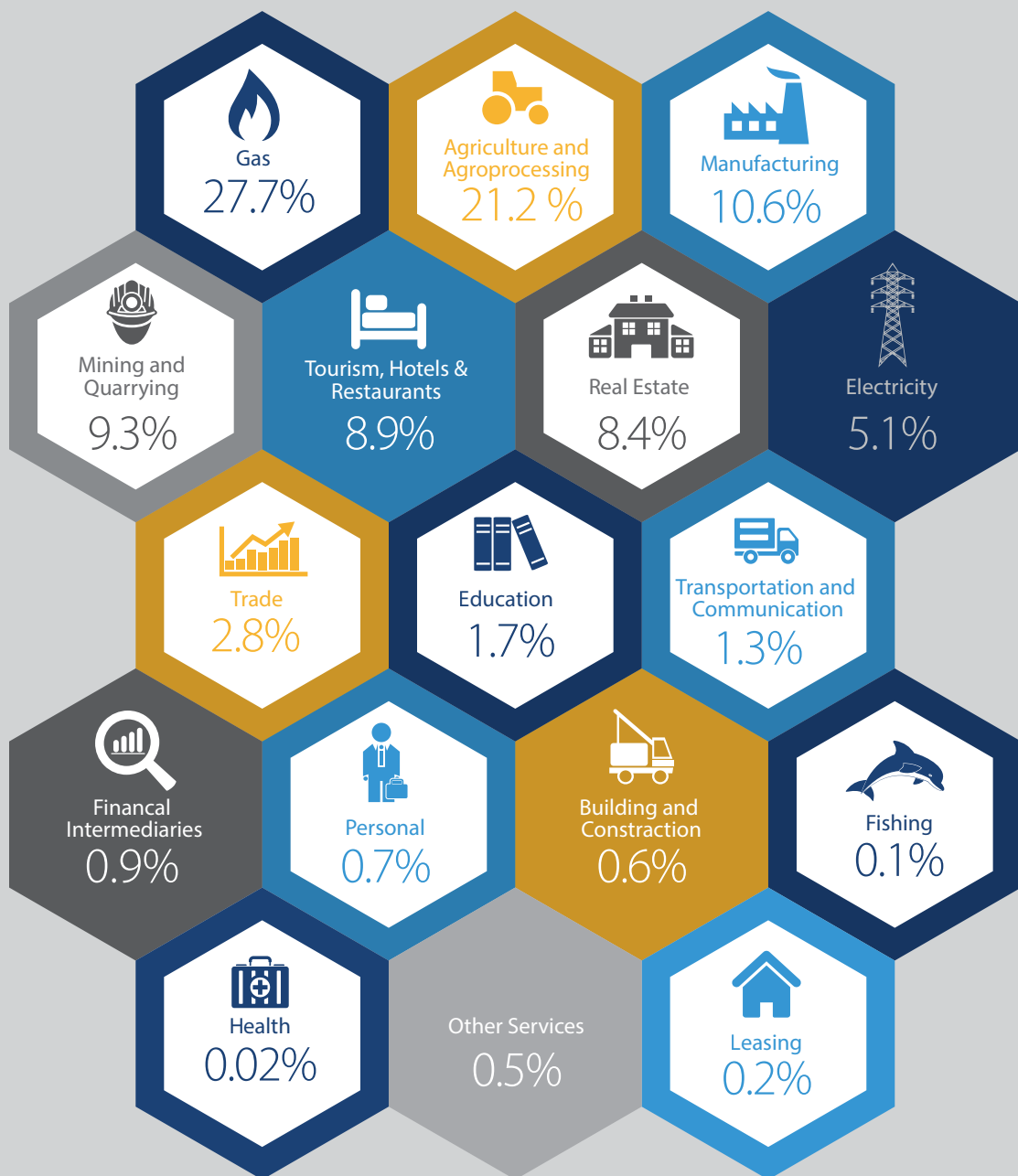
By December 31st, 2016 the portfolio under Loan work out and recovery category had a total exposure of TZS 83.7 billion. The collection from charged off accounts for the year 2016 was TZS 1.6 billion compared to TZS 2.8 billion of 2015.

The Portfolio Management Directorate continued to face similar challenges like in the previous years such as promoters' failure for timely equity injections, and non-compliance of loan covenants as per approved financing plans.

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 Loan (NPLs).

Court procedures and poor conditions of security assets were hurdles. More than TZS 50.9 billion of the portfolio under recovery was locked in court cases. To avoid the long – widing litigations, the Directorate with support from bank's management is exploring other measures to unlock those 'road blocks' so that the bank can recover its investments.

TIB Loan by sectors





MANAGED FUNDS

Zuwena S. Hemed



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

Directorate structure and department reviews

The directorate comprises of three departments namely Fund Solicitation, Fund Disbursement and Monitoring and Review department.

Fund solicitation department is tasked with solicitation of funds from various sources both governmental and non-governmental as well as other different donors.

Monitoring and Review department monitors ongoing projects. The main role is to oversee implementation of projects so as to ensure projects are implemented according to agreed schedule. .



Disbursement department mainly focuses on document verifications and review that and ensure that disbursement is made according to the terms and conditions of the loan. The department also prepares reports.

Overall Review

During the year under review, one existing agreement between TIB and SNV Netherlands Development Organization was extended for a period of one year from September 2017 to September 2018. Apart from that, the bank tendered to Ministry of Energy and Minerals to administer grant funds of USD 3.0 million for small scale mining activities in Tanzania Main land. Further, Rural Energy Agency extended contract with TIB Development Bank for the administration of the Credit Line from August 2016 to August 2019.

During the period under review, the bank disbursed TZS 5.09 billion to various projects. This is a decrease of 96% when compared to total Disbursement TZS 143.3billion made in 2015. The decrease is mainly due to cancellation of REA contract in 2015 (see table below).

Table 1 Funds Disbursed January to December 2016 "TZS"

Name	Principal	Amount in TZS '000'
TEDAP	World Bank/REA	0.00
Agriculture Window Fund	Ministry of Finance	3,445,756
Small Scale Mining Development Scheme	World Bank/MEM	662,110
Floriculture		0.00
Results Based Financing (RBF) Fund	SNV	990,100
Sumbawanga Agriculture And Animal Feeds Industry		0.00
TOTAL		5,097,966

During the period under review, the bank collected TZS 8.77 billion to various projects. This is a decrease of 73% when compared to total collection of TZS 2.3billion made in 2015. The decrease is mainly due to cancellation of REA contract in 2015 and non-performing of some accounts under Agricultural Financing Window Fund.

The size of the Managed Fund Portfolio decrease from TZS 741 billion in 2015 to TZS 140.4 billion by 31st December 2016. This is as a result of cancellation of REA contracts in 2015 worth TZS 569 billion and an expired contract for Small Scale miners under MEM grant of TZS 7.23 billion and TZS 2.3 billion of Small Scale Mining Development Credit Scheme. The total portfolio has decreased by 81.8% (i.e. from TZS 741 billion in 2015 to TZS 140.4 billion as at 31st December 2016).

Table 2: Managed Funds Portfolio as at 31st December 2016

Funds Managed by the Bank as at 31st		December 2016
Name	Principal	Amount in TZS '000'
Structured/Refinancing Facility	Bank of Tanzania	76,834,687
TEDAP	World Bank/REA	11,872,711
Agriculture Window Funds	Ministry of Finance	37,207,198
Commodity Import Support	Ministry of Finance	9,290,282
Small Scale Mining Development Scheme – Grants	World Bank/MEM	238,020
Results Based Financing (RBF) Fund	SNV	5,016,000
Credit Guarantee Scheme	NEEC	0
TOTAL		140,458,898

The Directorate faces various challenges such as competition on funds solicitation from other financial institutions, delays in loan repayments especially from the Floriculture Portfolio, Agriculture Financing Window Fund and the Import Support Commodity Fund, as well as non-compliance of loan covenants by some of the clients in the mentioned portfolio.

Despite the above challenges the bank continues to seek for fund management opportunities from Government as well as other non-governmental institutions. Further the bank continues to institute recovery measures to defaulters from the mentioned funds ensure that funds are recovered. This coupled with the Bank's decision to monitor projects from zonal offices is expected to reduce the non performing portfolio.

Since **1992**





FUNDS MOBILIZATION

Samwel M. Minja

Funds Mobilization Division is a new division formed to take over Treasury functions, which were shifted to TIB Corporate Bank Ltd and in the interim managed through Directorate of Finance after completion of the TIB's transformation. This is a front office division of the bank charged with responsibility of liquidity and balance sheet management, fund mobilization, championing potential projects for syndication, trading in foreign exchange, risk and compliance management.



Funds Mobilization

The Funds Mobilization Directorate successfully managed the bank's overall liquidity in 2016. The Directorate managed to ensure the bank is properly funded despite the liquidity problems that were prevailing in the market. The Directorate continues to invest in treasury bills, bonds and money market for liquidity purposes and earn good return from these investments. The Directorate managed to maintain good relationship with international funds providers for long term borrowings through lines of credit with outstanding amount of USD 32 million at the end of the year. At the same time the Directorate had advanced negotiation for two lines of credit totaling USD 52 million. The Directorate also continued to mobilize deposits from the public and institutional investors to fund the bank's lending. Deposit mobilization from institutional investors has been a challenge as the regulation demands deposits which qualify in a DFI setting should have a minimum tenure of 24 months. Currently very few institutions offer deposit for that tenure.

The Directorate managed to engage local and international lenders to finance gas, coffee and transmission line projects under syndication and co-financing arrangements. The Directorate managed to conclude the syndication transactions to finance gas project for total loan of USD 26 million while the negotiations were at advanced stage for the syndication transaction of USD 133 million to finance transmission line and co-financing facility of USD 30 million to finance instant coffee project.

In line with bank's strategy to shift to long-term funding, the Directorate initiated the process for issuance of TZS 300 billion corporate bond. The process is being handled by TIB Rasilimali Ltd in collaboration with Deloitte and CRB Africa Legal. The issuance and listing of the bond is expected by quarter two 2017.

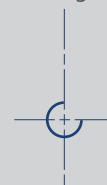


HUMAN RESOURCES AND ADMINISTRATION

Stella M. Nghambi



The Human Resources and Administrative Services Directorate used to comprise of two (2) departments namely; Administrative Services and Human Resources. In order to have a more engrossed approach on capacity building issues, the new Training and Development Department was introduced in 2016 as a third department. The introduction of this new department will ensure the bank maintains a pool of skilled workforce able to conduct its activities effectively at all times. The Directorate is therefore mainly responsible for human resources planning; recruitment; training and development; compensation and benefits; maintenance of physical assets as well as ensuring employees work under conducive working environment.





During this period, to ensure the bank's human capital have the appropriate job related knowledge and skills needed for the desired productivity, training and development assumed a more focused approach in line with core banking programmes, that are geared towards imparting staff with development financing knowledge and skills. In that regard, a Modular Credit Certification course ran by Moody's Analytics kicked –off with all employees working in the credit process enrolled in the first batch. The first two modules were completed in 2016 where 90% (i.e. fifty four (54) out of sixty (60) employees who were enrolled) passed the examinations. The final module will be completed in March 2017. This Course is compulsory for all employees of the bank who fall within the credit circle.

The bank also offered more short term training opportunities to staff in-house, locally and abroad in order for them to update and acquire specialized skills and knowledge for improved performance. The Directorate furthermore organized a special management/leadership development training to Members of Management, Managers and Principal Officers of the bank. The training aimed at imparting leadership skills and equipping them with necessary knowledge and skills to cope with and manage change. The bank continued to partner with the Japan International Cooperation Agency (JICA), Association of African Development Finance Institutions (AADFI) and Southern Africa Development Cooperation – Development Finance Resource Centre (SADC-DFRC), where TIB employees continued to get opportunities to participate in partially funded courses.

The Directorate coordinated the implementation of the revised organization structure, updated and prepared job descriptions in line with the re-aligned functions, changed roles and structure. The Directorate continued with recruitment of employees to fill positions that became vacant within the bank and its subsidiary TIB Rasilimali Limited, where thirteen (15) new employees were recruited in various positions. Regardless of challenges faced during the period, in general, the bank tried to maintain the

same level of benefits provided to employees and managed to retain about eighty nine percent (89%) of its workforce.

In implementing its administrative functions, the Directorate amongst others successfully coordinated the staff welfare matters and facilitated acquisition of working tools to enable staff members to work in conducive environments and perform their functions efficiently. All Human Resources and Administrative functions of the Rasilimali Limited also continued to be supported by the Directorate.



INFORMATION AND COMMUNICATION TECHNOLOGY

Robert J. Ndaki

The Information and Communication Technology (ICT) Directorate is responsible for preparing, implementing, monitoring and evaluating ICT Strategic plan for the bank to achieve its business objectives. It 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 to 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 reliable and efficient application of technology
2. Maintaining ICT-related risks at acceptable level
3. Optimizing costs of ICT services
4. Compliance with the law, regulations, contractual agreements and policies.





Directorate structure and department reviews

The Directorate is made up of three departments; Hardware and Network, Systems and Applications and E-Business solutions.

Hardware and Network

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

Systems and Applications

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

E-Business solutions

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

Overview

During the year under review, the Directorate continued to provide technical support to three entities i.e. TIB Development Bank Ltd, TIB Corporate Bank Ltd and TIB Rasilimali Ltd to ensure smooth business operations following restructuring of TIB into two tier group. It also finalized implementation of the Helpdesk management system to upcountry offices to ensure proper management and timely resolution of reported incidents.

Following relocation of zonal and branch offices in Arusha from Central Plaza to PPF Plaza, the Directorate coordinated implementation of network infrastructure at PPF Plaza to connect the same with the Head office and other offices. It also upgraded the e-mail system from Microsoft exchange server 2010 to 2016 to address security loopholes observed on the previous releases.

In order to expand TIB network coverage, the Directorate integrated TIB Core Banking System with Tanzania Postal Bank Core Banking System to enable TIB corporate customers to access banking services through TPB agency banking where TIB has no branch. Customers can make deposits to their TIB accounts by using Tanzania Postal Bank branch network. It also coordinated the integration of the Core Banking System with TPA electronic payment system to enable the bank to offer automated TPA port charges collection services. The integration helps the bank to support real time Invoice validation check, managing cash collection services, acknowledge receipt of bills payments, and provide online account statements for reconciliations.

To improve availability of information, Journal mirroring was implemented for the core banking system to facilitate real time transactional replication from the production site to the Disaster recovery site. In addition, the Directorate finalized implementation of electronic cheque clearing system (Cheque point) which integrates TIB Corporate Bank Ltd to Tanzania automated Clearing House (TACH).

In collaboration with Prime Minister's Office (PMO), the Directorate coordinated a number of ICT projects procured through Private Sector Competitiveness Project – Additional Finance (PSCP-AF). This includes implementation of Voice over Internet Protocol (VoIP) telephone system to replace the traditional analogue system. Some of the benefits to the bank from VoIP include free calls to all TIB offices including upcountry offices, teleconferencing and voice mail service which provides message recording services in case a recipient is not available.

Through PSCP-AF financial assistance, video conferencing facility was also implemented to enable the bank to conduct virtual meetings between TIB offices including zonal and branch offices and/or

outside the bank network. This improved productivity to the bank by reducing travel times, reduced travel costs as well as travel risks. In addition, ICT security solutions were implemented to safeguard the bank's network environment.

With financial support from PMO, credit risk management system (CreditQuest) was also upgraded from 5.8 to 14.2 and customized to meet business needs. Likewise, PMO in collaboration with the Directorate facilitated procurement and installation of servers, personal computers, laptops and printers.

Going forward, the focus of the bank is to improve operational efficiency on business processes, attain paperless environment, and enhance information security. Based on this, the bank has planned to review the credit risk management system to reflect improvements made in the investment policy, implement Internet banking to enable customers to access banking services at their locations, upgrade the core banking system from Release 11 to 16/17, implement document management system and security solutions to address the identified security gaps.

In addition, the bank has planned to replace the existing account and lending modules with the new modules (Arrangement Architecture) introduced in the core banking system to meet the current business needs. Further, the bank is considering to implement a Business Intelligence (BI) solution for reporting and hence improve efficiency on decision making.



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LEGAL AND SECRETARIAT SERVICES

Crispin B. Mwebesa

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 of 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:

a) 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
 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
- During the year, the Department handled all the 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 concluded in favour of the bank; while the rest are at different stages of prosecution and are being followed-up closely.

In year 2017 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.

b) 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. Provisions 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. The department coordinated all affairs on the new Board members

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. TIB Rasilimali Limited.

The Department disseminated the resolutions/ decisions of the various forums herein before 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 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 the Board and the Managing Director.

c) **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 firm for instituting civil cases
6. Provision of business advisory services and transactional structures – from negotiations stage, preparation of MOUs, due diligence and KYC,

During the year 2016, 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 lines of credit from BADEA, etc.

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

INTERNAL AUDIT

Isaac E. Kiputa

The Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the bank's operations. The internal audit activity helps the bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

For the year 2016 the planned audit activities were aligned with the bank's strategic objectives and therefore mainly focused on implementation of the bank strategy of 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 the acceptable accounting standards.

Specifically, the Internal audit activities for year 2016 were mainly of four types namely, Operational audit assignments, governance activities, financial audit and other non-strategic activities. The focus of the audit work in all four activities was on the identification of the existing and emerging risks that may impede achievement of the strategic objectives of the bank and ensure they are properly mitigated. The results of the audit work on all activities were reported to the Board of Directors through 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

As mentioned in our 2015 remarks, the Finance division continued to go through some changes after the major changes emanating from the formation of the TIB Corporate Bank subsidiary. Starting from January 2016 the Resource Mobilization department which was under Finance was elevated into an independent division and renamed as Funding Division. As a result Finance Division remained with mainly accounting role.



Mandate

As mentioned in the background, the Finance Division remained with the accounting role which covers budgeting, payment to service providers, financial & 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.

2016 Operations

As opposed to the previous year which saw a number of adjustments in the division, the operations during the year were smooth and the responsibilities were



discharged efficiently leading to customer satisfaction and professionally recognized work. The bank was, for another time, announced among the winners of the 2015 NBAA Best Presented Financial Statements (as a third winner in the category of Big Banks) which was announced in December 2016.

(i) Reporting and Budgeting Department

All the activities which were planned in the 2016 annual plan were successfully discharged including regulatory reporting where all the reports were submitted as required and the bank continued with a healthy working relationship with the regulators. All management accounting reports were also prepared in frequency agreed and enabled the bank to make informed decisions. During the year the division also played host of a number of special audits ordered by different Government organs. This was in addition to the routine Bank of Tanzania Examination which was concluded in May 2016. The department has also successfully coordinated preparation and completion of the 2016 annual audited accounts and the bank received a clean audit report from the External Auditors.

(ii) Payments and assurance

The department discharged successfully responsibility to make payment to both suppliers and bank's financiers. The department also ensured that all the entries that were posted in the banking system were genuine and correctly captured. In addition, accounting for all taxes related to services and supplies were properly accounted for. These includes Value Added Tax which became a big issue in the banking system following the changes made since July 2016, withholding tax, city service levy, payroll taxes and others. All in all the department ensured that the bank complied with the relevant laws and that no penalties were suffered.

(iii) Reconciliation and Controls

This is an internal checks and balances mechanism and has worked well. All bank and other internal accounts reconciliations were done timely and clearance of reconciling items effected as required.

This not only made sure that the bank did not suffer from fraudulent activities but also provided assurance that the bank's financial reports contained credible information.

In addition, the department in the absence of properly structured back office for the funding division, played well the back office role by confirming and providing assurance on the transactions concluded by the funding division.

The way forward

The division will continue to innovate and improve especially on the issue of reporting as new IFRS (Notably IFRS 9) requirements come into place.

Once again there are more changes and improvements being envisaged for the division in 2017. In order to centralize all payments in the bank, the division is also expected to assume the role of the final disbursement of the loans. Until now this role was under Credit Administration in the Portfolio Management Division. However, in order to provide independence and create checks and balances this role will be shifted to Finance division by second quarter. Due to specific requirements of this role and the risks associated with such transactions it is expected that a separate department specifically dealing with disbursements will be created within the division.

Excellence





1. INTRODUCTION

The Directors have pleasure to present this report together with the audited consolidated and separate financial statements for the year ended 31 December 2016 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 consolidated and separate 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 Group financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors dated 22nd March 2017.

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 under Capital Markets and Securities Authority Act Cap 79, 1994 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 is the provision of developmental banking and related services as stipulated in the Banking and Financial Institutions Act, 2006. The Two subsidiaries are complementing developmental activities through commercial banking activities as well as through capital market business. The principal activity of the Bank includes among others, provision of:

- Medium and Long term credit facilities as well as Equity Financing
- Administration of Funds on behalf of the Government and other stakeholders.
- Technical support services to Small and Medium-Sized Enterprises (SMEs) eg through preparation of business plans and feasibility studies as well as by conducting trainings
- Provision of Advisory services.

The activities of the Bank are discharged in collaboration with its subsidiaries as mentioned in section 2 above following completion of the transformation process in 2015.

Since then, TIB Development Bank Limited has remained with its primary mandate of providing medium and long term financing (particularly to sectors of public interests) whereas TIB Corporate Bank Limited has continued to provide commercial banking services. With the support of TIB Rasilimali Limited, the Bank as a Group is now able to offer a wider range of services to its stakeholders.

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.

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 Bank was served by two sets of Board members following expiry of the tenure of the earlier Board and appointment of the new Board on 5th July 2016. The new Board is comprised of seven (7) non-executive directors and one executive director who is also the Managing Director of the Bank. The Managing Director was appointed on 01st May 2016 following retirement of Mr. Peter Noni, the then Managing Director.

Table 1: Members of the current Board of Directors

S/ No	Full Name	Position	Age	Qualification	Nationality	Date of Appointment
1	Prof. Palamagamba J. Kabudi	Chairman	60	PhD in Law; LL.M; Advocate of the high court of Tanzania, Notary Public and Commissioner for oath	Tanzanian	5th July 2016*
2	Mr. Maduka P. Kessy	Director	55	BA Economics, MSc. Development Planning	Tanzanian	5th July 2016
3	Dr. Said S. Mzee	Director	49	PhD in Finance	Tanzanian	5th July 2016
4	Dr. Arnold M. Kihale	Director	56	PhD (Economics and Finance)	Tanzanian	5th July 2016
5	Ms. Rose J. Aiko	Director	43	Master of Arts (Economics)	Tanzanian	5th July 2016
6	Prof. Joseph R. Buchweishaija	Director	57	PhD in Engineering	Tanzanian	5th July 2016
7	Brig. Gen (rtd) Mabula B. Mashauri	Director	65	Bsc Engineering; Registered Engineer	Tanzanian	5th July 2016
8	Mr. Charles G. Singili	Managing Director	59	BCOM – Accounting; CPA (T) - (Certified Public Accountant) NBAA registered.	Tanzanian	1st May 2016

* Following the appointment Prof. Palamagamba J. Kabudi to be a member of Parliament, his membership to the Board ceased on 17th January 2017. Following this, the Board selected Brig. Gen (rtd) Mabula B. Mashauri as an interim chairman.

5. COMPOSITION OF THE BOARD OF DIRECTORS (Continued)

During the year Ms. Martha Maeda served as a company Secretary up to 31st October 2016 and retired from the services of the Bank after reaching retirement age. Her position was replaced by Ms. Irene Ngowi. Both Ms. Martha Maeda and Ms. Irene Ngowi are qualified Lawyers and are admitted as advocates of the High Court of Tanzania and subordinate courts.

The previous Board of Directors which served until 4th July 2016 had nine (9) members, out of which eight (8) were non-executive directors and one (1) executive director who served as the Managing Director of the Bank.

Table 2: List of members of outgoing Board of Directors.

S/ No	Name	Position	*Age	CPA (T) - (Certified Public Accountant) NBAA registered.	Nationality	Date of Outgoing
1	Prof. William M. Lyakurwa	Chairman	68	PhD in Economics	Tanzanian	04 July 2016
2	Mr. Haruna S. Masebu	Director	61	MBA & MSc	Tanzanian	04 July 2016
3	Mrs. Elipina E. Mlaki	Director	64	MBA	Tanzanian	04 July 2016
4	Mr. Peter M. Noni	Managing Director	61	M.A in Economics	Tanzanian	30 April 2016
5	Dr. James M. Wanyancha	Director	64	PhD in Forest Genetics	Tanzanian	04 July 2016
6	Prof. Deogratias F. Rutatora	Director	62	PhD in Rural Sociology	Tanzanian	04 July 2016
7	Dr. Huba M. Nguluma	Director	57	PhD in Built Environmental Analysis	Tanzanian	04 July 2016
8	Dr. Said S. Mzee	Director	49	PhD in Finance	Tanzanian	NA
9	Ms. Stella M. Urrio	Director	44	Master of Science Degree	Tanzanian	04 July 2016
10	Mr. Charles G. Singili	Managing Director	59	BCOM - Accounting CPA (T) - (Certified Public Accountant) NBAA registered.	Tanzanian	NA

* Age at the time of retirement for those who retired.

6. CORPORATE GOVERNANCE

The Board of Directors is comprised of seven (7) 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 setting a robust system of internal control including ensuring that policies and procedures are in place and are adhered to in line with good corporate governance principles and best governance practices as well as ensuring that the institution has a motivated work force.

In order to perform its duties properly the Board met four times during the year. The Board delegates the day to day management of the business to Managing Director assisted by Senior Management. Senior Management team 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, competency, responsibility, fairness, 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 under Managing Director.

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

Following appointment of the new Board there was a re-constitution of the committees and bearing in mind the importance of credit investment decisions in the Bank, the new Board formed Investment Committee to deal with all investment issues and dissolved the old Board Executive Committee which only met on need basis. The Board has three (3) committees namely Board Investment Committee (BIC), Board Audit and Risk Committee (BARC) and Board Human Resources Committee (BHRC). Responsibilities of the old Board Executive Committee have been taken over by the Board Investment Committee and the Main Board.

During the year, the Board and its committees held several meetings as detailed in the table below. The Board meetings deliberated on the overall Bank's strategy and its performance, approval of loans as well as receiving and deliberating on Board committee reports.

Table 3(a): Number of Meetings attended by the current Board members

S/No	Full Name	Full board	BIC	BARC	BHRC
	Total number of meeting held	5	2	1	1
1	Prof. Palamagamba J. Kabudi	4	N/A	N/A	N/A
2	Mr. Maduka P. Kessy	3	2	1	N/A
3	Dr. Said S. Mzee *	5	N/A	1	1
4	Dr. Arnold M. Kihale	4	2	N/A	1
5	Ms. Rose J. Aiko	4	2	1	N/A
6	Prof. Joseph R. Buchweishaija	4	N/A	1	1
7	Brig. Gen (rtd) Mabula B. Mashauri	5	2	N/A	1
8	Mr. Charles G. Singili *	5	N/A	N/A	N/A

*Members were re-appointed and hence form part of current board members.

6. CORPORATE GOVERNANCE (Continued)

Board and Committee Meetings (Continued)

Table 3(b): Number of Meetings attended by the outgoing Board members (up to 4th July 2016).

S/No	Name	Main board	BEC	BARC	BHRC
	Total number of meetings held	3	-	4	1
1	Prof. William M. Lyakurwa	3	-	N/A	N/A
2	Mrs. Elipina E. Mlaki	2	-	4	N/A
3	Mr. Haruna S. Masebu	3	N/A	4	1
4	Prof. Deogratias F. Rutatora	2	-	3	N/A
5	Dr. James M. Wanyancha	2	-	N/A	1
6	Dr. Huba M. Nguluma	2	N/A	N/A	1
7	Dr. Said S. Mzee*	3	N/A	4	N/A
8	Ms. Stella M. Urrio	3	-	N/A	N/A
9	Mr. Peter M. Noni	2	-	3	N/A
10	Mr. Charles G. Singili*	2	-	2	1

*Members were re-appointed and hence form part of current board members.

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

Board Investment Committee

The function of the Committee, which is newly formed, is to assist the Board of Directors in fulfilling its responsibilities by providing oversight of the Bank's investment policies and management activities relating to the identification, assessment, measurement, monitoring, and management of the Bank's investment risk. The Committee provides Table 4: The Board Investment Committee Members

oversight to the Bank's business that is non-funded, such as Fund Management and Advisory Services. In addition, the Committee reviews the Bank's investment strategy, liquidity, policies, trends in portfolio quality and adequacy of provision for investment losses, and provide recommendations to the Board.

Name	Position	Nationality	Qualifications
Brig. Gen (rtd) Mabula B. Mashauri*	Chairman	Tanzanian	Bsc Engineering; Registered Engineer
Dr. Arnold M. Kihale	Member	Tanzanian	PhD (Economics and Finance)
Mr. Maduka P. Kessy	Member	Tanzanian	BA Economics, MSc. Development Planning
Ms. Rose J. Aiko	Member	Tanzanian	Master of Arts (Economics)

* Following selection of Brig. Gen (rtd) Mabula B. Mashauri as Interim Chairman of the Board, Mr. Maduka P. Kessy was selected as interim Chairman of the Investment Committee.

6. CORPORATE GOVERNANCE (Continued)

Board Investment Committee (Continued)

The Board Investment Committee reports to the main Board and met twice during the year and deliberated on investment related matters especially loans.

The Executive Committee members who served during the year are shown on table 3(b). The committee did not hold any meeting in 2016.

Board Executive Committee

This is a Committee used to exercise 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 deliberated on other things as was referred to it from time to time by the Board.

Currently this committee no longer exist and most of its responsibilities were taken by Board Investment Committee and the Main Board of Directors.

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: The current Human Resources and Remuneration Committee Members

Name	Position	Nationality	Qualification
Prof. Joseph R. Buchweishaija	Chairman	Tanzanian	PhD in Engineering
Brig. Gen (rtd) Mabula B. Mashauri	Member	Tanzanian	Bsc Engineering; Registered Engineer
Dr. Arnold M. Kihaule	Member	Tanzanian	PhD (Economics and Finance)
Dr. Said S. Mzee	Member	Tanzanian	PhD in Finance

The Human Resources and Remunerations Committee reports to the main Board and meets when there is an agenda to discuss. During the year the new Committee met once and deliberated on staff recruitments and placements as well as policy matters.

Members of the old Board Human Resources and Remunerations Committee and number of meetings held and attended are shown on table 3(b). The outgoing Committee met once and deliberated on staff placements.

6. CORPORATE GOVERNANCE (Continued)

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: The current Audit and Risk Committee Members

Name	Position	Nationality	Qualification
Dr. Said S. Mzee	Chairman	Tanzanian	PhD in Finance
Ms. Rose. J. Aiko	Member	Tanzanian	Master of Arts (Economics)
Prof. Joseph R. Buchweishaija	Member	Tanzanian	PhD in Engineering
Mr. Maduka P. Kessy	Member	Tanzanian	BA Economics, MSc. Development Planning

Members of the old Board Audit and risk Committee and number of meetings held and attended are shown on table 3(b).

The Audit and Risk Committee reports to Board of Directors. The new Committee met once during the year (the outgoing Committee met four times) and deliberated on the internal and external auditors' reports, Bank's performance and overall risk management.

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 management team 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 184 million (2015: TZS 82 million). The Bank (DFI) payments amounted to TZS 95 million (2015: TZS 39 million).

Other Board expenses as well as compensation of management are shown on Note 38 on related party disclosures.

8. CAPITAL STRUCTURE AND SHAREHOLDING

Capital structure

The Bank's capital structure for the year ended 31 December 2016 is shown below.

Table 6: Authorised, called up and fully paid

	2016	2015
	TZS'Million	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) – 2015 (2016: 152,137,661 shares @ TZS 1,000).	152,138	152,138

Shareholding

The total number of shareholders during the year was Two (2). These Shareholders are Treasury Registrar (on behalf of the Government of Tanzania who holds 99.99% shareholding and National

Insurance Corporation of Tanzania Limited who holds 0.01%shareholding. Table 7 provides further details including the number and value of shares held by each shareholder during the year.

Table 7: List of Shareholders

Name of the shareholder	2016		2015		Number of shares held	Value (TZS Million)	%
	Number of Shares held	Value (TZS Million)	%	Value (TZS Million)			
Treasury Registrar (on behalf of the Government of Tanzania)	152,127,661	152,128	99.99	152,127,661	152,128	99.99	
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	

None of the directors hold any shares of the Bank.

As a long term lender, the Bank primarily depends on capital and other long term funding sources. Bearing in mind the limited shallow market in long term funding sources, the Bank expects to receive more capital to provide required cushion and confidence to few providers of long term funds available.

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, Directors and Heads of independent departments and unit. By end of 31 December 2016, organisational structure of the Bank comprised of the following directorates/independent departments/units.

Directorates:

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

Independent departments and units:

- Risk and Compliance;
- Internal Audit;
- 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 5 of the financial statements and they are in line with the International Financial Reporting Standards (IFRS).

11. PERFORMANCE FOR THE YEAR

The financial statements show that the financial performance of the Group was not good showing a loss before tax of TZS 35,620 million from a profit before tax of 15,675 million recorded in year 2015. On the other hands the Group assets recorded 17% growth from TZS 815,019 million in 2015 to TZS 956,186 million in 2016.

The performance of the Bank (DFI) was also not good having recorded a loss of TZS 33,578 million from the profit before tax of TZS 9,236 million recorded in year 2015. The significant loss was mainly attributed to impairments provisions as a result of deliberate measures taken by the Bank to clean up loans portfolio.

The Bank, however, continued to experience balance sheet growth whereby the assets increased to TZS 811,788 million from TZS 688,968 million recorded in 2015.

Table 8: Summary of Performance (TZS Millions)

	Group	Bank (DFI)	Corporate Bank Limited	Rasilimali Limited
Profit(Loss) Before Tax	(35,620)	(33,578)	(292)	(1,750)
Total Assets	956,186	811,788	266,331	4,155

Detailed information on the financial performance is contained on pages 78 to 79 and the accompanied notes.

11. PERFORMANCE FOR THE YEAR (Continued)

The following key indicators are used by the Bank to measure achievement of the Bank's strategies. The Board is concerned with the high non-performing loans ratio leading to high impairment provisions and ultimately poor financial results of the Bank. The Bank understands that some of these are results of legacy issues in the transformation of the Bank. The Board is implementing a strategy to improve the quality of the Bank's loans formation of a new committee dealing with Investment decisions is part of that strategy.

The key performance ratios of the Bank are indicated hereunder:

Table 9: Key Performance Indicators

Indicator	Definition and Formula	GROUP			BANK (DFI)		
		2016	2015	Change	2016	2015	Change
Return on Assets	Profit Before Tax/Average Total Assets	-4.0%	2.3%	-6.3%	-4.5%	1.5%	-6.0%
Return on Equity	Net Profit/Average Total Equity	-11.4%	4.7%	-16.1%	-11.4%	2.5%	-13.9%
Non-interest income to Gross income	Non-Interest Income/(Interest + non-interest Income)	10.6%	16.4%	-5.8%	7.6%	13.6%	-6.0%
Interest Expense to Interest Income	Interest Expense/Interest Income	50.2%	42.7%	7.5%	50.9%	46.1%	4.8%
Operating expenses to gross income	Operating Expenses/(interest + non-interest income)	38.3%	41.5%	-3.2%	29.7%	37.9%	-8.2%
Non-interest expense to gross income	Non-interest expenses (including provisions)/(Interest + non-interest income)	90.3%	47.2%	43.1%	97.9%	45.8%	52.1%
Non-performing loans to total advances	Non-Performing Loans / Gross Loans	37.0%	13.4%	23.6%	37.0%	14.1%	22.9%
Loans to total assets	Net Loans/Total Assets	78.1%	80.0%	-1.9%	79.1%	78.2%	0.9%
Growth of Loans and Advances	(Current -prev. year net loans)/prev. year Net Loans	14.5%	57.9%	-43.4%	19.2%	30.4%	-11.2%
Growth of Assets	(Current -prev. year Total Assets)/prev. year Total Assets	17.3%	56.1%	-38.8%	17.8%	32.5%	-14.7%
Tier 1 Capital	Core Capital/Risk Weighted Assets (incl. Off B. sheet)	8.1%	22.9%	-14.8%	10.2%	27.9%	-17.7%

12. THE FINANCIAL POSITION

The financial position of the Group registered a growth of 17% mostly driven by the 15% growth in outstanding loan balances in line with the Group's strategy to increase loan issuances. The growth level was, however, lower than envisaged mostly due to challenges involved in projects implementation of those already financed. The Group adopted a strategy to focus more on monitoring projects that have been approved and slow down on issuance of new ones. The growth is, however, expected to pick up in 2017 when the Group is expected to play bigger role in financing industrialisation and enabling infrastructure in the country.

In addition, to the impact of strategy to slow down issuance of new loans, the tight liquidity in the market during the year contributed to the Group's slow growth in other investments. With the return to normality, it is expected that growth in other investments such as money market instruments will pick up in 2017. The Bank also expects to conclude its long awaited corporate bond issuance which will improve its long term funding and therefore liquidity stability within the Group.

13. CASHFLOW AND LIQUIDITY MANAGEMENT

Most of the cash inflows during the year came from resources mobilized from the public in the form of deposits and long term borrowing as well as interest collected from customers while utilization was mostly through additional interest payments, loan disbursements and operating expenditure.

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 continued to engage different lenders with regards to long term borrowings and negotiations are at advanced stage to secure USD 10 million one of these lenders. Furthermore, during the year the Bank received USD 10 million following an agreement with lender towards the end of 2015. Such important agreements resulted into long term borrowing growing from TZS 56.1 billion in 2015 to TZS 70.7 billion 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. Mobilization of 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 42.

14. MARKET OVERVIEW

The market condition during the year remained challenging with less volatile movements in interest rates as well as market anxiety that were partly caused by perception of business community on the new Government spending patterns. Interest rates kept on increasing in the first quarter of 2016 where one year weighted average yield of Treasury Bond reached the peak at the rate of 18.97% on the auction held on 10th February 2016. The average rate compare adversely to yield of 18.70% from the auction held on 30th December 2015. These rates then started decreasing in the same first quarter to the year end. Results of the Bank of Tanzania's Treasury Bills auction held on 28th December 2016 showed that the one year weighted average yield stood at 15.79%. The increase of interest rates in the first quarter had an impact on the Group's funding cost mainly caused by contracts entered on fixed deposits in the first half of the year. 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 that based on the efforts being taken by the Government, interest rates are bound to continue falling in 2017 and this is envisaged to have a positive impact on the Bank's funding cost.

Overall, the stable 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 5.0% at the end of December and expected to remain at a single digit throughout the year 2017. Meanwhile provisional GDP results for the third quarter (July – September) released by the Bureau show that the country registered slight decrease in level of growth to 6.2% compared to 7.3% registered in similar quarter of 2015. These results confirm the positive outlook in the operating environment on the view held by the Board.

14. MARKET OVERVIEW (Continued)

As a well-established Development Bank 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.

15. 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 2nd Five Year National Development Plan (FYDP II) and is expected to play a key role in the Government infrastructure development and industrialization programme.

Now under Group structure, 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 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.

16. RESULTS AND DIVIDEND

During the year 2016, the group made a loss after tax of TZS 24,573 million (2015: profit of TZS 9,440 million). The DFI only operations recorded a loss after tax of TZS 23,382 million (2015: profit of TZS 4,843 million). The Board of Directors does not recommend payment of dividend for the year ended 31 December 2016 because of unsatisfactory performance of the Bank and the Bank still requires more capital to build capacity to participate in bigger strategic industrial and enabling infrastructure projects as per the new mandate of the Bank (2015: Nil).

17. 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 42 of the accounts.

18. RISK MANAGEMENT AND INTERNAL CONTROL

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

18 RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

- 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 31st December 2016 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.

19 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 1,136 million compared to TZS 988 million in 2015. These fees are part of the Fees and commissions income shown in Note 8.

Details on the managed funds are included in Note 44.

20 SERIOUS PREJUDICIAL MATTER

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

21 SOLVENCY

The Board of Directors confirms that applicable accounting standards have been followed and that

the consolidated and separate financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

22 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.

Modern technology is an important resource when operating in this competitive environment. The Bank boasts of one of the best banking technologies in the world which not only provide a scalable platform but also enables the Bank to provide timely and accurate reports.

23 EMPLOYEES 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 spent TZS 592 million during the year (Group TZS 873 million) to train staff on various programs compared to TZS 610 million spent in 2015 (Group TZS 879 million). 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 through of provision of space and permission 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. During the year under review these services were provided by AAR Health Insurance (AAR). However, following new directives, at the time of writing this report these services are being offered by the National Health Insurance Fund (NHIF).

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 Group operated an unfunded lump sum Gratuity Agreement with effect from June 2013. The arrangement is unfunded thus, gratuity benefits are paid out of the Group'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 Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods. The calculation of defined benefit obligations is performed annually by a qualified actuary. The Group's obligation is disclosed under Note 39

The Group also pays contributions to publicly administered pension plans on a mandatory basis which qualifies as a defined contribution plan. The number of employees for the Group at the end of the year was 290 (2015: 267 employees) while that for the Bank was 165 (2015:163 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

This is a social security scheme established by the Government responsible for compensating workers who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment. Under this arrangement, TIB Development Bank Limited as a public institution is required to contribute to the fund 1% of the monthly basic salaries it has paid to its staff for which all the dues were settled by end of December 2016.

24 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 31st December 2016 the Bank had the following distribution of employees by gender.

24 GENDER PARITY (Continued)

Table 10: Gender Parity

Gender	GROUP		BANK (DFI)	
	2016	2015	2016	2015
Male	178	167	107	108
Female	112	100	58	55
Total	290	267	165	163

25 RELATED PARTY TRANSACTIONS

Transactions with related parties during the year as well as balances outstanding from those transactions as at 31 December 2016 are disclosed in Note 38 to the financial statements.

26 POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. However, some donations amounting to TZS 55 million (2015: TZS 140 million) were made to charitable organisations as part of the Bank's Corporate Social Responsibility activities.

27 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 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 management issues.

28 TREASURY POLICIES AND OBJECTIVES

The Group is constantly exposed to market risks as most of its transactions are affected by changes in interest and foreign exchange rates.

As a result, the Group has put in place Assets and Liabilities Management policies to govern its operations which are prone to these changes. The policies ensure that the Bank does not take excessive risks which may impact its earnings and capital. Detailed analysis on how the policies were implemented is covered under risk management disclosures on note 42 I.

The high interest rates that prevailed during the year not only impacted on the Bank's interest expense, but also influenced a decision not to issue the corporate bond that was expected to be issued during the year. This was part of implementation of the Bank's policy which provides that funding costs should be linked to the income expected to be generated when they are deployed.

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 2016 the Bank continued to provide support to the charitable organization and support Government initiatives towards improving wellbeing of the community and made donations amounting to TZS 55 million (2015: TZS 140 million). Part of the donation was made to the Earthquake Relief Fund in Kagera. Other donations were made to the following charitable organizations or groups:

- Benjamin Mkapa Foundation
- Tanzania Youth Alliance For Development and Corporation
- Tanzania League for Blinds
- Tanzania Film Federation
- Tanzania House of Business Co. Limited

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 KPMG to carry out jointly, the audit of the Bank's financial statements for the year ended 31st December 2016.


BY ORDER OF THE BOARD



.....

Brig. Gen. (rtd) Mabula B. Mashauri
Ag. Chairman

22nd March 2017



.....

Ms. Rose J. Aiko
Director

22nd March 2017



.....

Mr. Charles G. Singili
Ag. Managing Director

22nd March 2017

Statement of Directors' responsibility

The Company's Directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view of TIB Development Bank Limited and its subsidiaries, TIB Corporate Bank Limited and TIB Rasilimali Limited (together "the Group"), comprising the consolidated and separate statement of financial position as at 31 December 2016, and the consolidated and separate 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 Group financial statements, which include a summary of significant accounting policies and other explanatory notes, 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 consolidated and separate 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 Group and Bank to continue as a 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 and separate financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements

The consolidated and separate financial statements of the Group and Bank, as identified in the first paragraph, were approved by the board of directors on 22nd March 2017 and signed on its behalf by:

BY ORDER OF THE BOARD



.....
Brig. Gen. (rtd) Mabula B. Mashauri
Ag. Chairman

22nd March 2017



.....
Ms. Rose J. Aiko
Director

22nd March 2017



.....
Mr. Charles G. Singili
Ag. Managing Director

22nd March 2017

DECLARATION OF THE DIRECTOR OF FINANCE OF TIB DEVELOPMENT BANK LIMITED

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

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

I Benard Paul Mono being the Director of Finance of TIB Development Bank Limited hereby acknowledge my responsibility of ensuring that the consolidated and separate financial statements for the year ended 31st December 2016 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the consolidated and separate financial statements give a true and fair view position of TIB Development Bank Limited and its subsidiaries, TIB Corporate Bank Limited and TIB Rasilimali Limited as on that date and that they have been prepared based on properly maintained financial records.

Signature: 

Mr. Bernard P. Mono

Position: Director of Finance

NBAA Membership No.: GA 976

Date: 10th March 2017

THE CONTROLLER AND AUDITOR GENERAL REPORT TO THE SHAREHOLDERS OF TIB DEVELOPMENT BANK LIMITED

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

I have audited the consolidated and separate financial statements of TIB Development Bank Limited ("the Group"), set out on pages 78 to 150 which comprise the consolidated and separate statement of financial position as at 31 December 2016, the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In my opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of TIB Development Bank Limited as at 31 December 2016, and of its consolidated and separate financial performance and its consolidated 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 and separate financial statements of TIB Development Bank Limited for the year ended 31 December 2016. In addition, section 10 (2) of the Public Audit Act, 2008 requires me to satisfy myself that the consolidated and separate financial statements have been kept in accordance with the 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

and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of my report. I am independent of the Group and Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and I have fulfilled my other ethical responsibilities in accordance with the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

properly authorised; and to satisfy myself whether the funds generated by the Group and Bank were used exclusively and judiciously to meet eligible expenditure with due regard to economy and efficiency.

Key Audit Matters

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

THE CONTROLLER AND AUDITOR GENERAL REPORT TO THE SHAREHOLDERS OF TIB DEVELOPMENT BANK LIMITED (CONTINUED)

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
<p>Impairment loss on loans and advances to customers – TZS 67 billion Refer to Note 5 (K) on page 97 and Note 21 on page 108-110.</p>	
<p>There is a risk that recorded loans and advances might be impaired and as such not recoverable. This could be either due to the customers being fictitious or deterioration of the customers' ability to pay.</p>	<ul style="list-style-type: none"> I performed an independent assessment of the adequacy of the Group and Bank's credit processes and whether these were effectively complied with during the period under audit.
<p>This area is a key audit matter due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability. This is a key judgmental area that our audit was focused on.</p>	<ul style="list-style-type: none"> I performed procedures to evidence existence of customers. Procedures included circularization of balances and/or review of customer correspondences and security files. I obtained understanding and reviewed management methodology for identifying non-performing loans. I reviewed management model for establishing impairment amount. This included challenging the reasonability of management assumptions through among others performing a retrospective review of prior year assumptions.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act, 2002, Corporate Information, the Statement of Directors' Responsibility and Declaration of the Director of Finance. The other information does not include the consolidated and separate financial statements and my auditors' report thereon.

My opinion on the consolidated and separate financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated and separate financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or my knowledge obtained

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

Responsibilities of Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation of consolidated and separate 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 and Banking and Financial Institutions Act, 2006, and for such internal control as directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

THE CONTROLLER AND AUDITOR GENERAL REPORT TO THE SHAREHOLDERS OF TIB DEVELOPMENT BANK LIMITED (CONTINUED)

In preparing the consolidated and separate financial statements, directors are responsible for assessing the Group's and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless directors either intend to liquidate the Group and/or Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Bank's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
 - Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group and/or Bank to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves true and fair view.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and Bank to express an opinion on the consolidated and separate financial statements. I am responsible for the direction, supervision and performance of the Group and Bank audit. I remain solely responsible for my audit opinion.
- I communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

THE CONTROLLER AND AUDITOR GENERAL REPORT TO THE SHAREHOLDERS OF TIB DEVELOPMENT BANK LIMITED (CONTINUED)

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

Report on other legal and regulatory requirements

Companies Act, 2002

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

- In my opinion, proper accounting records have been kept by the Group and Bank;
- The individual accounts are in agreement with the accounting records of the Group and Bank; 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 I report that:

- Based on my audit, the Bank had not complied with the minimum capital requirements as required by the Banking and Financial Institutions Act, 2006 and Development Finance Institutions (DFI) Regulations sections 19 (2).
- Six (6) facilities worth TZS 245 billion had not complied with the single borrowers limit requirements as required by section 29 and 30 of the Banking and Financial Institutions (Development Finance) Regulations, 2011.
- Except for the matters noted above, nothing has come to my attention that causes me to believe that the Bank has not complied with the Banking and Financial Institutions Act, 2006 and its regulations.

Public Procurement Act, 2011

As required by Public Procurement Act, 2011 and its regulations I report that:

- Based on my audit, nothing has come to my attention that causes me to believe that the Group and Bank has not complied with the Public Procurement Act, 2011 and its regulations issued in 2013.



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

20th April 2017



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	GROUP		BANK	
		2016	2015	2016	2015
		TZS Million	TZS Million	TZS Million	TZS Million
Interest and similar income	6	115,828	83,377	91,077	62,489
Interest and similar expense	7	(58,115)	(32,715)	(46,327)	(25,683)
Net interest income		57,713	50,662	44,750	36,806
Fees, commissions and other income	8	9,844	9,032	5,671	4,968
Foreign currency dealing and exchange income	9	2,320	3,061	206	953
Gains on value of investments	10	9,957	132	10,660	-
Recoveries on charged off loans	11	1,633	2,824	1,633	2,824
Total operating income		81,467	65,711	62,920	45,551
Impairment losses on loans and advances	21	(67,428)	(11,946)	(67,227)	(11,852)
Net operating income		14,039	53,765	(4,307)	33,699
Personnel expenses	12	(27,774)	(22,063)	(16,775)	(14,475)
Occupancy expenses	13	(5,651)	(5,202)	(2,775)	(2,799)
General and administration expenses	14	(14,112)	(9,275)	(8,692)	(6,012)
Depreciation of property and equipment	27	(1,522)	(934)	(815)	(720)
Amortization of leasehold improvements	28	(440)	(371)	(90)	(213)
Amortization of intangible assets	29	(160)	(245)	(124)	(244)
Total operating expenses		(49,659)	(38,090)	(29,271)	(24,463)
(Loss)/Profit before tax		(35,620)	15,675	(33,578)	9,236
Income tax (expense)/credit	30	11,047	(6,235)	10,196	(4,393)
(Loss)/Profit for the year		(24,573)	9,440	(23,382)	4,843
Other comprehensive income					
Re-measurement (losses) / gains on employment benefit obligations		(537)	1,010	(420)	580
Fair value gain on available-for-sale Investment	24	10,280	-	10,296	-
Income tax effect		(2,923)	(303)	(2,963)	(174)
Other comprehensive income, net of tax		6,820	707	6,913	406
Total comprehensive income for the year		(17,753)	10,147	(16,469)	5,249

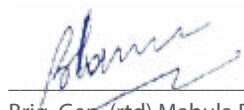
The Notes on pages 83 to 150 form an integral part of these financial statements.

Auditors' report is on pages 74 to 77.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	GROUP		BANK	
		2016	2015	2016	2015
		TZS Million	TZS Million	TZS Million	TZS Million
Assets					
Cash and balances with Bank of Tanzania	15	28,235	10,136	-	-
Balance with other banks	16	2,271	6,989	2,807	16,387
Placements with other banks	17	26,457	24,980	25,171	21,177
Financial investment held for trading	18	2,584	3,494	-	-
Government and Corporate securities held – to – maturity	19	72,810	74,404	52,575	54,488
Loans and advances	21	746,676	652,112	641,853	538,675
Accounts receivable and Prepayments	22	13,552	11,528	9,799	10,247
Equity investment-available for sale	24	21,372	11,992	21,288	11,992
Investment in subsidiary	25	-	-	22,251	20,701
Investment property	26	22,160	11,500	22,160	11,500
Property and equipment	27	4,428	3,979	1,744	1,666
Leasehold improvements	28	2,470	2,649	123	110
Intangible assets	29	446	401	223	382
Tax recoverable	30	1,551	21	738	35
Deferred tax asset	30	11,174	834	11,056	1,608
Total assets		956,186	815,019	811,788	688,968
Liabilities and equity					
Deposits	31	656,682	522,776	521,200	406,151
Payables and Accruals	32	15,953	6,291	16,951	8,681
Deferred Income	33	2,456	3,281	2,175	2,926
Long-term Borrowing	34	70,712	56,123	70,712	56,123
Government Grants	35	835	157	617	157
Employment benefit liabilities	39	3,566	2,656	2,580	2,129
Total liabilities		750,204	591,284	614,235	476,167
Shareholders' equity					
Share capital	36	152,138	152,138	152,138	152,138
Advance towards share capital		5,281	5,281	5,281	5,281
Retained earnings		(60,893)	18,781	(65,836)	16,656
Non distributable reserve		94,774	41,873	92,263	33,726
General provision reserve		986	662	-	-
Available for sale reserve		7,196	-	7,207	-
Other reserves		6,500	5,000	6,500	5,000
Total equity		205,982	223,735	197,553	212,801
Total liabilities and equity		956,186	815,019	811,788	688,968

These financial statements were approved by the Board of Directors for issue on 22nd March 2017 and were signed on its behalf by:


 Brig. Gen. (rtd) Mabula B. Mashauri
 Ag. Chairman


 Ms. Rose J. Aiko
 Director


 Mr. Charles Singili
 Ag. Managing Director

The Notes on pages 83 to 150 form an integral part of these financial statements. Auditors' report is on pages 74 to 77.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

GROUP	Share capital	Advance towards share capital	Retained earnings	*Non – distributable reserve	*General provision reserve	Available for sale reserve	Asset revaluation reserve	Technical assistance	Total
	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million
At 1 January 2015	152,138	5,281	16,269	34,900	-	-	38	5,000	213,626
Total comprehensive income	-	-	9,440	-	-	-	-	-	9,440
Other comprehensive income	-	-	707	-	-	-	-	-	707
Re-measurement of defined benefit liability	-	-	10,147	-	-	-	-	-	10,147
Asset revaluation reserve	-	-	(6,973)	6,973	-	-	(38)	-	(38)
Transfer to regulatory reserve*	-	-	(662)	-	662	-	-	-	-
Transfer to general reserve	-	-	-	-	-	-	-	-	-
As at 31 December 2015	152,138	5,281	18,781	41,873	662	-	-	5,000	223,735
At 1 January 2016	152,138	5,281	18,781	41,873	662	-	-	5,000	223,735
Total comprehensive income	-	-	(24,573)	-	-	-	-	-	(24,573)
Other comprehensive income	-	-	(376)	-	-	-	-	-	(376)
Re-measurement of defined benefit liability	-	-	-	-	-	7,196	-	-	7,196
Valuation of available for sale investment	-	-	(24,949)	-	-	7,196	-	-	(17,753)
Transfer to Technical Assistance Fund	-	-	(1,500)	-	-	-	-	1,500	-
Transfer to regulatory reserve*	-	-	(52,901)	52,901	-	-	-	-	-
Transfer to general reserve	-	-	(324)	-	324	-	-	-	-
As at 31 December 2016	152,138	5,281	(60,893)	94,774	986	7,196	-	6,500	205,982

*The 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 regulations. This amount is not available for distribution.

The Notes on pages 83 to 150 form an integral part of these financial statements. Auditors' report is on pages 74 to 77.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)**

BANK	Share capital	Retained earnings	Non – distributable reserve	Available for sale reserve	Technical assistance	Advance towards share capital	Total
	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million
At 1 January 2015	152,138	14,648	34,900	-	5,000	5,281.00	211,967
Total comprehensive income							
Profit for the year	-	4,843	-	-	-	-	4,843
Other Comprehensive Income							
Re-measurement of defined benefit liability		406	-	-	-	-	406
Valuation of available for sale investment		-	-	-	-	-	-
Total comprehensive income		5,249	-	-	-	-	5,249
Reserve of loans transferred to subsidiary		(4,415)	-	-	-	-	(4,415)
Transfer to regulatory reserve		1,174	(1,174)	-	-	-	-
At 31 December 2015	152,138	16,656	33,726	-	5,000	5,281	212,801
At 1 January 2016	152,138	16,656	33,726	-	5,000	5,281	212,801
Total comprehensive income							
Loss for the year	-	(23,382)	-	-	-	-	(23,382)
Other comprehensive income							
Re-measurement of defined benefit liability		(294)	-	-	-	-	(294)
Valuation of available for sale investment		-	-	7,207	-	-	7,207
Total comprehensive income		(23,676)	-	7,207	-	-	(16,469)
Reserve on loans Transfers		1,221	-	-	-	-	1,221
Transfer to Technical Assistance Fund		(1,500)	-	-	1,500	-	-
Transfer to regulatory reserve		(58,537)	58,537	-	-	-	-
At 31 December 2016	152,138	(65,836)	92,263	7,207	6,500	5,281	197,553

The Notes on pages 83 to 150 form an integral part of these financial statements. Auditors' report is on pages 74 to 77.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	GROUP 2016	2015	BANK 2016	2015
		TZS Million	TZS Million	TZS Million	TZS Million
Cash flow from operating activities					
Interest receipt	40(a)	74,970	64,863	50,203	44,405
Interest payments	40(b)	(51,896)	(23,970)	(39,837)	(18,304)
Net fee, commissions and Other Income received	40(c)	7,580	7,977	3,740	3,930
Payments to employees and suppliers	40(d)	(38,185)	(30,028)	(20,531)	(14,806)
Dividends received	8	271	189	117	66
Income tax paid	30(d)	(3,746)	(5,953)	(2,918)	(4,361)
Repayments of placements with other banks more than 3 months		1,306	3,956	-	4,456
Net payment on Statutory Minimum Reserve		(22,338)	(2,000)	-	-
Investments on loans and advances		(119,617)	(236,780)	(127,842)	(123,703)
Mobilization of deposits		130,001	238,616	115,049	116,094
Repayments / (Investments) of debt securities		875	(31,962)	(354)	(16,421)
Increase in other liabilities		9,998	5,088	2,460	7,384
Decrease / (Increase) in other assets		2,024	(4,132)	(3,005)	(8,422)
Net cash flow generated from operations		(8,757)	(14,136)	(22,918)	(9,682)
Cash flow from investing activities					
Purchases of equipment	27	(1,961)	(4,257)	(966)	(877)
Purchases of intangible assets	29	(205)	(60)	(100)	(40)
Additional leasehold improvements	28	(261)	(2,756)	(103)	(55)
Proceeds on disposal		1	-	-	-
Increase in financial assets held for trading	18	206	(857)	-	-
Investments in Equity	24	-	(3,759)	-	(3,759)
Investments in Subsidiaries	25	-	-	(1,550)	(20,140)
Net cash flow used in investing activities		(2,220)	(11,689)	(2,719)	(24,871)
Cash flow from financing activities					
Proceeds from long term borrowing	34	22,000	43,060	22,000	43,060
Repayments of long term borrowing	34	(7,411)	(4,290)	(7,411)	(4,290)
Net cash flow from financing activities		14,589	38,770	14,589	38,770
Net Increase in cash and cash equivalents		3,612	12,945	(11,048)	4,217
Cash and cash equivalents at the 1 January		49,947	37,002	41,011	36,794
Cash and cash equivalents at 31 December	20	53,559	49,947	29,963	41,011

The Notes on pages 83 to 150 form an integral part of these financial statements.

Auditors' report is on pages 74 to 77.

TIB DEVELOPMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

TIB Development Bank Limited is a limited liability company incorporated in Tanzania under the Companies Act 2002, and is domiciled in the United Republic of Tanzania. The Bank is regulated by the Bank of Tanzania. The Bank's registered office is at:

Mlimani City Office Park,
Building No. 3 Sam Nujoma Road,
Dar es Salaam.

These consolidated and separate financial statements relate to the Bank and its subsidiaries namely TIB Corporate Bank Limited and TIB Rasilimali Limited (together known as the "Group and Bank").

TIB Development Bank Limited is primarily involved in provision of development financing. TIB Corporate Bank is registered for provisioning of commercial banking services whereas TIB Rasilimali Limited is for stock brokerage and investment advisory roles.

2. BASIS OF ACCOUNTING

a) Statement of compliance

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

b) Basis of measurement

The consolidated and separate financial statements have been prepared on the historical cost basis except for available-for-sale financial assets which are measured at fair value, financial investment held for trading which are measured at fair value through profit or loss account and investment property reported at fair value.

c) Functional and presentation currency

The consolidated and separate financial statements are presented in Tanzania Shillings (TZS) which is the functional currency of the Group and Bank. All amounts have been rounded to the nearest million except where otherwise indicated.

d) Presentation of financial statements

The Group and Bank presents its statement of financial position broadly in order of liquidity. Information regarding recoverability or settlement within or after 12 months after reporting period are disclosed in the notes.

e) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent Company within the Group. Control exists when the holding company is exposed, or has rights to; variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. Subsidiaries are consolidated from the date on which the holding company acquires effective control. Consolidation is discontinued from the date that control over the subsidiary is lost.

2. BASIS OF ACCOUNTING (Continued)

e) Basis of consolidation (Continued)

All transactions between the parent and subsidiaries as well as subsidiaries themselves is at an arm length. No resources from each entity are freely accessible to the members of the Group.

(ii) 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.

(iii) Managed funds

The Bank manages a number of government funds. Determination of whether the Bank controls such funds usually focus on the assessment of the aggregate economic interest of the Bank and the government rights to remove the fund manager.

All the risks and rewards arising from managed funds are directly channelled to the Ministry of Finance. As a result the Bank has concluded that it acts as an agent for the government and therefore has not consolidated these funds.

(iv) Loss of control

When the Group loses control over the subsidiary, it derecognises the assets and liabilities of the subsidiary. Any resulting gain or loss recognised in the statement of profit or loss. Any interest retained in former subsidiary is measured at fair value when control is lost.

3. 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.

(i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated and separate financial statements is included in the following note:

- Note 43 – Operating leases: whether an arrangement contains a lease;

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2016 is included in the following notes:

- Note 5(K) - impairment of financial assets
- Note 18, Note 24 and Note 41- determination of fair value of financial instruments

3. USE OF JUDGEMENTS AND ESTIMATES (Continued)

- Note 22 – impairment test: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- Note 30 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used;
- Note 39 – measurement of employment benefit obligation; key actuarial assumptions
- Note 43 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

At the date of authorisation of the financial statements for the year ended 31 December 2016, the following relevant Standards were in issue but not yet effective:

New standard or amendments or after	Effective for annual periods beginning on
• Disclosure Initiative (Amendments to IAS 7)	1 January 2017
• Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments	1 January 2018
• IFRS 16 leases	1 January 2019

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 7)

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing reconciliation between the opening and closing balances for liabilities arising from financing activities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application are permitted.

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

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and are not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognized.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type. The amendments apply for annual periods beginning on or after 1 January 2017 and early application are 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 Group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group and will provide more information in the year ending 31 December 2017 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 Group, which will include changes in the measurement bases of the Group'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.

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 Group is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Interest income and expenses

The Group recognizes interest income and expenses for financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale using 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.

(B) Fees and commission income

Fees and commission income and expenses that are integral to the effective interest rates on a financial asset or financial liability are included in measurement of effective interest.

Other fees and commission income are recognised as follows;

(i) 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. The fees are recognised as the related services are performed.

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.

(ii) 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.

(C) 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. Furthermore gain on disposals of non-financial assets are recognized in this class of income. Other income is recognized in the period in which it is earned.

(D) Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established. Dividends are presented as other operating income based on the nature of investments currently held.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(E) Employees benefits

- Short term 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.

- Defined Contributions Pension obligations

The Group operates a defined contribution plan whereby each of its employees and the Group contribute to the state owned and managed (statutory) funds namely the Parastatal Pensions Fund (PPF), Public Service Pensions Fund (PSPF), 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 Group has no further commitments or obligations to these funds. The contributions are charged to the profit or loss in the year to which they relate.

- Workers Compensation Fund

This is a social security scheme established for compensating workers who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment. The Bank as a public institution is required to contribute to the fund 0.5% of the monthly basic salaries. The Bank remits the contributions on month to month basis and costs recognised in respective months.

- Defined benefit plan

The Group operate an unfunded lump sum Gratuity Agreement with effect from June 2013. The arrangement is unfunded thus, gratuity benefits are paid out of the Group'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 Group 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 Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods. The calculation of defined benefit obligations is performed annually by a qualified actuary.

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.

The arrangement provides benefits of a defined benefit nature (i.e. salary and service related). Therefore one of the main risks relating to the benefits under the arrangement is the rates of salary growth. As the benefits are based on the final salary, any changes in salary that differ from the salary escalation rate assumed will have a direct bearing on the benefits paid under the arrangement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(E) Employees benefits (Continued)

- Bonus plans

The Group 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 Group 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 expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for restructuring. If benefits are not expected to be whole settled within 12 months at the reporting date, then they are discontinued.

- 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.

(F) Provisions

Provisions are recognised when the Group 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.

- Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be delivered by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before the provision is established, the Group recognises any impairment loss on the assets associated with the contract.

- Bank levies

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

- Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of the underlying instrument. Loan commitments are firm promises to provide credit under specified terms and conditions.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(F) Provisions (Continued)

In the ordinary course of business, the Group 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.

(G) Property and equipment

Property and equipment (including equipment under operating leases where the Group is the lessor) is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses.

- Recognition and Measurement

Items of property and equipment are measured at cost, which includes capitalised borrowing costs where applicable, less accumulated depreciation and any accumulated impairment losses.

If significant parts of the property or equipment have different useful lives then they are accounted for as separate items of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in the statement of profit or loss.

(i) Subsequent Costs

Subsequent expenditure is expensed through the statement of profit or loss unless it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repair and maintenance costs are expensed as incurred.

(ii) Depreciation

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(H) Leases

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. Payments made under operating leases are recognised in profit or loss on straight line basis over the term of the lease.

(i) 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 and are not recognised in the Bank's statement of financial position. Contingent rental payable are recognized as an expense in the period in which they are incurred.

(ii) Bank as a lessor

If the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

(iii) Leasehold improvements

These includes improvements made on leased Bank buildings for its head office and zones.

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 rate in use is:

Description of items

Useful lives	
Leasehold improvements	4 years

(I) Intangible assets

The Bank's intangible assets include the value of Computer software.

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 Group.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(H) Leases (Continued)

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

(J) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that non-financial asset (other than investment properties and deferred tax asset) may be impaired. If any indication exists, the Group 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.

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.

(K) Financial instruments

(i) 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. As for loans and advances, deposits, debt securities and subordinated liabilities, they are recognised on the date they are originated.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K) Financial instruments (Continued)

All financial instruments are measured initially at their fair value plus transaction costs directly attributable to their acquisition of issue, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(ii) Measurement and classification

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. The Group classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss (held for trading and designated at FVTPL);
- Loans and receivables;
- Available-for-sale financial assets; and
- Held-to-maturity investments.

Financial liabilities apart from financial guarantees and loan commitments are classified measured at amortised cost.

The following paragraphs provide more details regarding the Group's classification of financial assets and financial liabilities.

- **Financial assets designated at fair value through profit or loss (held-for trading and designated at FVTPL)**

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

Financial assets 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 is accrued in 'Interest income using the effective interest rate (EIR), while dividend income is recorded in profit or loss when the right to the payment has been established.

- **Available-for-sale financial assets**

Available-for-sale assets 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 Group 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K) Financial instruments (Continued)

- **Available-for-sale financial assets (continued)**

Unrealized gains and losses are recognized in other comprehensive income and accumulated in equity in the 'Available-for-sale reserve'. When the asset is disposed of, the cumulative gain or loss previously recognized in equity is reclassified to profit or loss in 'Other operating income'. Where the Group 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 asset is reported as interest income using the effective interest rate (EIR).

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

- **Held-to-maturity financial assets**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. These includes Government and Corporate securities. After initial measurement, held-to-maturity financial assets 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 income' in profit or loss. The losses arising from impairment of such assets are recognized in the profit or loss and other comprehensive income.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity assets 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 Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

- **Loans and Receivables**

This category of financial instruments include 'due from Banks and Loans and advances to customers'. These financial instruments are 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).

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

The Group 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K) Financial instruments (Continued)

- **Financial liabilities**

Deposits and long term borrowing are the group sources of debt funding. The Group's financial liabilities apart from financial guarantees and loan commitments are classified measured at amortised cost. During the year the Group's financial liabilities comprise the following:

- Long term borrowed funds

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities under 'borrowed funds', where the substance of the contractual arrangement results in the Group 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 effective interest method (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 34 (Long term Borrowing).

- **Deposits**

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized costs using the effective interest rate method.

- **Equity Instruments**

An equity instrument is any contract evidenced to hold and control the residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

(iii) Derecognition

- **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 contractual 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K) Financial instruments (Continued)

(iii) Derecognition (Continued)

When the Group 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 Group'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 Group has retained.

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

- **Financial liabilities**

A financial liability is derecognized when the contractual 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.

(iv) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date in the principal, or in the absence, the most advantageous market to which the Group has access at that date.

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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 41.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K) Financial instruments (Continued)

(v) Impairment

At each reporting date, the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets not carried at Fair Value Through Profit and Loss (FTPL) are impaired. A financial asset or a group of financial assets is 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.

Objective 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 disappearance of an active market for a security, restructuring of a loan on terms that the Bank would not consider otherwise.

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 Group 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 Group 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 Group.

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 Group 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K) Financial instruments (Continued)

(v) Impairment (Continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group'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 21 for an analysis of the impairment allowance on loans and advances by class.

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'.

Available-for-sale financial instruments

For available-for-sale financial instruments, the Group assesses at each reporting date whether there is objective evidence that an instrument is impaired. In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as component of interest income.

If in the subsequent period the fair value of an impaired available for sale debt security increases and the increase can be traced back on an event occurring after the impairment loss was recognised then the impairment loss is reversed through profit or loss otherwise any increase in value is recognised through OCI.

The Group writes off a loan or an investment debt security, either partially or in full, any related allowances for impairment losses, when Group determined that there is no realistic prospect of recovery.

(vi) 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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K) Financial instruments (Continued)

(vi) Offsetting financial instruments (Continued)

gross in the Statement of financial position. Income and expenses are presented on a net basis only when permitted by IFRS or gains and losses arising from a group of similar transactions.

(L) Acceptances and letters of credit

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

(M) 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 and are used in the management of short term commitments. These balances are measured at amortized costs.

(N) Foreign currency translation

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.

(O) Income Tax

Income tax expense comprises of current and deferred tax. It is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or OCI.

(i) 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.

(ii) 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:

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Deferred tax (Continued)

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

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.

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.

(iii) Value added tax

Revenues, expenses and assets are recognized exclusive of the amount of value added tax. The input taxes and output taxes are recognized in different account and the Bank submits VAT returns to Revenue Authority on monthly basis.

(P) 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.

(Q) 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(Q) Capital and revenue grants (Continued)

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.

(R) 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.

(S) Available for sale reserve

This reserve comprise the cumulative net change in the fair value of available for sale financial assets until the assets are derecognised or impaired.

(T) 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 identifies those projects are strategic project 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:

A photograph of an industrial construction site at sunset. The sky is a mix of orange, yellow, and dark blue, with some clouds. In the foreground, there are several tall, dark silhouettes of industrial structures, possibly chimneys or towers, surrounded by scaffolding. A worker is visible on a ledge on the left side. A large metal truss structure spans across the top of the frame.

Customer Centric



	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
6. INTEREST AND SIMILAR INCOME				
Loans and advances	98,905	70,035	80,674	54,805
Government/Corporate securities - held to maturity	10,983	8,358	7,574	6,177
Placements	5,940	4,984	2,829	1,507
	115,828	83,377	91,077	62,489
7. INTEREST AND SIMILAR EXPENSE				
Fixed deposits	34,866	19,739	30,168	17,503
Savings deposits	2,071	1,075	-	-
Notice and borrowings	21,178	11,901	16,159	8,180
	58,115	32,715	46,327	25,683
8. FEES, COMMISSIONS AND OTHER INCOME				
Loans appraisal fee	1,959	2,856	982	2,321
Advisory fee	397	946	397	946
Income from Collections and Agency	299	57	296	57
Commission on REA, TEDAP	95	149	95	149
Fees from Flower Projects	257	300	257	300
Fees income from Commodity Import Support	100	100	100	100
Agency fees from Agricultural Window	70	119	70	119
Mining Projects Management fee	55	171	55	171
Results Based Management fee	81	68	81	68
Fees income from THB liquidation	82	82	82	82
Rental income	29	49	29	49
Write back over accrued expenses	868	272	868	272
Commitment and restructuring fees on loans	19	23	19	23
Income From Grants	360	227	360	227
Dividend Income	271	189	117	66
TISS charges	98	67	-	-
Teller charges and commissions	576	335	-	-
Cash withdrawal charges	412	157	-	-
LC Commissions and collections	630	374	-	-
Guarantees commissions	730	239	296	-
ATM commission	34	33	-	-
Gain(Loss) from assets disposal	(2)	-	-	-
Dealing and Agency Commissions	-	1,809	-	-
Professional Fees	-	32	-	-
Other income	2,424	378	1,567	18
	9,844	9,032	5,671	4,968

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
9. FOREIGN CURRENCY DEALING, GAINS ON VALUE OF SHARES AND EXCHANGE INCOME				
Foreign currency dealing (buying and selling of forex)	2,320	3,061	206	953
	2,320	3,061	206	953
10. GAINS ON VALUE OF SHARES AND INVESTMENTS				
(Loss)/Gain on Fair value of shares	(703)	132	-	-
Revaluation Gain on Land	10,660	-	10,660	-
	9,957	132	10,660	-
11. RECOVERIES FROM CHARGED OFF LOANS				
Recoveries from charged off loans	1,633	2,824	1,633	2,824
	1,633	2,824	1,633	2,824
12. PERSONNEL EXPENSES				
Wages and salaries	18,704	14,283	11,082	9,545
Social security costs	2,601	1,920	1,506	1,267
Skills and Development levy	1,105	841	716	584
Sub-total	22,410	17,044	13,304	11,396
Training cost	873	879	592	610
Staff passage and leave allowances	1,754	1,120	1,236	902
Staff bonus	-	1,326	-	789
Staff medical insurance	717	624	436	419
Staff terminal benefit	52	158	40	153
Staff transfer/1st appointments	370	122	211	103
Office sundries	172	121	98	72
Employment benefits	1,085	200	611	(258)
Staff loan fair valuation expenses	215	377	213	255
Other employment costs	126	92	34	34
Sub-total	5,364	5,019	3,471	3,079
Total	27,774	22,063	16,775	14,475

The number of employees at the end of the year was 165 (2015:169) for the Bank.

13. OCCUPANCY COSTS

Rent for Office premises	4,544	4,052	2,032	1,932
Repairs and maintenance bank premises and residential	495	627	411	551
Repairs and maintenance office Machine and automations	31	67	5	34
Repairs and maintenance office furniture & Equipment	162	71	93	42
Water and light	397	372	223	227
Insurance premium on furniture and equipment	21	11	10	11
Other occupancy cost (land rates)	1	2	1	2
	5,651	5,202	2,775	2,799

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
14. GENERAL AND ADMINISTRATION EXPENSES				
Auditors' remuneration	429	340	230	212
Directors' emoluments	184	82	95	39
Board of Directors expenses	316	661	173	364
Correspondent Bank and SWIFT Charges	408	154	4	6
Communication costs	650	621	479	410
Travelling and accommodation	587	893	433	797
Local authority service charges	360	104	98	69
Insurance cost	1,150	595	720	227
Marketing and advertising cost	1,136	1,678	531	1,324
Printing, consumables and stationeries	420	278	213	201
Repairs and fuel motor vehicles	669	579	241	387
Security cost	629	582	200	170
Transformation costs	-	42	-	42
Umoja switch expenses	214	203	-	-
System management fees and license	973	581	605	175
Consultancy expenses	456	313	306	292
Regional integration costs	11	15	11	15
Subscription and contribution	111	111	86	83
Provisions on sundry receivables	3,450	434	3,450	434
Written off Assets	192	-	-	-
Tuico and Workers counsel expenses	19	25	13	21
Borrowing costs	701	380	700	380
Excise duty	125	416	38	281
Expenses on loan recovery	51	37	51	37
Other operating expenses	871	151	15	46
	14,112	9,275	8,692	6,012
15. CASH AND BALANCES WITH BANK OF TANZANIA				
Cash				
Cash in hand-Local currency	1,746	2,006	-	-
Cash in hand-Foreign currency	949	1,930	-	-
	2,695	3,936	-	-
Balance with Bank of Tanzania				
Balance in local currency	1,170	1,908	-	-
Balance in foreign currency	32	2,292	-	-
	1,202	4,200	-	-
Statutory Minimum Reserve	24,338	2,000	-	-
	28,235	10,136	-	-

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
16. BALANCE WITH OTHER BANKS				
Balance in local currency	1,169	3,505	2,704	9,104
Balance in foreign currency	1,102	3,484	103	7,283
	2,271	6,989	2,807	16,387
17. PLACEMENTS WITH OTHER BANKS				
Maturity period within three months	25,151	24,980	25,151	21,157
Maturity period of more than three months	1,306	-	20	20
	26,457	24,980	25,171	21,177
18. FINANCIAL INVESTMENT HELD - FOR TRADING				
These are share held by Rasilimali Limited (a subsidiary company) for trading purposes. The market values of respective shares in each sector as at 31 December 2016 and 2015 are as hereunder:				
Financial Sector	177	230	-	-
Manufacturing Sector	2,119	2,872	-	-
Other Sectors	288	392	-	-
	2,584	3,494	-	-
19. GOVERNMENT AND CORPORATE SECURITIES HELD - TO - MATURITY				
Treasury bills-held to maturity				
Maturity period within three months	20,726	4,223	491	-
Maturity of over three months	6,080	19,260	6,080	13,153
	26,806	23,483	6,571	13,153
Treasury bonds-held to maturity				
Maturity period within three months	1,514	3,619	1,514	3,467
Maturity period within two years	36,111	37,122	36,111	27,688
Maturity period above two years	8,379	10,180	8,379	10,180
	46,004	50,921	46,004	41,335
Total	72,810	74,404	52,575	54,488

The Group holds various fixed income securities issued by the Government. Treasury bills and bonds are issued at a fixed coupon rate and the Bank has ability to hold to maturity. As at year end, a total of TZS 52.58 billion were pledged as collateral, for short term inter-bank borrowing.

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on bank vaults and unrestricted balances with the Bank of Tanzania and other banks as well as placements and Government securities with original maturity of less than 3 months. Cash and cash equivalents in the statement of cash flows is comprised of the following amounts:

Cash and balances with Bank of Tanzania (Note 15)	3,897	10,136	-	-
Balance with other banks (Note 16)	2,271	6,989	2,807	16,387
Placements with other banks maturing within 3 months (Note 17)	25,151	24,980	25,151	21,157
Government securities held to maturity within 3 months (Note 19)	22,240	7,842	2,005	3,467
	53,559	49,947	29,963	41,011

At the end of the period there was no any amount of cash and cash equivalents that was not freely available for use within the Group. Cash and cash equivalents exclude reserve requirements of the Bank of Tanzania.

21. LOANS AND ADVANCES

Advances to customers (gross)	753,134	635,102	654,487	526,135
Accrued interest receivable	44,661	26,497	44,403	26,050
	797,795	661,599	698,890	552,185
Less: Allowances for losses on loans and advances	(61,398)	(17,991)	(61,103)	(17,897)
Net Loans to customers	736,397	643,608	637,787	534,288
Loans and Advances to staff	11,200	9,615	4,994	5,504
Accrued interest on staff loans	14	13	7	7
Staff loans fair value provisions	(935)	(1,124)	(935)	(1,124)
(a) Net loans and advances	746,676	652,112	641,853	538,675
Gross Loans				
Advances to customers (gross)	753,134	635,102	654,487	526,135
Loans and Advances to staff	11,200	9,615	4,994	5,504
Accrued interest receivable	44,661	26,497	44,403	26,050
Accrued interest on staff loans	14	13	7	7
(b) Total Gross Loans	809,009	671,227	703,891	557,696

Out of the total loans and advances an amount equivalent to TZS 394,124 million is denominated in foreign currencies (2015: TZS 301,382 million was denominated in foreign currencies)

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
21. LOANS AND ADVANCES (Continued)				
(c) Movement in allowance for impairment losses on loans and advances:				
At 01 January	17,991	7,327	17,897	7,327
Charge for the year	67,428	11,946	67,227	11,852
Charged off and written-off loans	(24,021)	(1,282)	(24,021)	(1,282)
At 31 December	61,398	17,991	61,103	17,897
(d) Non - performing loans				
Non-performing loans and advances for the Bank amount to TZS 260,232 million (2015: TZS 78,507 million). In the opinion of directors credit enhancement in respect of these loans and advances fair values are TZS 396,971 million (2015: TZS 149,324 million) and such collaterals the Bank has the right to sell.				
(e) Lending concentration				
Economic sector risk concentrations within the customers loan and advances portfolio as at 31 December 2016 and 2015 were as follows:				
Agriculture and Agro processing	155,877	147,638	149,452	136,939
Oil Company /Lease and Gas	195,478	146,453	195,478	146,453
Electricity	35,417	10,158	35,417	10,158
Manufacturing	87,991	63,120	74,448	40,909
Real Estate	58,954	59,844	58,954	59,844
Building ,Construction	4,505	37,364	4,505	2,829
Transport and communication	9,569	10,501	9,331	10,501
Tourism and Forestry	49,950	43,745	49,950	43,745
Trade	69,602	35,000	19,993	5,514
Mining and Quarrying	65,203	61,192	65,203	61,192
Education and Health	11,975	11,298	11,975	11,298
Hotel & Restaurants	14,680	10,880	12,512	10,880
Financial Intermediaries	8,087	5,576	6,038	5,576
Leasing	1,489	1,232	1,489	1,232
Individuals and SMEs	29,340	10,353	5,021	5,511
Fishing	391	109	391	109
Other Services	10,501	16,764	3,734	5,006
	809,009	671,227	703,891	557,696

	2016			2015		
	TZS Million Exposure	TZS Million Impairment	TZS Million Suspended Interest	TZS Million Exposure	TZS Million Impairment	TZS Million Suspended Interest

21. LOANS AND ADVANCES (Continued)

(f) Classification, impairment and suspended interest

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 and their interest income is suspended and included in the impairment charge unless paid by customers.

GROUP						
Current and Especially Mentioned	542,388	1,232		581,550	1,212	-
Substandard	86,258	13,821	4,828	38,256	3,038	2,077
Doubtful	93,518	16,540	7,323	14,462	7,264	1,370
Loss	86,845	29,805	11,463	36,959	6,477	3,307
Gross Loans	809,009	61,398	23,614	671,227	17,991	6,754
BANK						
Current and Especially Mentioned	443,659	1,232		479,189	1,276	-
Substandard	86,258	13,821	4,789	28,162	3,038	2,077
Doubtful	87,192	16,540	7,122	13,757	7,170	1,364
Loss	86,782	29,510	11,463	36,588	6,413	3,307
Gross loans	703,891	61,103	23,374	557,696	17,897	6,748

Analysis of the loans maturity profile is contained in Note 42 dealing with risk management (in the liquidity risk section).

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
22. ACCOUNTS RECEIVABLE AND PREPAYMENTS				
Accounts receivable	15,210	9,805	13,332	9,768
Prepaid expenses	4,023	3,773	1,970	2,529
	19,233	13,578	15,302	12,297
Less: Allowances for losses	(5,681)	(2,050)	(5,503)	(2,050)
	13,552	11,528	9,799	10,247
These 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	2,050	1,670	2,050	1,670
Expenses for the year	3,628	434	3,450	434
(Recoveries)/Charge offs	3	(54)	3	(54)
At 31 December	5,681	2,050	5,503	2,050
As at 31 December, the ageing analysis of accounts receivable is as follows:				
Neither past due nor impaired	11,624	7,517	9,745	7,480
Past due but not impaired				
Less than 30 days	263	90	264	90
Within 30 - 60 days	49	469	49	469
Within 60 - 90 days	234	47	234	47
Over 90 days	3,040	1,682	3,040	1,682
	15,210	9,805	13,332	9,768
23. GRANTS RECEIVABLE				
Opening balance	-	74	-	74
Received during the year	-	(199)	-	(199)
Utilized during the year	-	125	-	125
Grants Receivable	-	-	-	-
24. EQUITY INVESTMENT - AVAILABLE - FOR - SALE				
Unquoted shares of Tanzania Mortgage Refinance Company Limited(TMRC)	2,352	1,450	2,352	1,450
Unquoted shares of Umoja Switch Company Limited	20	20	20	20
Unquoted shares of NORSAD Finance	14,207	7,151	14,207	7,151
Unquoted shares of SAAFI Limited	-	1,000	-	1,000
Unquoted corporate Bond	84	-	-	-
Preference shares of NORSAD Finance	4,709	2,371	4,709	2,371
Total	21,372	11,992	21,288	11,992

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
24. EQUITY INVESTMENT - AVAILABLE - FOR - SALE (Continued)				
Valuation of Norsad Finance Limited				
Fair Value of TIB Investments	18,916	9,522	18,916	9,522
Historical Value	9,522	-	9,522	-
Gain	9,394	9,522	9,394	9,522
Valuation of TMRC Limited				
Fair Value of TIB Investments	2,352	1,450	2,352	1,450
Historical Value	1,450	1,450	1,450	1,450
Gain	902	-	902	-
Bond Valuation				
Fair value of Corporate Bond investment	84	-	-	-
Historical value	100	-	-	-
Loss	(16)	-	-	-

The Bank holds unquoted equity shares in the Companies listed above. During the year, valuation of investments in TMRC and Norsad Finance were done by independent professional investment advisers (Dhow Financial/Core Security for TMRC and Rasilimali for Norsad finance) and arrived at gains recorded above. During the year investment in SAAFI was restated as loan and appropriate impairment posted in Statement of Profit or Loss following failure of the company to fulfil conditions for Bank's conversion of its loan into equity. The Group and Bank did not make any additional investment during the year (2015: TZS 3,759 million) in equity investments available for sale.

25. INVESTMENT IN SUBSIDIARY

Investment in TIB-CBL	-	-	20,000	20,000
Investment in Rasilimali	-	-	2,251	701
	-	-	22,251	20,701

The Bank owns 100% of the issued and paid up ordinary share capital of TIB-Corporate Bank Limited and 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 Rasilimali Limited are securities dealing and Investment advisory services. During the year the Bank made an additional investment in subsidiaries amounting to TZS 1,550 million (2015: nil) which was made to Rasilimali Ltd.

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
26. INVESTMENT PROPERTY				
At 1 January	11,500	11,500	11,500	11,500
Revaluation Gain	10,660	-	10,660	-
As at 31 December	22,160	11,500	22,160	11,500

The Bank owns investment properties in form of plots at Ohio and Masaki which have been earmarked for construction of the Bank's investments for leasing and small portion will be used for office purposes. The Bank did a revaluation of these properties using services of independent professional valuer namely Lloyd Jones to arrive at their fair value. In determining the value of the property the valuer used the sales comparison approach. The valuer also identified specific transactions within the vicinity of the property and considered the actual transaction values in those properties in concluding the value of the Bank's assets.

	Buildings TZS Million	Motor vehicles TZS Million	Machinery and automation TZS Million	IT Equipment TZS Million	Furniture and equipment TZS Million	Total TZS Million
27 PROPERTY AND EQUIPMENT						
GROUP						
Cost						
At 01 January 2016	252	2,961	1,078	2,152	1,731	8,174
Additions	-	4	15	1,401	541	1,961
Disposal	-	-	-	-	(2)	(2)
At 31 December 2016	252	2,965	1,093	3,553	2,270	10,133
Depreciation						
At 01 January 2016	191	1,586	281	1,556	569	4,183
Charge for the year	10	384	40	639	449	1,522
Disposal	-	-	-	-	-	-
At 31 December 2016	201	1,970	321	2,195	1,018	5,705
Net book value						
At 31 December 2016	51	995	772	1,358	1,252	4,428
Cost						
At 01 January 2015	252	1,580	326	1,296	256	3,710
Additions	-	1,381	752	806	1,318	4,257
Gain on Revaluation				50	157	207
At 31 December 2015	252	2,961	1,078	2,152	1,731	8,174

	Buildings TZS Million	Motor vehicles TZS Million	Machinery and automation TZS Million	IT Equipment TZS Million	Furniture and equipment TZS Million	Total TZS Million
27 PROPERTY AND EQUIPMENT (Continued)						
GROUP						
Depreciation						
At 01 January 2015	181	1,098	582	996	396	3,253
Charge for the year	10	339	60	306	219	934
Depreciation on Revaluation	-	-	-	3	5	8
At 31 December 2015	191	1,437	642	1,305	620	4,195
Net book value						
At 31 December 2015	61	1,524	436	847	1,111	3,979
BANK						
Cost						
At 01 January 2016	252	2,132	338	1,854	1,065	5,641
Additions	-	-	16	887	63	966
Transfer to CBL	-	-	(1)	(21)	(78)	(100)
At 31 December 2016	252	2,132	353	2,720	1,050	6,507
Depreciation						
At 01 January 2016	191	1,586	281	1,390	527	3,975
Transfer to CBL	-	-	(1)	(3)	(23)	(27)
Charge for the year	10	204	40	442	119	815
At 31 December 2016	201	1,790	320	1,829	623	4,763
Net book value						
At 31 December 2016	51	342	33	891	427	1,744
Cost						
At 01 January 2015	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 2015	252	2,132	338	1,854	1,065	5,641
Depreciation						
At 01 January 2015	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 2015	191	1,586	281	1,390	527	3,975
Net book value						
At 31 December 2015	61	546	57	464	538	1,666

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
28 LEASEHOLD IMPROVEMENTS				
Cost				
At 1 January	4,747	1,991	2,050	2,952
Additions	261	2,756	103	55
Transfer to CBL	-	-	-	(957)
As at 31 December	5,008	4,747	2,153	2,050
Amortizations				
At 1 January	2,098	1,727	1,940	1,775
Amortization during the year	440	371	90	213
Transfer to CBL	-	-	-	(48)
As at 31 December	2,538	2,098	2,030	1,940
Net book value				
As at 31 December	2,470	2,649	123	110
29 INTANGIBLE ASSETS				
Cost				
At 1 January	3,118	3,058	3,096	3,056
Additions	205	60	100	40
Transfer to CBL	-	-	(223)	-
As at 31 December	3,323	3,118	2,973	3,096
Amortizations				
At 1 January	2,717	2,472	2,714	2,470
Amortization during the year	160	245	124	244
Transfer to CBL	-	-	(88)	-
As at 31 December	2,877	2,717	2,750	2,714
Net book value				
As at 31 December	446	401	223	382
30 TAX				
a) Tax expense				
Current year income tax	2,216	7,303	2,215	5,643
Deferred tax credit	(13,263)	(1,068)	(12,411)	(1,250)
	(11,047)	6,235	(10,196)	4,393
b) Reconciliation of tax expense to tax based on accounting profit:				
Accounting profit before taxation	(35,620)	15,675	(33,578)	9,236
Tax applicable rate of 30%	(10,686)	4,703	(10,073)	2,771
Effects of non-qualifying capital allowances	203	52	207	38
Permanently disallowed expenditure	104	71	79	91
Over provision of prior year deferred tax	1,037	24	1,037	24

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
30 TAX (Continued)				
b) Reconciliation of tax expense to tax based on accounting profit: (Continued)				
(Under)/over provision of prior year current tax	(1,445)	1,385	(1,446)	1,469
Incomes not subject to tax	(260)	-	-	-
Tax (income)/expense	(11,047)	6,235	(10,196)	4,393
c) Deferred tax				
Accelerated depreciation for tax purposes	(792)	(673)	(693)	(725)
Fair value of equity investment	11,558	-	10,177	-
Fair value of property investment	22,160	13,585	22,160	11,500
Fair value of Available for Sale Investment- Corporate Bond	(16)	-	-	-
Re-measurement gains on employment benefits actuarial valuation	(537)	709	(420)	580
General provisions	(68,423)	(16,401)	(68,337)	(16,714)
Cumulative tax losses	(1,455)	-	-	-
Unrealised gain on foreign exchange	260	-	260	-
	(37,245)	(2,780)	(36,853)	(5,359)
Deferred tax (assets)/ liability thereon	(11,174)	(834)	(11,056)	(1,608)
Less: opening deferred tax	(834)	(69)	(1,608)	(532)
Deferred tax (asset) / liability release	(10,340)	(765)	(9,448)	(1,076)
Statement of profit or loss and other comprehensive income break-down comprehensive income break-down				
Charged to profit or loss	(13,263)	(1,068)	(12,411)	(1,250)
Charged to other comprehensive income	2,923	303	2,963	174
	(10,340)	(765)	(9,448)	(1,076)
d) Tax recoverable				
Tax payable brought forward	(21)	(1,371)	(35)	(1,317)
Tax charge for the year	2,216	7,303	2,215	5,643
Tax payments during the year	(3,746)	(5,953)	(2,918)	(4,361)
Tax (recoverable)/ Payable	(1,551)	(21)	(738)	(35)

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
31 DEPOSITS				
Interest bearing deposits				
Customer accounts	328,280	255,944	263,702	201,260
Banks and other financial institutions	232,669	192,882	257,480	194,599
	560,949	448,826	521,182	395,859
Non-interest bearing deposits				
Customer accounts	95,733	73,950	18	10,292
	656,682	522,776	521,200	406,151
Maturity analysis				
Repayable on demand	18	27,133	18	10,292
With maturity of 3 months or less	282,240	395,740	285,615	301,367
With maturity over 3 months	374,424	99,903	235,567	94,492
	656,682	522,776	521,200	406,151
32 PAYABLES AND ACCRUALS				
Accruals	3,693	2,800	2,231	1,254
Other liabilities	12,260	3,491	10,924	2,368
Intercompany Liability	-	-	3,796	5,059
	15,953	6,291	16,951	8,681
Movement in account payable				
Carrying amount at the beginning of the period	6,291	2,170	8,681	1,910
Addition made during the period	13,542	5,441	12,150	8,131
Obligation honored during the period	(2,889)	(1,360)	(2,889)	(1,360)
Amount reversed during the year	(991)	40	(991)	-
Carrying amount at the end of the period	15,953	6,291	16,951	8,681
33 DEFERRED INCOME				
Deferred fees income on loans	2,455	2,982	2,175	2,926
Deferred income on guarantees fees	1	299	-	-
	2,456	3,281	2,175	2,926

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

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
34 LONG TERM BORROWINGS				
At the beginning of the period	56,123	17,353	56,123	17,353
New Loan facility	22,000	43,060	22,000	43,060
Repayment during the period	(7,411)	(4,290)	(7,411)	(4,290)
At the end of the period	70,712	56,123	70,712	56,123

During the year 2016 the Bank received USD 10,000,000 from a new provider, being final disbursement for the loan of USD 20,000,000 entered into agreement with TIB Development Bank in year 2015. The Bank maintained and continued to service long term loan facilities from other two different institutions who gave the Bank a line of credit of USD 10,000,000 in year 2015 and the Bank is currently serving interest and USD 10,000,000 which existed since year 2014 with current balance of USD 2,000,000.

35 GOVERNMENT GRANTS				
Capital Grants				
At 1 January	157	384	157	384
Additions	1,038	-	820	-
Released to the statement of profit or loss	(360)	(227)	(360)	(227)
As at 31 December	835	157	617	157

Capital Grants are the IT equipment received from Prime Minister's Office to support Bank's operations. Capital grants are amortized to profit or loss based on estimated useful life assessed.

36 SHARE CAPITAL				
Authorized share capital				
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

37. REGULATORY CAPITAL

The Bank of Tanzania who is the regulator of the Banks 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 general provisions reserve which are held against future, presently unidentified losses as required by Bank of Tanzania.

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 did not comply with minimum capital requirements as required by sections 16 and 17 of the Banking and Financial Institutions Act, 2006 and the Bank of Tanzania Development Finance Regulations 2011. The Bank's capital computed in accordance with these regulations as follows:

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
37 REGULATORY CAPITAL (Continued)				
Share capital	152,138	152,138	152,138	152,138
Retained earning	(60,893)	18,781	(65,836)	16,657
	91,245	170,919	86,302	168,795
<u>Add</u>				
Capital Grant	835	157	617	157
<u>Less:</u>				
Prepaid expenses – Note 22	4,023	3,773	1,970	2,529
Intangible assets – Note 29	446	401	223	382
Deferred tax assets - Note 30	11,174	834	11,056	1,608
	15,643	5,008	13,249	4,519
Core capital (Tier 1)	76,437	166,068	73,670	164,433
Add: Supplementary capital (Tier 2)				
General provision	986	662	-	-
Tier 1 Capital & Tier 2 Capital	77,423	166,730	73,670	164,433
Required capital	50,000	50,000	50,000	50,000
<u>Risk - weighted assets</u>				
On financial position	807,107	689,852	624,331	584,148
Off financial position	135,514	24,128	96,818	-
Total risk - weighted assets	942,621	713,980	721,149	584,148
Bank Ratios	Actual	Actual	Actual	Actual
	2016	2015	2016	2015
Tier 1 ratio (Required: Bank – 13%)	8%	23%	10%	28%
Tier 1 + Tier 2 ratio (Required: Bank – 15%)	8%	23%	10%	28%

38 RELATED PARTY DISCLOSURES

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:

Management personnel:

a. Loans:

At the beginning of the year	3,466	8,053	1,108	1,015
Loans issued during the year	244	2,837	244	679
Loan repayments during the year	(738)	(7,424)	(738)	(586)
As at the end of the year	2,972	3,466	614	1,108

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
38. RELATED PARTY DISCLOSURES (Continued)				
b. Cash and short term funds				
TIB Corporate Bank Limited	-	-	2,752	16,264
c. Accounts Receivables				-
TIB Corporate Bank Limited	-	-	1,433	1,237
TIB Rasilimali Limited	-	-	426	222
As at the end of the year	-	-	1,859	1,459
d. Deposits:				
At the beginning of the year	235	135	235	135
Deposits received during the year	-	4,894	-	100
Deposits repaid during the year	-	(4,682)	(235)	-
As at the end of the year	235	347	-	235
Interbank borrowings and deposits				
TIB Corporate Bank Limited	-	-	37,086	16,333
Fees received from the Government for managing projects				
Managed funds Note 44	1,136	988	1,136	988
Management compensation				
Salaries and other short-term benefits	4,123	4,101	2,026	2,257
Contributions to Pension funds	594	298	279	178
Post-employment benefits	798	233	580	233
	5,515	4,632	2,884	2,668
Directors' remuneration				
Made up of:				
Directors' emoluments (Note 14)	184	82	95	39
	184	82	95	39

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.

39. 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 Group adopted a set of demographic assumptions on valuation of employment obligation as described below:

Demographic assumptions:

- A 10% probability of employees retiring at age 55, with the balance retiring at age 60.
- Mortality is assumed to follow the A1949-1952 ultimate table for preretirement mortality.
- Terminations (voluntary or resignation) are assumed to follow the Specimen Salaried Male/Female Ultimate Experience table. No allowance for retrenchment, redundancies or dismissals.

The above demographic assumptions were applied to all benefits excluding the benefits that are paid at the end of every contract. Due to the short term nature of the contracts, no allowance for death, disability or withdrawal before the end of the contract period made.

Financial assumptions:

- 19.0% per annum as at 31 December 2016 (2015: 19%) for purposes of determining the balance sheet liability in respect of permanent employees;
- 18.0% per annum as at 31 December 2016 (2015:17.5%) for purposes of determining the balance sheet liability with respect to contract employees; and
- a salary escalation rate of 10.0% per annum as at 31 December 2016 (2015:10%).

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
The amount recognized in the statement of financial position are as follows:				
Defined benefit obligation recognized in the statement of financial position	3,566	2,656	2,580	2,129
Reconciliation of benefit obligation				
Opening benefits Obligation	2,656	3,560	2,129	3,560
Transfer to CBL	-	-	-	(593)
Adjustment in the current period	-	(758)	-	(758)
Current service cost (employer)	344	812	238	516
Interest cost	474	350	373	266
Actuarial (gain)/loss due to change in assumptions	168	(2,892)	51	(2,127)
Actuarial (gain) / loss due to Experience	602	1,881	369	1,547
Benefit paid	(678)	(297)	(580)	(282)
Closing Benefit obligation	3,566	2,656	2,580	2,129

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
39 EMPLOYMENT BENEFIT OBLIGATION (CONTINUED)				
The amount recognised in the statement of profit or loss are as follows:				
Service costs				
Current service cost (employer)	344	812	238	516
Past service cost	233	-	-	-
Total service costs	577	812	238	516
Interest cost				
Interest cost on defined benefit obligation	474	350	373	266
Net Interest cost on benefits sheet liability	474	350	373	266
Total included in profit and loss in respect of scheme	1,051	1,162	611	782
Remeasurement in the statement of other comprehensive income (OCI)				
Actuarial (gain)loss-obligation	537	(1,010)	420	(580)
Amount recognized in OCI in the financial year	537	(1,010)	420	(580)
Reconciliation				
Net liability at start of the period	2,656	3,560	2,129	3,560
Transfer to CBL	-	-	-	(593)
Adjustment in the current period	-	(758)	-	(758)
Net expense recognized in the income statement	1,051	1,162	611	782
Employer contributions	(678)	(298)	(580)	(282)
Amount recognized in OCI	537	(1,010)	420	(580)
Net liability at end of period	3,566	2,656	2,580	2,129
Sensitivity analysis				

The actuarial liability estimated at 31 December 2016 is sensitive to the financial assumptions used. A 1% per annum. Reduction in the discount rate will increase the actuarial liability estimated at 31 December 2016 by around 7% (with all other assumptions remaining the same). If the discount rate is increased by 1% per annum then there is an opposite effect of roughly the same magnitude to the actuarial liability.

	GROUP		BANK	
	2016 TZS Million	2015 TZS Million	2016 TZS Million	2015 TZS Million
40 CASH FLOW FROM OPERATING ACTIVITIES				
a. Interest Receipt				
Opening Balance Interest Receivable	29,096	17,336	28,672	17,336
Interest Income – Note 6	115,828	83,377	91,077	62,489
Closing Balance Interest receivable	(46,340)	(29,096)	(46,172)	(28,672)
Interest in suspense – Note 21(f)	(23,614)	(6,754)	(23,374)	(6,748)
	74,970	64,863	50,203	44,405
b. Interest Payments				
Opening balance interest payable	14,481	5,737	13,116	5,737
Interest expenses – Note 7	58,115	32,714	46,327	25,683
Closing Balance interest payable	(20,700)	(14,481)	(19,606)	(13,116)
	51,896	23,970	39,837	18,304
c. Net fee commission receipts				
Opening Balance Fees Receivable	9,805	5,906	9,768	5,906
Fee Income	12,985	11,876	7,304	7,792
Less:				
Closing Balance Fees Receivable – Note 22	(15,210)	(9,805)	(13,332)	(9,768)
	7,580	7,977	3,740	3,930
d. Payments to employees and suppliers				
Opening balance Accounts Payable	6,291	2,908	8,681	1,910
Opening balance Prepayments	3,773	1,225	2,529	820
Cash Operating Expenses	48,097	35,959	28,242	23,286
Less:				
Closing balance accounts payable – Note 32	(15,953)	(6,291)	(16,951)	(8,681)
Closing balance prepayments – Note 22	(4,023)	(3,773)	(1,970)	(2,529)
	38,185	30,028	20,531	14,806

41. FAIR VALUE MEASUREMENT

Valuation methodology

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).

	Level 1 TZS Million	Level 2 TZS Million	Level 3 TZS Million	Total TZS Million
GROUP				
31 December 2016				
Financial investment held for trading – Note 18	2,584	-	-	2,584
Government and Corporate Securities held to maturity – Note 19	-	72,810	-	72,810
Available-for-sale investment securities – Note 24	-	21,372	-	21,372
Loans and advances – Note 21	-	-	746,676	746,676
	2,584	94,182	746,676	843,442
31 December 2015				
Financial investment held for trading – Note 18	3,494	-	-	3,494
Government and Corporate Securities held to maturity – Note 19	-	74,404	-	74,404
Available-for-sale investment securities – Note 24	-	11,992	-	11,992
Loans and advances – Note 21	-	-	652,112	652,112
	3,494	86,396	652,112	742,002

There were no any movements between the fair value levels.

	Level 1 TZS Million	Level 2 TZS Million	Level 3 TZS Million	Total TZS Million
41 FAIR VALUE MEASUREMENT (Continued)				
BANK				
31 December 2016				
Government and Corporate Securities held to maturity – Note 19	-	52,575	-	52,575
Available-for-sale investment securities – Note 24	-	21,288	-	21,288
Loans and advances – Note 21	-		641,853	641,853
	-	73,863	641,853	715,716
31 December 2015				
Government and Corporate Securities held to maturity – Note 19	-	54,488	-	54,488
Available-for-sale investment securities – Note 24	-	11,992	-	11,992
Loans and advances – Note 21	-	-	538,675	538,675
	-	66,480	538,675	605,155

Financial instruments at amortized costs

The Group 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.

	2016 Carrying amount TZS Million	2016 Fair value TZS Million	2015 Carrying amount TZS Million	2015 Fair value TZS Million
GROUP				
Financial assets				
Cash and balances with Bank of Tanzania – Note 15	28,235	28,235	10,136	10,136
Balance with other banks – Note 16	2,271	2,271	6,989	6,989
Placements with other banks – Note 17	26,457	26,457	24,980	24,980
Loans and advances – Note 21	746,676	746,676	652,112	652,112
Government securities – Note 19	72,810	72,810	74,404	74,404
Equity investment-available for sale - Note 24	21,372	21,372	11,992	11,992
	897,821	897,821	780,613	780,613
Financial liabilities				
Deposits – Note 31	656,682	656,682	522,776	522,776
Payables and Accruals – Note 32	15,953	15,953	6,291	6,291
Long Term Borrowing – Note 34	70,712	70,712	56,123	56,123
	743,347	743,347	585,190	585,190

	2016 Carrying amount TZS Million	2016 Fair value TZS Million	2015 Carrying amount TZS Million	2015 Fair value TZS Million
41. FAIR VALUE MEASUREMENT (Continued)				
BANK				
Financial assets				
Balance with other banks – Note 16	2,807	2,807	16,387	16,387
Placements with other banks – Note 17	25,171	25,171	21,177	21,177
Loans and advances – Note 21	641,853	641,853	538,675	538,675
Government securities – Note 19	52,575	52,575	54,488	54,488
Equity investment-available for sale – Note 24	21,288	21,288	11,992	11,992
	<u>743,694</u>	<u>743,694</u>	<u>642,719</u>	<u>642,719</u>
Financial liabilities				
Deposits – Note 31	521,200	521,200	406,151	406,151
Payables and Accruals – Note 32	16,951	16,951	8,681	8,681
Long Term Borrowing – Note 34	70,712	70,712	56,123	56,123
	<u>608,863</u>	<u>608,863</u>	<u>470,955</u>	<u>470,955</u>

42. RISK MANAGEMENT

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

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risk.

The significance of risk is assessed within the context of the Group. The Group'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 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.

42. RISK MANAGEMENT (Continued)

The Group has been constantly evaluating its internal capacities to ensure a good balance between its corporate results and its mandate. In 2016 the Bank continued with program to implement team oriented approach in the credit process. This shall ensure full deployment of the Group's technical skills in the evaluation of projects at the appraisal stage.

This note presents information about the Group's objectives, policies and processes for measuring and managing risk.

Risk Management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management frame work. The board is ultimately responsible for all risks taken by the Group. The Board of directors has established Risk and Compliance department, Fund Mobilization Division for the Bank and Asset and Liability Management Committee (ALCO) for the subsidiary which are responsible for developing and monitoring risk management policies. The Group risks management policies are established to identify and analyse the risk faced by the Group.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group, 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. The following paragraph provides more information related to risk management . .

Board Audit and Risk Committee

The Board's Audit and Risk committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit.

The Group's policy is that risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group'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 committee 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.

Fund Mobilization Division

As a Development Bank, the Bank is a long term loans provider and mobilizing adequate funding resources is a key ingredient for success. The Bank has therefore formed an independent division (whose head reports to the Managing Director) responsible for formulation of strategies on fund mobilization and monitoring their implementation. The division is charged with responsibility to manage the Bank's liquidity risk and ensuring the Bank meets all its maturing obligations while at the same time providing resources for expansion of the Bank's lending activities.

42. RISK MANAGEMENT (Continued)

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.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group'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.

(i) Management of Credit Risk

The Board of Directors 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 Investment and Portfolio Monitoring Committees which, among others, are responsible for:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Ensure that the appraisal process is effective and informed.
- 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;
- Limiting concentrations of exposure. The Board approved delegated authority restricts exposure for any group/sector;
- 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;
- Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

During the year the Group enhanced its Credit management process by introducing a Technical Services Department which provides professional inputs in on specific areas especially engineering and related fields for effective appraisal and monitoring processes.

42. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

In order to ensure effective credit monitoring, the Bank's Zonal offices have been assigned the task to monitor completed projects under their zones. The projects still under implementation are still being jointly monitored by the zonal offices and the head office especially the Technical Services Department.

Regular audits of both Development Finance and Portfolio Management divisions as well as Zonal Offices are undertaken by Internal Audit Department.

(ii) Credit quality analysis

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below set out information about the credit quality of the financial assets and allowances for impairment/loss held by the Group against those assets.

	Neither past due nor impaired		Past due but not impaired	Past due and impaired	Total	Impairment	Carrying amount
	Current	Especially mentioned					
	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million
GROUP							
2016							
Cash and balances with Bank of Tanzania	28,235	-	-	-	28,235	-	28,235
Balance with other banks	2,271	-	-	-	2,271	-	2,271
Placements with other banks	26,457	-	-	-	26,457	-	26,457
Financial investment held for trading	2,584	-	-	-	2,584	-	2,584
Government and corporate securities held - to - maturity	72,810	-	-	-	72,810	-	72,810
Loans and advances	437,082	105,314	-	266,613	809,009	61,398	747,611
Equity investment-available for sale	21,372	-	-	-	21,372	-	21,372
	590,811	105,314	-	266,613	962,738	61,398	901,340
2015							
Cash and balances with Bank of Tanzania	10,136	-	-	-	10,136	-	10,136
Balance with other banks	6,989	-	-	-	6,989	-	6,989
Placements with other banks	24,980	-	-	-	24,980	-	24,980
Government and corporate securities held - to - maturity	74,404	-	-	-	74,404	-	74,404
Loans and advances	513,923	67,626	60,416	29,262	671,227	17,991	653,236
Equity investment-Available for sale	11,992	-	-	-	11,992	-	11,992
	642,424	67,626	60,416	29,262	799,728	17,991	781,737

	Neither past due nor impaired		Past due but not impaired	Past due and impaired	Total	Impairment	Carrying amount
	Current	Especially mentioned					
	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million

42. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

BANK							
2016							
Balance with other banks	2,807	-	-	-	2,807	-	2,807
Placements with other banks	25,171	-	-	-	25,171	-	25,171
Government and corporate securities held - to - maturity	52,575	-	-	-	52,575	-	52,575
Loans and advances	338,351	105,314	-	260,226	703,891	61,103	642,788
Equity investment-available for sale	21,288	-	-	-	21,288	-	21,288
	<u>440,192</u>	<u>105,314</u>	<u>-</u>	<u>260,226</u>	<u>805,732</u>	<u>61,103</u>	<u>744,629</u>
2015							
Balance with other banks	16,387	-	-	-	16,387	-	16,387
Placements with other banks	21,177	-	-	-	21,177	-	21,177
Government and corporate securities held - to - maturity	54,488	-	-	-	54,488	-	54,488
Loans and advances	447,691	31,498	51,343	27,164	557,696	17,897	539,799
Equity investment-Available for sale	11,992	-	-	-	11,992	-	11,992
	<u>551,735</u>	<u>31,498</u>	<u>51,343</u>	<u>27,164</u>	<u>661,740</u>	<u>17,897</u>	<u>643,843</u>

Impaired loans and advances

The Group regards a loan and advance as impaired when there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on the future estimated cash flow from the loan facility.

Loans and advances are graded as 3 to 5 in the Bank's internal credit risk grading system are classified as nonperforming and are impaired

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has been reduced significantly and there are no other indicators of impairment

Loan and advances that are past due but not impaired

Loans and advances that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

42 RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Loans and advances renegotiated

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.

Charged off loans

During the year non-performing loans and advances amounting to TZS 24,021 million were charged off (2015: TZS 1,282 million) 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 2016 the cumulative balance of charged off accounts was TZS 83,791 million (2015: TZS 41,000 million) this excludes TZS 1,633 million recovered during the year (2015: TZS 2,824 million). 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.

(iii) 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

42 RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(iii) Collateral and other credit enhancements (Continued)

The Group 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 Group to require a security cover not less than 1.25 times.

It is the Group'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 Group does not occupy repossessed properties for business use. The Group 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.

(iv) Concentration of credit risk

Credit concentration risk 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 Group's performance to developments affecting a particular industry or geographical location.

- Concentration risk by sector

In order to avoid excessive concentrations of risk, the Group'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.

42 RISK MANAGEMENT (Continued)

- a) Credit risk (Continued)
 (iv) Concentration of credit risk (Continued)

An analysis of concentration of credit risk by sector from loans and advances is shown below:

GROUP	Financial Services TZS Million	Agriculture & Fishing TZS Million	Government TZS Million	Energy & Mining TZS Million	Manufacturing TZS Million	Building and Construction TZS Million	Transport & Communication TZS Million	Services TZS Million	Total TZS Million
2016									
Financial assets									
Cash and balances with BOT	2,695	-	25,540	-	-	-	-	-	28,235
Balance with other banks	2,271	-	-	-	-	-	-	-	2,271
Placements with other banks	26,457	-	-	-	-	-	-	-	26,457
Financial investment held for trading	177				2,119			288	2,584
Securities held - to - maturity	-	-	72,810	-	-	-	-	-	72,810
Loans and advances	8,087	206,218	-	296,098	89,480	63,459	9,569	136,098	809,009
Equity investment available for sale	21,372	-	-	-	-	-	-	-	21,372
	61,059	206,218	98,350	296,098	91,599	63,459	9,569	136,386	962,738
2015									
Financial assets									
Cash and balances with BOT	5,936	-	4,200	-	-	-	-	-	10,136
Balance with other banks	6,989	-	-	-	-	-	-	-	6,989
Placements with other banks	24,980	-	-	-	-	-	-	-	24,980
Securities held - to - maturity	-	-	74,404	-	-	-	-	-	74,404
Loans and advances	5,576	191,492	-	217,803	64,352	97,208	10,501	84,295	671,227
Equity investment available for sale	11,992	-	-	-	-	-	-	-	11,992
	55,473	191,492	78,604	217,803	64,352	97,208	10,501	84,295	799,728

	Financial Services TZS Million	Agriculture & Fishing TZS Million	Government TZS Million	Energy & Mining TZS Million	Manufacturing TZS Million	Building and Construction TZS Million	Transport & Communication TZS Million	Services TZS Million	Total TZS Million
BANK									
Industry analysis									
2016									
Financial assets									
Cash and balances with BOT	-	-	-	-	-	-	-	-	-
Balance with other banks	2,807	-	-	-	-	-	-	-	2,807
Placements with other banks	25,171	-	-	-	-	-	-	-	25,171
Securities held - to - maturity	-	-	52,575	-	-	-	-	-	52,575
Loans and advances	6,038	199,793	-	296,098	75,937	63,459	9,331	53,235	703,891
Equity investment available for sale	21,288	-	-	-	-	-	-	-	21,288
	55,304	199,793	52,575	296,098	75,937	63,459	9,331	53,235	805,732
2015									
Financial assets									
Cash and balances with BOT	-	-	-	-	-	-	-	-	-
Balance with other banks	16,387	-	-	-	-	-	-	-	16,387
Placements with other banks	21,177	-	-	-	-	-	-	-	21,177
Securities held - to - maturity	-	-	54,488	-	-	-	-	-	54,488
Loans and advances	5,576	180,793	-	217,803	40,909	62,673	10,501	39,441	557,696
Equity investment available for sale	11,992	-	-	-	-	-	-	-	11,992
	55,132	180,793	54,488	217,803	40,909	62,673	10,501	39,441	661,740

42 RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(iv) Concentration of credit risk (Continued)

- Concentration of credit risk by Geographical location

Concentration of credit risk by geographical location is based on customer's country of domicile. The Group's exposure by geographical location is analysed below

	Tanzania TZS Million	Europe TZS Million	America TZS Million	Others TZS Million	Total TZS Million
GROUP					
2016					
Financial assets					
Cash and balances with Bank of Tanzania	28,235	-	-	-	28,235
Balance with other banks	1,309	482	472	8	2,271
Placements with other banks	26,457	-	-	-	26,457
Financial investment held for trading	2,584	-	-	-	2,584
Government securities held to maturity	72,810	-	-	-	72,810
Loans and advances	746,676	-	-	-	746,676
Equity investment available for sale	2,456	-	-	18,916	21,372
	880,527	482	472	18,924	900,405
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	24,980	498	751	29	26,258
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
	774,850	498	751	5,792	781,891
BANK					
Financial assets					
Balance with other banks	2,807	-	-	-	2,807
Placements with other banks	25,171	-	-	-	25,171
Government securities held to maturity	52,575	-	-	-	52,575
Loans and advances	641,853	-	-	-	641,853
Equity investment available for sale	2,372	-	-	18,916	21,288
	724,778	-	-	18,916	743,694

42 RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(iv) Concentration of credit risk (Continued)

	Tanzania TZS Million	Europe TZS Million	America TZS Million	Others TZS Million	Total TZS Million
BANK					
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

b) Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

(i) Management of liquidity risk

The Group'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 Group's reputation.

The Funds Mobilization Division 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 Group as a whole. All liquidity policies and procedures are subject to review and approval by the Board of Directors after recommendation of the Board Investment Committee. The key elements of the Group's liquidity strategy are as follows;

- Maintaining a diversified funding sources in addition to the Group's core deposit base
- Developing 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
- Maintaining 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 Group'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 Group 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.

42. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

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 Group 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.

(ii) Maturity analysis for financial assets and financial liabilities

The table below summarizes the remaining contractual maturities of the Group's and the Bank's financial assets and financial liabilities.

	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
GROUP						
2016						
Financial assets						
Cash and balances with BOT	28,235	-	-	-	-	28,235
Balance with other banks	2,271	-	-	-	-	2,271
Placements with other banks	5,989	20,448	-	20	-	26,457
Financial investment held for trading				2,584		2,584
Securities held to maturity	2,411	25,868	9,208	10,630	24,693	72,810
Loans and advances	21,637	93,679	45,386	105,279	480,695	746,676
Equity investment available for sale	-	-	-	-	21,372	21,372
Total undiscounted financial assets	60,543	139,995	54,594	118,513	526,760	900,405
Financial liabilities						
Deposits	160,236	237,629	126,350	66,509	65,958	656,682
Borrowing		2,180	2,180	3,114	63,238	70,712
	160,236	239,809	128,530	69,623	129,196	727,394
Net liquidity gap	(99,693)	(99,814)	(73,936)	48,890	397,564	173,011
Cumulative gap	(99,693)	(199,507)	(273,443)	(224,553)	173,011	-
2015						
Financial assets						
Cash and balances with BOT	10,136	-	-	-	-	10,136
Balance with other banks	6,989	-	-	-	-	6,989
Placements with other banks	20,635	4,345	-	-	-	24,980
Securities held to maturity	4,366	9,149	21,739	11,935	30,710	77,899
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	83,658	370,857	784,108

	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
42 RISK MANAGEMENT (Continued)						
b) Liquidity risk (Continued)						
(ii) Maturity analysis of financial assets and financial liabilities (Continued)						
GROUP (Continued)						
2015						
Financial liabilities						
Deposits	132,898	153,864	114,715	43,043	4,305	448,825
Borrowings	2,153	2,153	4,305	47,514	56,125	
Total liabilities	132,898	156,017	116,868	47,348	51,819	504,950
Net liquidity gap	12,438	(110,265)	21,637	36,310	319,038	279,158
Cumulative gap	12,438	(97,827)	(76,190)	(39,880)	279,158	-
BANK						
2016						
Financial assets						
Balance with other banks	2,807	-	-	-	-	2,807
Placements with other banks	4,703	20,448	-	20	-	25,171
Securities held to maturity	2,328	19,943	-	6,327	23,977	52,575
Loans and advances	21,245	73,176	44,838	61,412	441,182	641,853
Equity investment available for sale	-	-	-	-	21,288	21,288
Total undiscounted financial assets	31,083	113,567	44,838	67,759	486,447	743,694
Financial liabilities						
Deposits	163,611	121,985	104,324	66,509	64,771	521,200
Borrowing	-	2,180	2,180	3,114	63,238	70,712
	163,611	124,165	106,504	69,623	128,009	591,912
Net liquidity gap	(132,528)	(10,598)	(61,666)	(1,864)	358,438	151,782
Cumulative gap	(132,528)	(143,126)	(204,792)	(206,656)	151,782	-
2015						
Financial assets						
Balance with other banks	16,387	-	-	-	-	16,387
Placements with other banks	11,828	4,325	5,004	20	-	21,177
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	406,151
Borrowings		2,153	2,153	4,305	47,513	56,123
Total liabilities	79,931	166,309	116,868	47,348	51,818	462,274
Net liquidity gap	(26,916)	(126,685)	146	23,197	310,703	180,445
Cumulative gap	(26,916)	(153,601)	(153,455)	(130,258)	180,445	-

42. RISK MANAGEMENT (Continued)

c) Market risk

Market risk is the risk that changes in market prices such as interest rates, equity prices, and foreign exchange rates will affect the Group's income or value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimizing the return on risk.

The Group 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.

(i) Management of market risks

The Group separates its exposure to market risks between trading and non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in the Group's treasury department and monitored regularly. Regular reports are submitted to the Board of Directors and Board Investment Committee. 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.

(ii) Interest rate risk

Interest risk is the risk that the future cash flows 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 Board Investment Committee monthly.

- 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.

The table below 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.

42. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Interest risk exposure - GROUP

	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
2016							
Assets							
Cash and balances with BOT	-	-	-	-	-	28,235	28,235
Balance with other banks	2,271	-	-	-	-	-	2,271
Placements with other banks	5,989	20,448	-	20	-	-	26,457
Financial investment held for trading				2,584		2,584	
Securities held - to - maturity	2,411	25,868	9,208	10,630	24,693	-	72,810
Loans and advances	21,637	93,679	45,386	105,279	480,695	-	746,676
Equity investment available for sale	-	-	-	-	-	21,372	21,372
Total assets	32,308	139,995	54,594	118,513	505,388	49,607	900,405
Liabilities							
Deposits	160,236	237,629	126,350	66,509	65,958	-	656,682
Borrowing	-	2,180	2,180	3,114	63,238	-	70,712
Other liabilities	-	-	-	-	-	15,953	15,953
Total liabilities and equity	160,236	239,809	128,530	69,623	129,196	15,953	743,347
Interest sensitivity gap	(127,928)	(99,814)	(73,936)	48,890	376,192	33,654	157,058
2015							
Assets							
Cash and balances with BOT	-	-	-	-	-	10,136	10,136
Balance with other banks	6,989	-	-	-	-	-	6,989
Placements with other banks	15,246	4,325	5,504	20	-	-	25,096
Securities held - to - maturity	4,366	9,149	21,739	11,935	30,710	-	77,899
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	129,811	45,732	144,009	83,678	358,865	22,128	784,224
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	116,867	47,348	51,818	80,241	585,190
Interest sensitivity gap	(3,087)	(110,285)	27,142	36,330	307,047	(58,113)	199,034

42 RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Interest risk exposure - GROUP

	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							
Balance with other banks	2,807	-	-	-	-	-	2,807
Placements with other banks	4,703	20,448	-	20	-	-	25,171
Government and corporate securities held - to - maturity	2,328	19,943	-	6,327	23,977	-	52,575
Loans and advances	21,245	73,176	44,838	61,412	441,182	-	641,853
Equity investment available for sale	-	-	-	-	-	21,288	21,288
Total assets	31,083	113,567	44,838	67,759	465,159	21,288	743,694
Liabilities							
Deposits	163,611	121,985	104,324	66,509	64,771	-	521,200
Borrowing	-	2,180	2,180	3,114	63,238	-	70,712
Other liabilities	-	-	-	-	-	16,951	16,951
Total liabilities and equity	163,611	124,165	106,504	69,623	128,009	16,951	608,863
Interest sensitivity gap	(132,528)	(10,598)	(61,666)	(1,864)	337,150	4,337	134,831
2015							
Assets							
Balance with other banks	16,387	-	-	-	-	-	16,387
Placements with other banks	11,828	4,325	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	53,015	39,624	117,014	70,545	350,529	11,992	642,719
Liabilities							
Deposits	79,931	153,864	114,715	43,043	4,305	10,292	406,151
Borrowings	-	2,153	2,153	4,305	47,513	-	56,123
Other liabilities	-	-	-	-	-	8,681	8,681
Total liabilities	79,931	156,017	116,868	47,348	51,818	18,973	470,955
Interest sensitivity gap	(26,916)	(116,393)	146	23,197	298,711	(6,981)	171,764

42 RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(ii) Interest rate risk (Continued)

- 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 Group's profitability would be reduced by TZS 6,044 million (2015: TZS 1,729 million) due to increase in annual interest expense. The impact of this increase on capital of the Group is reduction by TZS 4,223 million (2015: TZS 1,210 million). However, with the core capital of TZS 77,423 million (see note 37) the amounts are not expected to significantly impair the ability of the Bank to operate profitably.

	GROUP		BANK	
	2016	2015	2016	2015
	TZS Million	TZS Million	TZS Million	TZS Million
Assets re-pricing after 6 months	226,897	319,479	189,488	209,652
Liabilities re-pricing after 6 months	528,575	405,918	394,280	352,815
Interest rate Gap	(301,678)	(86,439)	(204,792)	(143,163)
Impact of interest rate rise by additional 200 bps	(6,044)	(1,729)	(4,096)	(2,863)
Impact in Capital	(4,223)	(1,210)	(2,867)	(2,004)

(iii) Foreign currency risk

The Bank operates within Tanzania and has 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 that are denominated in United States dollars and euros. Foreign currency risk is managed at an operational level and monitored by the Fund Mobilization Directorate (Treasury directorate in the subsidiary). Exposure to losses from foreign currency deposits is managed through prompt settlement of the foreign currency denominated obligations.

The Group 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 7.5% of its core capital as a net open position.

- Foreign currency sensitivity

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 Group'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 tables 43(8) 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.

42 RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

Based on the exposure carried at the end of the year a 20% depreciation of the shilling would have increased Group profit by TZS 3,795 million (2015: loss of TZS 2,839 million); an opposite movement would have caused a loss of the same magnitude. It is the view of the Board that such movements do not significantly impair the capital adequacy of the Group which stood at TZS 77,423 million (see note 37) at the end of the year. The table below shows the impact of foreign exchange movement.

	GROUP		BANK	
	2016	2015	2016	2015
	TZS Million	TZS Million	TZS Million	TZS Million
Foreign Currency Denominated Assets	424,530	355,948	401,182	320,117
Foreign Currency Denominated Liabilities	405,554	370,164	393,005	314,066
Net open Position	18,976	(14,216)	8,177	6,051
USD/TZS Exchange rate	2,180	2,153	2,180	2,153
Impact of 20% Depreciation of the TZS against the USD	3,795	(2,839)	1,635	1,208

- **Foreign currency exchange risk exposure -**

The Group maintains trade with the customers and other correspondent banks which its foreign currency exposure as at 31 December 2016 was TZS 18,976 million (2015: TZS (14,216) million). The various currencies to which the Bank is exposed at 31 December 2016 are summarised in the table below (All amounts expressed in Millions of Tanzania Shillings).

42. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

Foreign currency exchange risk exposure -GROUP						
2016	TZS	USD	GBP	Euro	Others	Total
Assets	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million	TZS Million
Cash and balances due from banks	28,372	1,748	112	265	9	30,506
Placements with other banks	24,583	1,310	170	386	8	26,457
Financial investment held for trading	2,584	-	-	-	-	2,584
Securities held - to - maturity	72,894	-	1	-	-	72,895
Loans and advances	326,155	418,689	-	1,832	-	746,676
Equity investment-available for sale	-	9,641				9,641
Other Assets	-	1,723				1,723
Total Assets	454,588	433,111	283	2,483	17	887,699
Liabilities						
Deposits	323,837	330,987	383	1,475	-	656,682
Borrowing	-	70,712	-	755	-	71,467
Payables and Accruals	15,469	1,241	-	1	-	16,711
Total liabilities	339,306	402,940	383	2,231	-	744,860
Net financial position	115,282	30,171	(100)	252	17	142,839
2015						
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
Securities held - to - maturity	74,404	-	-	-	-	74,404
Loans and advances	302,701	349,411	-	-	-	652,112
Total Assets	416,167	353,633	656	1,607	52	772,115
Liabilities						
Deposits	210,275	310,434	656	1,411	-	522,776
Borrowing	-	56,123	-	-	-	56,123
Payables and Accruals	4,752	1,540	-	-	-	6,292
Total liabilities	215,027	368,097	656	1,411	-	585,191
Net financial position	201,140	(14,464)	-	196	52	186,924

42. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

Foreign currency exchange risk exposure - BANK

2016	TZS	USD	Total
Assets			
Cash and balances due from banks	2,704	103	2,807
Placements with other banks	25,171	-	25,171
Government and corporate securities held - to - maturity	52,575	-	52,575
Loans and advances	252,138	389,715	641,853
Equity investment-available for sale	-	9,641	9,641
Other Assets	-	1,723	1,723
Total Assets	332,588	401,182	737,770
Liabilities			
Deposits	200,097	321,103	521,200
Borrowing	-	70,712	70,712
Payables and Accruals	12,567	1,190	13,757
Total liabilities	212,664	393,005	605,669
Net financial position	119,924	8,177	128,101
2015			
Cash and balances due from banks	9,104	7,283	16,387
Placements with other banks	21,177	-	21,177
Loans and advances	54,488	-	54,488
Government and corporate securities held - to - maturity	237,063	301,612	538,675
Total Assets	321,832	308,895	630,727
Deposits	149,749	256,402	282,680
Borrowing	-	56,123	17,353
Payables and Accruals	7,141	1,540	1,910
Total liabilities	156,890	314,065	301,943
Net financial position	164,942	(5,170)	328,784
At 1 January 2016	2,153	3,190	2,343
At 31 December 2016	2,180	2,686	2,305

43. 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 50,920 million (2015: TZS 36,330 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.

Group	2016	2015
	TZS Million	TZS Million
Outstanding letters of credit :		
Foreign currency	4,479	39,910
Outstanding guarantees and indemnities:		
Foreign currency	67,420	64,533
	71,899	104,443

Bank	2016	2015
	TZS Million	TZS Million
Outstanding letters of credit :		
Foreign currency	-	38,699
Outstanding guarantees and indemnities:		
Foreign currency	47,959	-
	47,959	38,699

43. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

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:	2016	2015
	TZS Million	TZS Million
Commitments to extend credit – undrawn balance	48,859	79,983
Capital commitments		
Capital expenditure that has been approved by the Board but not contracted for	2,601	1,149

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:

	2016	2015
	TZS Million	TZS Million
Within one year	2,032	1,932
After one year but not more than five years	8,128	7,728
More than five years	-	280
Total	10,160	9,940

44. 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.

44. 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 and in 2016 the Bank received TZS 1,136 million (2015: TZS 988 million) which is included in fee income (note 8). The table below summarises the Bank balance movement in the Funds /Grants accounts for the year ended 31 December 2016.

	AFW TZS Million	FF TZS Million	REA TZS Million	RBF TZS Million	CIS TZS Million	TEDAP TZS Million	SMDG TZS Million	NEEC TZS Million
Balance at 1 January 2016	4,778	1,448	396	782	326	2,698	2,256	250
Restatement*	(39)	(1,062)	(396)	(53)	27	(1,258)	(1,474)	(50)
Restated Balance at 1 January 2016	4,739	386	-	729	353	1,440	782	200
Funds received during the year	-	-	-	508	-	90	-	-
Funds disbursed during the year	(3,446)	-	-	(990)	-	-	(662)	-
Funds collected from the customers	6,943	-	-	-	68	1,759	66	-
Management fees and other operating expenses	(308)	(376)	-	(84)	(100)	(90)	(56)	-
Interest earned on funds	8	-	-	11	-	-	-	-
Fund transferred during the year	-	-	-	-	-	(2,331)	-	(200)
Balance at 31 December 2016	7,936	10	-	174	321	868	130	-
Balance at 1 January 2015	5,807	1	1,167	998	414	701	2,142	250
Funds received 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	6,087	1,620	-	-	12	1,967	145	-
Management fees and other operating expenses	(139)	(173)	(93)	(20)	(100)	-	(194)	-
Balance at 31 December 2015	4,778	1,448	396	782	326	2,668	2,256	250

KEY:

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

*The bank made restatement of opening balance for management funds accounts as at 01st January 2016. The variations of opening balances were noted after reconciliation made by the bank on transactions performed to the funds in previous years.

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.

