

2017

Annual Report



**TIB
DEVELOPMENT
BANK**
Your Partner for Growth



Supporting the value chain

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DEVELOPMENT FINANCING PIPE INDUSTRIES



**TIB
DEVELOPMENT
BANK**
Your Partner for Growth

Registered office

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

Physical address

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

Main bankers

Bank of Tanzania,
11884 Dar es Salaam
P.O. Box 2939,
Dar es Salaam, Tanzania.

TIB Corporate Bank Limited,

Mlimani City Branch,
P.O. Box 9102, Dar es Salaam, Tanzania.

NBC Limited

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

Auditors

Principal auditor:

The Controller and Auditor General,
National Audit Office,
Corner of Samora Avenue/Ohio Street,
P. O. Box 9080, Msasani Peninsula Area
Dar es Salaam, Tanzania.

Company Secretary

Crispin Mwebesa

P.O. Box 9373, Dar es Salaam.

Other contact details

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

Sub-contracted auditor

KPMG (Certified Public Accountants),
The Luminary
Plot No.574,Haile Selassie Road
P.O. Box 1160, Dar es Salaam, Tanzania.



INSTITUTIONAL MANDATE

TIB Development Bank is a development finance institution that is wholly owned by the Government of the United Republic of Tanzania (URT). The bank has been established and exists under the Companies Act, 2002 of the laws of Tanzania. The Government of the URT established TIB for the purpose of enhancing the process of bringing about economic growth in Tanzania through **development financing, particularly in the industrial, agro-processing, infrastructure, oil and gas, and services sectors.**

Since 2010 TIB has positioned its self as a development finance (DFI) that champions and often leads in development projects with a mandate to provide medium and long-term financing to both public and private sectors. In addition to long term lending TIB also provides specialized development financial services including credits to SMEs, advisory services, and fund administration services.

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 2017 as approved by the Board of Directors, on 21st June 2018.

Yours Faithfully


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

Chairman's statement



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

Introduction

It is my pleasure to present to you the Annual Report and Audited Financial Statements of the TIB Development Bank Limited, for the year ended December 2017, and also to confirm to you that the period was a success to the bank. Amidst to performance and impact presented in the Annual Report, the bank attained a number of constructive milestones in its journey to a substantive future.

Economic Outlook

Building on the success of the preceding year, the TIB's 2017 Annual Report also reflects 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 7.0%. Lower than estimated, revenues across the sector during 2017 led to a greater fiscal deficit than projected with 2.1% of GDP as compared to 3.7% of GDP in 2016. Government expenditure during 2017 was 20.7% below its target, though it was 8.4% above the 2016 fiscal year performance.

I feel privileged to present to you this Annual Report and the Financial Results of TIB Development Bank Limited for the year ended 31st December 2017.

Building on these macroeconomic indicators, the fiscal area is expected to expand noticeably in 2018, to 4.4% of GDP. Inflation was well contained at an average of 5.0% during 2017, aided by low food prices. The current account deficit narrowed to 2.5% of GDP in 2017, down from 4.2% in 2016, with the decline in imports more than offsetting the decline in exports. While the economic position is positive, largely under government control, during the 2017 period private sector involvement in the country's development continued to support the government's ambitious investment plans, be a source of finance and innovation, aimed at creating jobs for new entrants into the job market.

Social and Political Overview

I am pleased to report that the bank's accomplishments were largely attributed to a conducive operating environment and social setting. Tanzania continued to enjoy political stability throughout the year 2017. This has provided reassurance to both local and foreign investors to set up and operate businesses in Tanzania.

TIB's Strategic Response as Policy Bank

I am pleased to report that the primary objective of the Bank has continued to be on the growing of its loan book in a sustainable manner, while maintaining adequacy of its liquidity and capital as required by the Bank of Tanzania. During the year under review, the bank continued to record loss though to a lesser margin as compared to the previous year's loss. The loss was essentially attributed to impairment provisions resulting from measures taken by the bank to clean up its loan portfolio. To address this anomaly the bank intensified the process of cleaning up its balance sheet by instituting stringent measures to reduce its non-performance loans. In the year 2018, the bank expects to report a fairly good financial performance.

Notable Impacts

In addition to on-going activities within parameters of the bank's business environment, the risk framework provides the bank the flexibility to address pressing national issues and providing inputs to national strategic projects, as required by its Shareholders and the Ministry of Finance and Planning.

During the period under review, the Bank delivered on its strategies and programs by achieving most of its major performance targets while exercising its mandate to facilitate economic growth and development.

Furthermore, the Bank sustained its drive to align its direction to that of the Second National Five Year Development Plan (FYDP II) and redirecting financing towards industries and creating an enabling environment for the financed industries to carry out operations efficiently aimed at fostering backward and forward linkages in relevant economic value chains.

The Bank also contributed to support the government on its strategic projects through provision of technical inputs during negotiation with partners' earmarked for major infrastructure projects.

Appreciation

Each organization undergoes continuous evolution, to ensure long-term sustainability in a changing business environment. Although TIB has made some achievement in 2017, it will continue to evolve in the coming future and I am confident that it will be able to do so successfully as evidenced by the attained achievements in the period under review.

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 lastly 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 to make 2018 a very successful year.



Brig. Gen. (rtd) Mabula B. Mashauri
Interim Chairman of the Board of Directors
TIB Development Bank Limited

Managing Director's statement



Mr. Charles G. Singili
MANAGING DIRECTOR,
TIB DEVELOPMENT BANK

Introduction

Bank's performance and achievements for the year 2017, recorded an impressive performance across most of all operational areas. Growth was noted in both assets with a sizeable expansion in the client base during the year compared to preceding year.

Supporting implementation of the FYDP II

During the period under review, the bank continued to execute its mandate in line with financial requirement for effective implementation of FYDP II that required an innovative resource mobilization and financing strategy that goes beyond commonly known traditional source. In this regard, I am pleased to report that TIB played a role in presenting to the Government on how TIB can be used to provide alternative financing in order to enhance government development budget for financing a significant number of development projects thus supporting the government on financial resource mobilization.

On the ground of such strong support, the bank's strategy would be to complement government efforts to raise funds from international development financial institutions through access to specific lines of credit or collaborative joint finance arrangements in facilitating project preparations for a meaningful impact.

Overview of operating environment

Overall economic performance in 2017 was stronger than expected at the beginning of 2017. Data from the Bureau of Statistics indicates that Tanzania is expected to experience robust economic growth for the years to come underpinned by on-going infrastructure development and investment across the country.

Strong growth will be further strengthened by rising private consumption that is the largest contributor to GDP, together with significant improvement in financial inclusion attributed by the rise in usage of digital financial services, greater take up of insurance particularly health insurance and the increase in the number of people using formal banking services for their saving. The accelerated heavy infrastructure investment in railways, ports and road network aimed to easing goods and services delivery logistics will significantly contribute to the overall GDP growth.

I am glad to report that other key growth drivers in year under review which led to achieved performance resulted from the growth in construction (9.5%), mining and quarrying (24.3%), transport and storage (11.9%), information and communication (13.1%), water (10.0%), manufacturing (9.8%) and others (21.4%). Growth is expected to remain strong at 6.8% in 2018 making Tanzania one of the best performing economy in East Africa.

Lower than estimated, Revenues in the year under review led to a greater fiscal deficit than projected with 2.1% of GDP when compared to 3.7% of GDP in preceding year. Government expenditure was below its target at 20.7%, although 8.4% above 2016 fiscal year. Although the fiscal arrear is expected to expand considerably in 2018, to 4.4% of GDP, public debt levels are also estimated to remain maintainable which could reduce debt service cost. Inflation was contained at 5.0% during the year under review and given that it is expected to remain below 5% through 2018, this poses good signs that support credit growth and further stimulate economic growth for year ahead.

Highlights of year 2017 results

The bank recorded a loss before tax of TZS. 20,921 million in 2017 compared to the previous year's loss of TZS. 33,578 million. The substantial loss was fundamentally attributed to impairment provisions resulting from measures taken by the bank to clean up its loans portfolio. During 2017, the Bank was able to hold its net asset level at TZS. 760,741 million compared to TZS. 811,788 million recorded in 2016. The gross loan portfolio reached at TZS. 615,031 million in 2017 compared to TZS. 703,891 million recorded in 2016. Total assets decreased from TZS 811,788 million in 2016 to TZS 769,714 in 2017 reflecting a decrease of 6%. Loan disbursements for 2017 was TZS 4,053 million against TZS 98,701 million recorded in 2016; a decrease of 96%.

Within bank's setting, I am pleased to report that during 2017, the bank started to align its operations with the new mandate to spearhead industrialization while restructuring its balance sheet to focus on development financing. The potential across the country is huge and we look forward to capitalizing on the opportunities identified in the national development agenda to further support key national strategic sectors and inclusive growth.

Development Impact

Noting the challenges in financing development projects especially at Municipal level, I am glad to report that during the year under review, TIB continued with its determination of financing of development projects grounded on systematic yet effective approach. The approach entailed project preparation for both public and private sector led projects of which the outcome was to produce bankable projects that have attracted government own funding interest or other financiers such as pension funds.

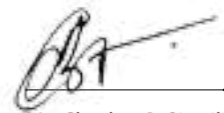
I am pleased to report that TIB's approach was in response to recognizing that many project promoters particularly on government projects had concepts that lacked in-depth analysis, especially financial analysis. To support this arrangement, the bank continued to assess projects and provide technical assistance funds to facilitate project preparation. This, together with the substantial financing the bank provides to businesses has allowed industries to flourish and support overall economic growth and

job creation. TIB continues to work towards achieving a more sustainable mechanism of funding project preparation, which could include other participants such other local DFIs and Government entities.

Much as we would like to deliver more impact and support government and private sector to execute developmental impact projects, the bank's limited capital poses a constraint limiting ability to fund larger strategic projects which would have a more positive impact on the economy, profitability and asset base of the bank.

Conclusion

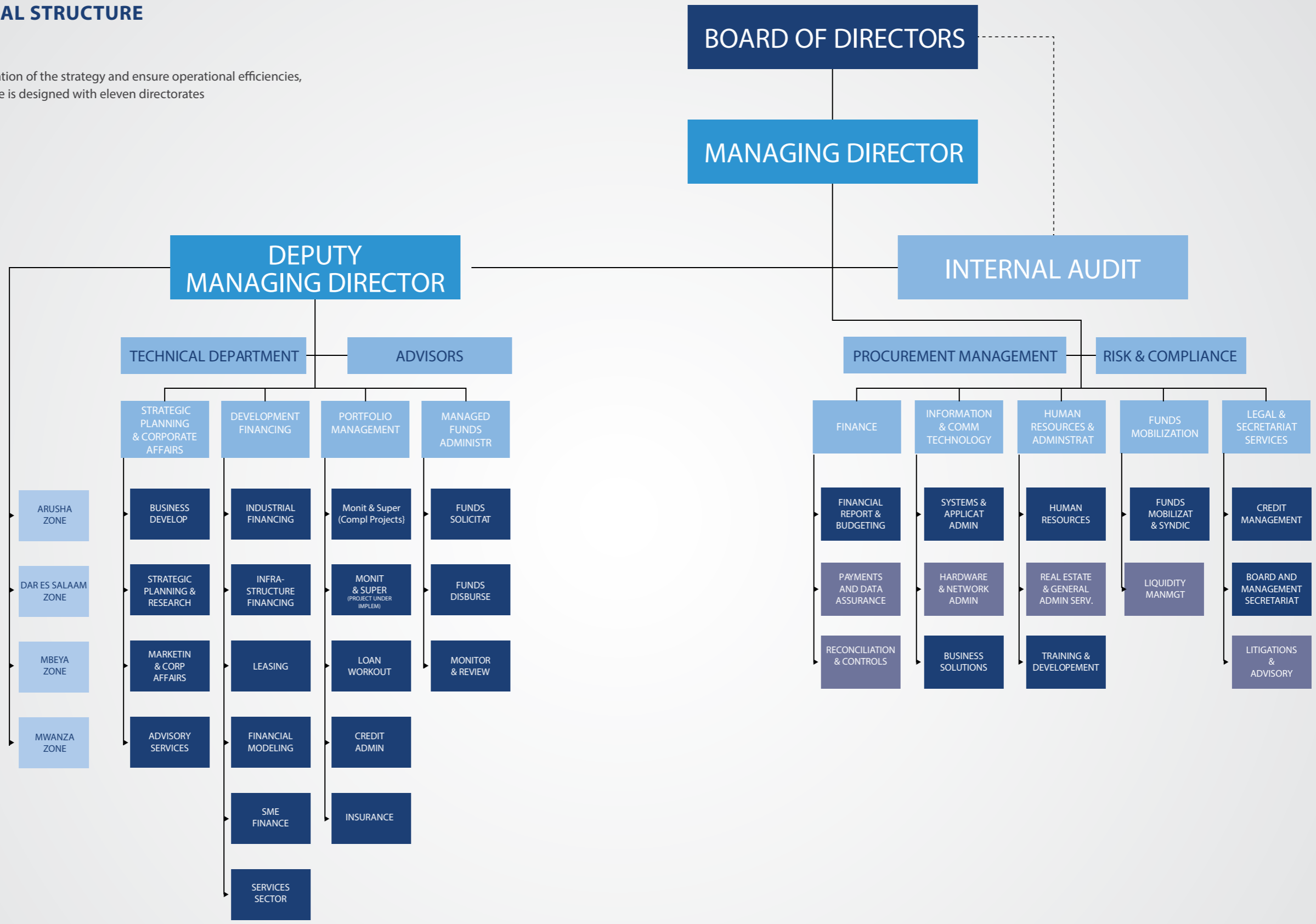
The successes recorded in 2017 have been driven by the dedication, hard work and skills of bank's management and staff. In this regard, I thank members of the bank's Board of Directors for their vision and the application of their invaluable skills, and insight. I am also grateful to all members of TIB group as well as management and members of staff of our three institutions for their dedication and effort.



Mr. Charles G. Singili
MANAGING DIRECTOR,
TIB DEVELOPMENT BANK

ORGANISATIONAL STRUCTURE

To support the implementation of the strategy and ensure operational efficiencies, the TIB's operating structure is designed with eleven directorates



BOARD OF DIRECTORS



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



Prof. Joseph R. Buchweishaija
Director of the Board



Dr. Arnold M. Kihaule
Director of the Board



Mr. Charles G. Singili
Managing Director



Mr. Crispin B. Mwebesa
Secretary of the Board



Ms. Rose J. Aiko
Director of the Board



Dr. Said S. Mzee
Director of the Board



Mr. Maduka P. Kessy
Director of the Board

EMPOWERING A NEW ERA
OF GAS TO POWER



Divisional Performance Reviews

STRATEGIC PLANNING & CORPORATE AFFAIRS



Mr. Patrick M. Mongella

Director, Strategic Planning & Corporate Affairs

In 2017, the Business Development department continued to focus on building a robust pipeline of projects for the bank's financing. During the year, the department worked on rebooting the bank's Technical Assistance Fund (TAF) instrument with the purpose of preparing projects to bankability and bringing them to readiness for financing. The department reviewed 37 project concepts which received the bank's technical assistance monies and worked together with their promoters in designing and establishing suitable implementation and financing structures. Furthermore, and in coordination with zonal offices, in 2017 the department also reviewed 20 new regional project concepts and guided them through processes of achieving bankability.

In the year under review, in partnership with the World Bank, a forum to sensitize Local

Government Authority (LGAs), and other various stakeholders, on the Public-Private Partnership (PPP) financing mechanism was structured and jointly held. The forum presented a desirable opportunity to increase visibility on the bank's financing products and, identify partners with whom TIB could work with to implement national projects.

In response to the bank's growing Non Performing Loan, the Advisory Services unit formed part of the working team to help contribute to the improving collection within the institution. Towards the end of 2017, deliberate steps to engage the market in an effort to better serve the development needs were undertaken.

Correspondingly, in the year under review, strategic planning and research continued to provide business intelligence to support measures on ascertaining strategic investment opportunities.

Research conceived and embarked was used to stimulate throughout the bank well-versed decision on projects looking for bank loaning facility. In addition to internal commitment, the department supported in reviewing financial structure on Bagamoyo port construction and its special economic zone and, technical input on alternative financing of FYDP II's projects for the Ministry of Finance and Planning.

Notable achievement during the 2017 includes organizing and management of various corporate events, participating in the 41st Dar es Salaam International Trade Fair (DITF), hosted 2017 SADC – DFRC Annual conference. Notably, 15 video documentaries showcasing success stories of the banks projects were prepared and already started to be aired in the national Television TBC1.

RISK AND COMPLIANCE

Mr. Julius B. Mukoji

Head, Risk and Compliance



The operations of the bank in the country are regulated and supervised by Bank of Tanzania. Regulations focuses on licensing, capital adequacy, liquidity, risk concentration, conduct of business as well as organizational and reporting requirements.

The bank went through a critical transition period prepared itself for delivering on government agenda of industrialization, but still experienced challenges in its portfolio quality and liquidity. The regulations and the diversity of our business model require us to identify, assess, measure, aggregate and manage our risks. Cross-risk analysis reviews are conducted across the bank to validate that sound risk management practices and a holistic awareness of risk exist.

The risk management department continued to advise and

supporting the Management and the Board concerning the adherence to material rules and regulations as well as acting to implement effective procedures for compliance with applicable material rules and regulations, and the setup of the corresponding controls. Reporting is being done to the Management, Board and other regulatory authorities on quarterly basis and on an ad hoc basis.

All material risk types, including credit risk, market risk, operational risk, liquidity risk, business risk and reputational risk, are being managed via risk management processes. Systems, processes and policies are critical components of our risk management capability. Management and the Board are provided with detailed analysis of the bank's portfolio and comprehensive assessment of its overall risk profile to serve as guide

in both operational and strategic decisions.

In year 2018 the department mandates is to provide an increased focus on holistic risk management and cross-risk oversight to allow the Management and the Board for more informed risk decision-making, improved risk reporting and greater accountability for risks. Drive key strategic cross-risk initiatives. Provide a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the bank (risk appetite, stress testing framework). Improving controls, training of bank staff on credit risk assessment, project financing and strengthen the loan monitoring and recovery. Strengthen risk culture in the bank and foster the implementation of consistent risk management standards.

DIRECTORATE OF DEVELOPMENT FINANCING PERFORMANCE



Mr. Lazaro N. Kilahala
Ag. Director, Development Financing

2017

The Directorate went through a major internal staff overhaul, in which the majority of the directorate employees were stationed under the directorate of Project Management

The fundamental responsibility of the Directorate of Development Finance within the bank is for project appraisal, structuring and advising 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).

In 2017, the Directorate went through a major internal staff overhaul, in which the majority of the directorate employees were stationed under the directorate of Project Management so as to assist with the bank's strategy of recoveries, collections, restructuring and improving loan portfolio position. As a result, the directorate did not issue as much loans as anticipated.

2018

We aim to reverse the performance of 2017 and issue more new loans

The appraisal process involves examining the project's financial, economic, technical, environmental, marketing, and management aspects as well as potential social impact. During this stage, detail project risks and sensitivity analyses are carried out to assess viability of the proposed project. Amongst the projects the directorate appraises include Infrastructure; Industrial; Small and Medium size Enterprises (SME); and Service Sector projects.

During 2018, we aim to reverse the performance of 2017 and issue more new loans. The bank is working closely with different Government agencies and private sector in financing projects that are within the bank's missions and objectives. Furthermore, the directorate aims at improving the staff's skills capacity on industrial sector knowledge, financial modeling and detail credit appraisal processes.

DIRECTORATE OF PORTFOLIO MANAGEMENT



Mr. Mansoor M. Baragama
Director, Portfolio Management

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 21 staff members.

The Portfolio Management Directorate monitors and supervises projects under implementation as well as completed projects. The directorate 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 all properties pledged by the borrowers 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.

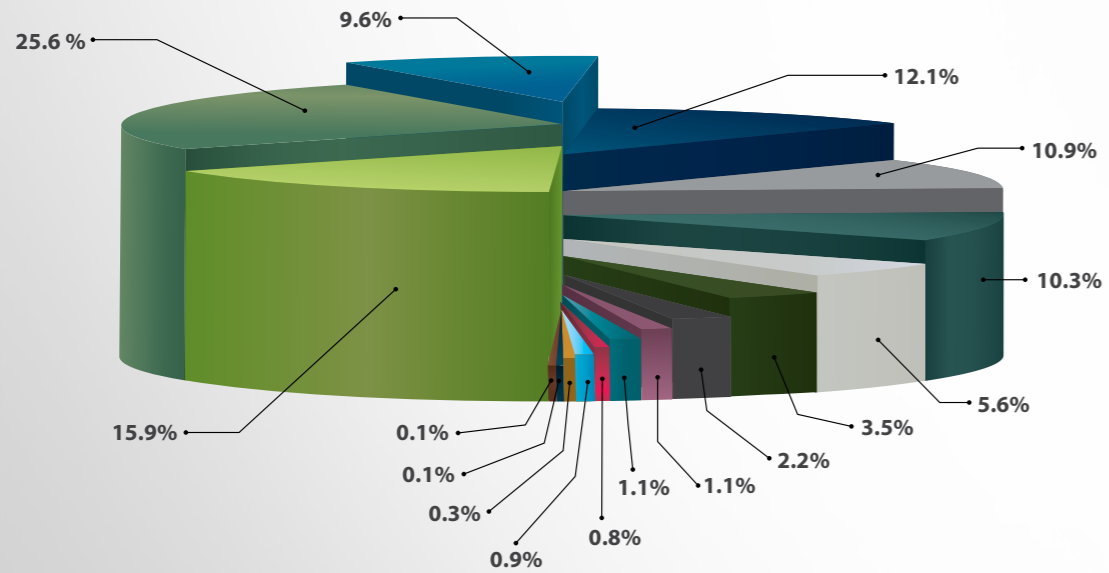
TZS 120.5B

Loan work out and recovery category had a total exposure

TZS 1.2B

The collection from charged off accounts for the year 2017

The TIB Loan portfolio sectorial perspective



- Gas
- Agriculture and Agroprocessing
- Manufacturing
- Mining and Quarrying
- Tourism, Hotels & Restaurants
- Real Estate
- Electricity
- Trade
- Education
- Transportation and Communication
- Financial Intermediaries
- Personal
- Building and Construction
- Other Services
- Leasing
- Fishing

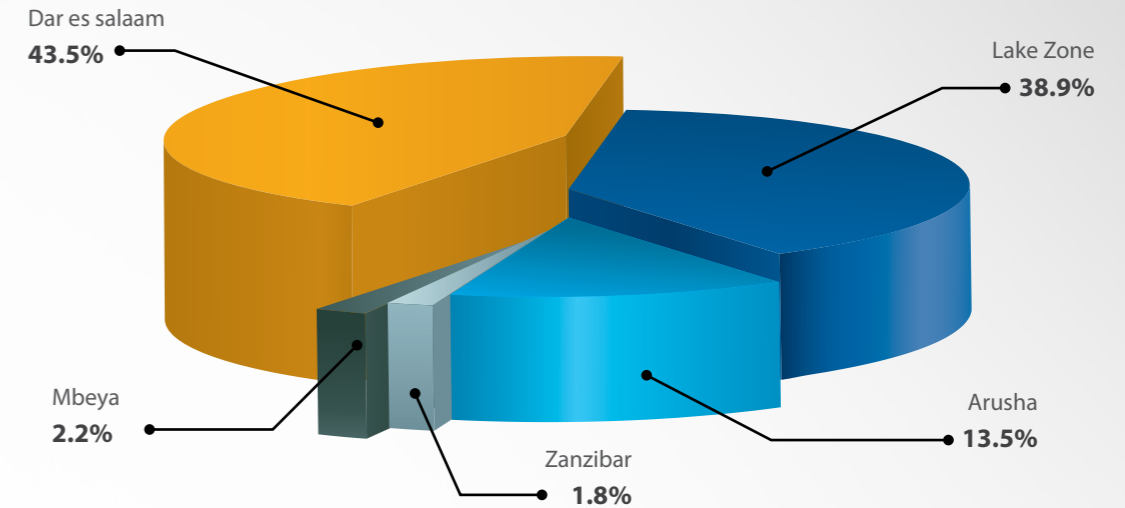
Monitoring and Supervision of Completed Projects Department

This department monitors the performance of all operational projects according to risk management Policy standards and 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 projects'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 accomodations into the system and providing portfolio performance reports to Management, Board of Directors, and Bank of Tanzania(BOT) among others.

The portfolio five zones



Loan Work out and Recovery Department

This department is responsible for turning around those distressful projects. Principally the department aimed at capacitating the struggling projects that were 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.

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 147 Million from the insurance services.

Overall Review

As at December 31st, 2017 the bank had an on – balance sheet gross portfolio amounting to TZS 615,031 million. The on balance sheet portfolio is comprised of 123 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 26 % of the entire portfolio, whereas private projects contribute 74 % of the same.

From sectorial perspective; TIB Loan portfolio comprised of the following sectors: Gas 15.9%; Agriculture and Agroprocessing 25.6 %; Manufacturing 9.6%; Mining and Quarrying 12.1%; Tourism, Hotels & Restaurants 10.9%; Real Estate 10.3%; Electricity 5.6%; Trade 3.5%; Education 2.2%; Transportation and Communication 1.1%; Financial Intermediaries 1.1%; Personal 0.8%; Building and Construction 0.9%; Other Services 0.3%; Leasing 0.1%; and Fishing 0.1%. 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 43.5%; Lake 38.9%; Arusha 13.5%; Zanzibar 1.8%; and Mbeya 2.2%.

By December 31st, 2017 the portfolio under Loan work out and recovery category had a total exposure of TZS 120.5 billion. The collection from charged off accounts for the year 2017 was TZS 1.2 billion compared to TZS 1.6 billion of 2016.

The Portfolio Management Directorate continued to face challenges such as promoters rush to Court to seek injunctions which forestall the bank from realizing the bank's money on time, diversion of funds by some of the promoters, delays in project implementation due to change in project concepts by promoters, some regulatory permits takes time to be fulfilled, and unsuccessful auctions due to current liquidity challenges in the market.

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 79.9 billion of the portfolio under recovery was locked in court cases. To avoid the long – widening 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.

MANAGED FUNDS

Ms. Zuwena S. Hemed
Officer In-Charge, Managed Funds



The main objective of the directorate is to administer the bank's agency Funds Portfolio and related services on behalf of the fund owners. This objective is in-line with Bank's Broad Goals and Strategic Objectives

This entails:-

- i) To promote the National economic growth through provision of development financing.
- ii) To promote development of local entrepreneurship for a well-diversified economy.
- iii) To promote good corporate governance and efficient corporate services.
- iv) To promote good number of funds we are currently managing.

What we do?

To achieve the above objectives the roles of the Managed Funds Directorate among others include:-

- (i) Solicitation of new business/funds to manage.
- (ii) Collection of non-interest income for the bank i.e. agency fees and management fees.
- (iii) Monitoring and supervision of projects to ensure that projects are implemented as per the intended purpose.
- (iv) Administering all disbursements to beneficiaries and ensure funds are utilized for the intended purposes.
- (v) Preparation and submission of periodic reports to principals/fund owners.

TZS 6 B.

Achievements in 2017
"Cumulative management fees 2009 - 2018"

Achievements in 2017

(1) Stimulated new products within the bank such as:

- Gas Financing**
- Renewable Energy Financing.**

(2) Cumulative management fees 2009-2018 is TZS 6 billion.

(3) The Directorate maintained good relationship with fund owners.

(4) TIB has participated in developmental projects which have direct impact to the country. The bank has managed eight (8) Funds in different sectors

S/N	Project Name	Name of Fund Owner (Principal)	Size of the Fund
1	Administration of the Rural Energy Funds	Rural Energy Agency (REA) in Tanzania	TZS 569.4 billion equivalent to USD 258.8 million
2	Administration of Tanzania Energy Development Access Project (TEDAP) Credit Line	World Bank –IDA through Rural Energy Agency (REA).	USD 23 million equivalent to TZS 35.6 billion
3	Agriculture Financing Window Fund	United Republic of Tanzania through Ministry of Finance and Planning	TZS 42 billion equivalent to USD 19 million
4	Credit Facility and Grants to Small Scale Miners in Tanzania	United Republic of Tanzania through Ministry of Minerals and Energy (MEM)	Credit Facility TZS 2.3 Billion equivalent to USD 1.0 million. Grants USD 500,000.00 and USD 3.00 million
5	Result Based Financing (RBF) Fund (Renewable Energy on Solar PV)	SNV Netherlands Development Organization.	EUR 2.2 million
6	FLORICULTURE Financing	Ministry of Finance and Bank of Tanzania (BOT)	TZS 50.74 billion
7	Food(meat) Processing Financing	Ministry of Finance and Bank of Tanzania (BOT)	TZS 14 billion
8	Revolving Fund Scheme for Supporting water distribution	Ministry of Water and Irrigation supported by French Development Agency(AFD)	EUR 2 million



Outlook for 2018

Participating in the rehabilitation, expansion of water and sanitation services. The Bank will finance water distribution channels and connecting equipment to the targeted water authorities.

Participating in the acceleration of solar water pumping through innovative financing. In this case, TIB DFI will be the Lender and fund manager on behalf of the WB on financing the targeted village-based Community Owned Water Supply Organizations (COWSOs)

FUNDS MOBILIZATION DIVISION



Mr. Samwel M. Minja
Officer In-Charge, Funds Mobilization

TZS 50B

Successfully disbursed
in December 2017

TZS 91.5B

The Government allocated in
the 2017/18 budget

Funds Mobilization Division is a front office division of the bank charged with the responsibility of liquidity and balance sheet management, fund mobilization, championing potential projects for syndication, trading in foreign exchange, risk and compliance management.

The Funds Mobilization Directorate successfully managed the bank's overall liquidity in 2017. The Directorate managed to ensure that the bank was properly funded to meet obligations that were due despite the liquidity challenge that was prevailing in the bank. The Directorate continued to engage the Government for additional

capital injection to enable the bank raise sufficient resources to finance envisaged development projects in line with the National Industrialization agenda. The Government allocated TZS 91.5 billion in the 2017/18 budget and successfully disbursed TZS 50 billion in December 2017, while promising to disburse the remaining TZS 41.5 billion before the end of the government financial year.

In line with bank's strategy to shift to long-term funding, the Directorate continued with the process for issuance of TZS 100 billion corporate bond and soliciting lines of credit.

DIRECTORATE OF HUMAN RESOURCES AND ADMINISTRATION



Ms. Stela M. Nngambi
Director, Human Resources and Administration

The Directorate of Human Resources and Administration comprises of three Departments of Human Resources, Administrative Services and, Training and Development. The main function of the directorate is to ensure the bank has the required number of employees with requisite skills and tools to enable the bank achieve its goals. In the year 2017, the Directorate continued to provide a strategic direction and advice related to bank-wide Human Resources initiatives including human capital development; recruitment; implementation of innovative corporate human resource policies and practices and; delivery of quality general administrative services.

During the year, the Directorate facilitated the revision of the bank's organization structure by re-aligning roles and merging some departments to reduce

duplication of work, strengthen operations and enhance efficiency. The Directorate in collaboration with the Strategic Planning and Corporate Affairs spearheaded and coordinated the process of changing the bank's performance management and planning system from the existing Management by Objectives (MBO) to Balanced Scorecard System. A group of twenty four (24) employees were trained and certified as Balanced Scorecard professionals to assist with implementation of the new system.

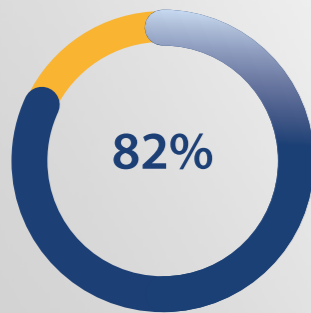
In efforts to build capacity of employees in the bank, the Directorate continued with implementation of the Moody's Certification training program and ensured development banking skills are imparted to all business related employees. In April 2017, the first batch of forty two (42) employees graduated from the

42 STAFF

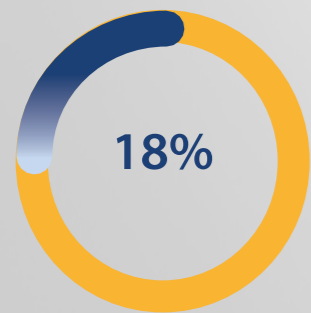
first batch graduated
from the Moody's
Certification training
program and became
Moody's Certified

26 STAFF

Started the
training in July
2017 and are
graduate in
May 2018.



The Bank workforce retained



The Bank workforce leaving the bank due to early retirements and resignations for career growth

program and became Moody's Certified whereas, the second batch of twenty six (26) employees started the training in July 2017 and are expected to graduate in May 2018. The Directorate successfully organized other short term courses including leadership development training in order to impart necessary knowledge and skills to employees in order to align them with new operational requirements. The bank partnered 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) to share knowledge and get subsidized training opportunities.

Efforts in employee engagement and retention continued and during the period, the bank retained Eighty Two percent (82%) of its workforce with majority leaving the bank due to early retirements and resignations for career growth. The Directorate will continue to focus on employee engagement initiatives in 2018 as they remain paramount for the bank to be able to retain its workforce and achieve its plans and objectives. The

Directorate is looking forward to coordinating and implementing the following projects;

1. Continue the review of business operations and enhancement of Zonal Offices to improve various operations and monitoring of bank's risk assets.
2. Managing implementation of the performance appraisal system using Balanced Scorecard management and planning system.
3. Reviewing the Schemes of Services, as a tool which will guide the bank on employees' career growth.
4. Recruitment and building of capacity of employees.
5. Continue partnering with regional DFI's for subsidized training opportunities.
6. Coordinating the opening of Dodoma Zonal Office.

INFORMATION AND COMMUNICATION TECHNOLOGY DIRECTORATE

Mr. Robert J. Ndaki

Director, Information and Communication Technology



The Information and Communication Technology (ICT) Directorate is a shared services across TIB Group (TIB Development Bank Ltd, TIB Corporate Bank Ltd, and TIB Rasilimali Ltd). It is responsible for preparing, implementing, monitoring, and evaluating ICT Strategic plan for TIB Group 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. Through effective and efficient use of ICT, the bank will be able to achieve its strategic goals and realize business benefits by:-

- i. Achieving operational excellence by ensuring reliable and efficient application of technology
- ii. Maintaining ICT- related risks at acceptable level
- iii. Optimizing costs of ICT services
- iv. 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.

i. Hardware and Network

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

ii. Systems and Applications

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

iii. E-Business solutions

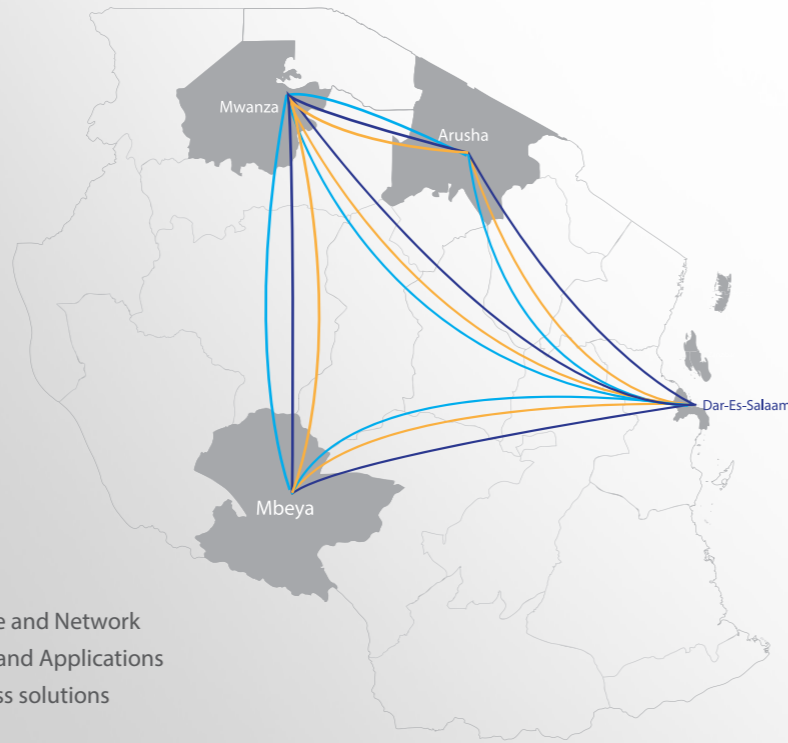
This department manages electronic business solutions used by the bank to support electronic channels related processes.

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.

Apart from technical support, ICT Directorate accomplished the following ICT projects: Integration of the Core banking system with Tanzania Revenue Authority to support Taxbank, TRA TISS validation and Electronic Revenue Collection System (eRCS) in order to comply with tax collection Government requirements. In addition, the Directorate implemented websites for TIB Corporate Bank Ltd and TIB Rasilimali Ltd.

Further, the Directorate enhanced the ATM services by customizing the Core banking system to support chip based cards. It also enhanced the internal security through deployment of various security solutions to safeguard the internal systems and data. Furthermore, the Directorate automated customer notification per customer transaction (SMS notification) to enhance customer confidence on security of their money in the current cybercrime market.



Directorate structure and department reviews

Directorate is a shared services across TIB Group (TIB Development Bank Ltd, TIB Corporate Bank Ltd, and TIB Rasilimali Ltd). It is responsible for preparing, implementing, monitoring, and evaluating ICT Strategic plan for TIB Group to achieve its business objectives.

LEGAL AND SECRETARIAT SERVICES



Mr. Crispin B. Mwebesa
Director, Legal and Secretariat services

The Directorate's main objectives continued to be provision of legal services to the Board and Management. The Services include handling of litigation, security management, legal advisory services, company secretarial services, and legal business support. Provision of the legal services is anchored on being proactive so as to assist the bank to concentrate on its core functions.

The Directorate has three departments namely:

Legal Advisory and Litigation:

This Department is responsible for:-

- a) Overseeing all litigations, receiverships/liquidations in the bank handled in-house and by outside retained lawyers/advocates/law firms.
- b) Preparation of legal services policy covering aspects of aspects of litigation and ensure adherence to the service level

agreements (SLAs) in respect of the matters assigned.

- c) Provision of advisory services on all labour related matters.
- d) 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 Service Level Agreements, and monitoring their performance etc.
- e) Provision of advisory services to all divisions, departments, and units in the bank.

During the period under consideration, the Department handled all the Court cases where the bank is a party. All such cases were handled professionally and the bank's interests were duly protected. Some of the cases were concluded and others are at different stages of prosecution.

Board and Management Secretarial Services

The Department is responsible for:

- a) Provision of secretarial services to all Board, Management, and other Committee meetings
- b) Maintaining the Board almanac and ensure implementation of Board and its Committees Charters; coordinate appointment, remuneration and all welfare of the Board of Directors
- c) Provisions of secretarial services to the bank's subsidiaries, namely TIB Rasilimali Limited
- d) Incorporation of special project vehicles (SPVs) for the projects in the pipeline

The Department successfully coordinated the Board and Management Committees Meetings. The Department disseminated the resolutions/decisions of the various forums herein before to the respective Members of staff for implementation.

Credit Management

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

- a) Conducting official searches in all registries, BRELA, Land Offices, TRA, etc.
- b) Preparation of all loan documentation including registration at the relevant registries
- c) Ensuring safe custody of all loan documentation specifically the security documents of the mortgaged assets
- d) 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;
- e) Perform all loan recovery processes – from issuing of demand letters, statutory notices, and enforcement of securities.
- f) Provision of business advisory services and transactional structures – from negotiations stage, preparation of MOUs, due diligence and KYC,

During the year ended 31st December, 2017, the Department carried out its activities as per the approved annual plan. The said activities included 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, and registration of the same at the various registries within the country.

INTERNAL AUDIT

Mr. Isaac. E. Kiputa Ag. Chief Internal Auditor



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 2017 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 2017 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. Also follow ups were made for the audit findings from Internal, external and BOT examiners and reported every quarter the implementations and status. The audit reports were sent to BOT after every quarter.

FINANCE DIVISION



Mr. Bernard R. Mono
Ag. Director, Finance

The directorate's main objective continued to be provision of Financial Accounting services to the Bank with main focus of communicating the bank's financial information to various stakeholders which is in compliance with International Financial Reporting Standards and other Regulatory requirements.

The directorate comprises of three departments namely; Payment and Data Assurance, Reporting and Budgeting and Reconciliation and Controls so as to support segregation of duties in performing its roles and hence promoting good control environment.

2017 Operations

The bank maintained good relationship with stakeholders and as a member of Association of African Development Financial Institution continue to implement the Prudential Standards, Guidelines and Rating System set by the association to its members so as to promote good corporate governance and address aspects of DFI operations within the region.

In preparation for the new Accounting Standard 'IFRS 9 – Financial Instruments' which became effective on 1 January 2018, The directorate has played an administrative role to the bank engaged a Project Consultant, Pricewaterhousecoopers Ltd to provide advice on the gap analysis, developing an impairment model and roadmap to the implementation of IFRS 9. The Consultant's report will enhance

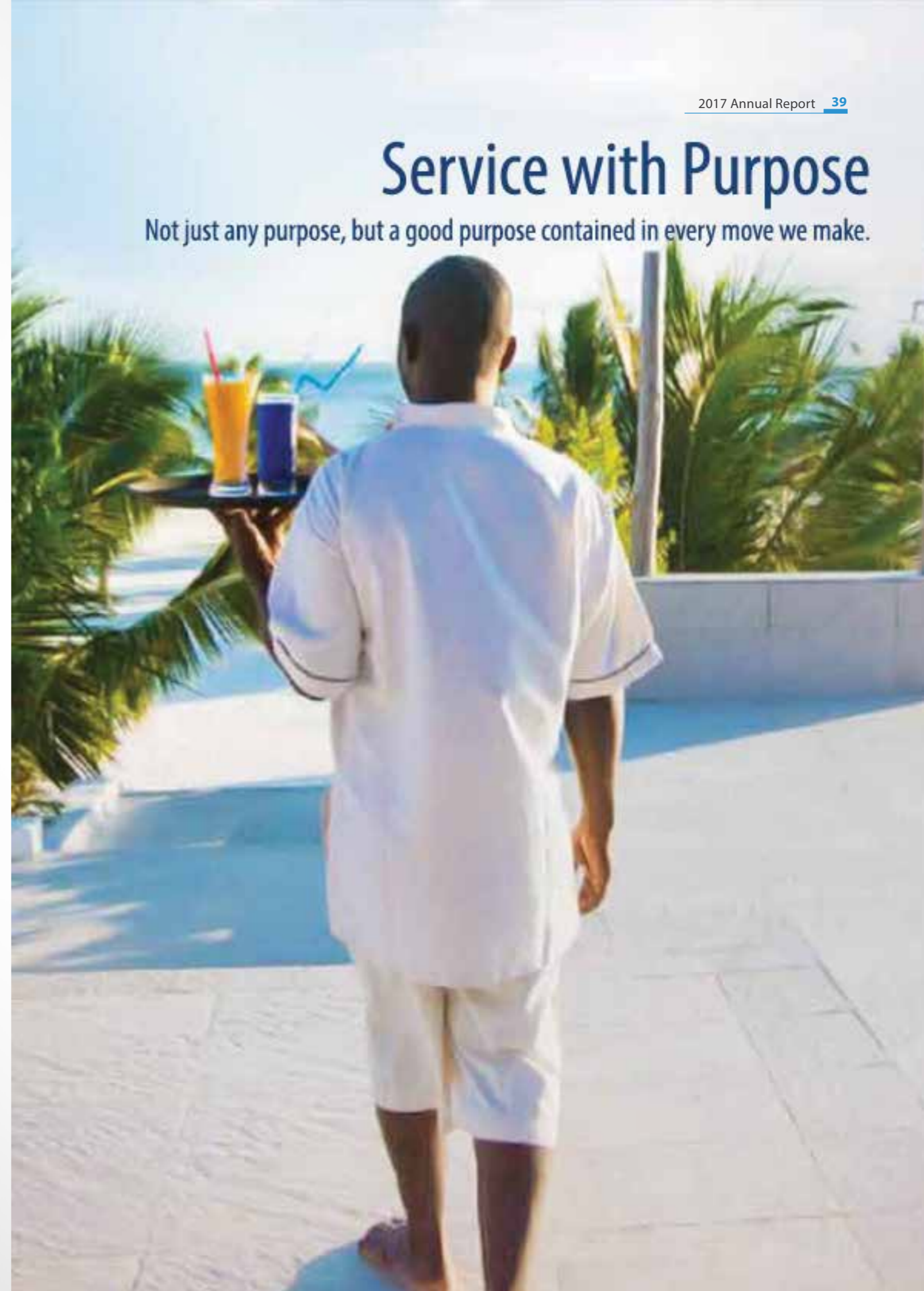
the Bank's ability to assess the expected credit losses (ECLs) on its credit portfolio. This will enable to make an informed lending decision.

The way forward

The directorate will continue to provide financial accounting services to the bank with the emphasis of complying with the International Financial Reporting standards, the BOT, TRA, AADFI and other Regulatory requirements.

Service with Purpose

Not just any purpose, but a good purpose contained in every move we make.



DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DEC 2017

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 2017 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 2017 were authorised for issue in accordance with a resolution of the Board of Directors dated 21st June, 2018.

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 (TIB CBL), 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 (TIB RSL) which is incorporated in Tanzania and licensed under Capital Markets and Securities Authority Act Cap 79, 1994 to deal with investment advisory, securities brokerage and other related services.

3. VISION AND MISSION

Vision statement:

To be the premier development financier in Tanzania by 2022.

Mission statement:

To provide affordable development financing for an inclusive, diversified, vibrant 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 activities 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;
- Provision of Technical support services to Small and Medium-Sized Enterprises (SMEs) e.g. through preparation of business plans and feasibility studies as well as by conducting training;
- Provision of Advisory services.

The activities of the Bank are discharged in collaboration with its subsidiaries.

The Development Financing Institution's (DFI) 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 CBL on the other hand provides strategic commercial banking services to both the parent company and TIB RSL, their clients, and to the general public.

TIB RSL 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.

This structure enables the group to offer a wide range of services to its customers and other stakeholders.

5. BUSINESS OBJECTIVE AND STRATEGIES

The Bank's strategic plan has detailed the objectives of the Bank and its subsidiaries and strategies to achieve the objectives. Overall, the objectives aim at creating a profitable and sustainable institution making positive economic contribution to the country.

One of the key strategic objective of the Bank in the current plan is to enhance customer and stakeholders satisfaction through the impact of projects financed by the Bank and its subsidiaries and generation of profit and value creation to the shareholders. Other objectives of the Bank and its subsidiaries are to increase access to development financing facilities, improving fund mobilization, improve quality and delivery of products and services ultimately increasing profitability of the Bank and its subsidiaries.

The Board of Directors has approved strategies to achieve this long term objective to create and preserve value of the Bank and its subsidiaries.

5. BUSINESS OBJECTIVE AND STRATEGIES (Continued)

The strategies implementation is monitored by the Board on quarterly basis with corrective measures taken. Currently the main focus of the Bank is to improve the quality of the loans already issued through close and proactive monitoring to ensure that implementation of the projects is completed as initially envisaged in order to receive repayments as planned.

Long term lending that the Bank is doing requires flexibility to adapt to the realities witnessed during projects implementation and as such the Bank adopts flexible but firm policies. Since some of the projects take long time to implement, the bank –re-assesses all business assumptions and aligns them to the reality at the time of completion in order to have realistic repayment plans.

6. 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 and Planning.

The Board is comprised of six (6) 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 while other Board members were appointed on 5th July 2016.

Table 1: Members of the current Board of Directors

S/No	Full Name	Position	Age	Qualification	Nationality	Date of appointment
1	Brig. Gen (rtd) Mabula B. Mashauri	Interim Board Chairman	66	BSc Engineering; Registered Engineer	Tanzanian	5 th July 2016
2	Mr. Maduka P. Kessy	Director	56	BA Economics, MSc.	Tanzanian	5 th July 2016
3	Dr. Said S. Mzee	Director	50	PhD in Finance	Tanzanian	5 th July 2016
4	Dr. Arnold M. Kihaule	Director	57	PhD (Economics and Finance)	Tanzanian	5 th July 2016
5	Ms. Rose J. Aiko	Director	44	Master of Arts (Economics)	Tanzanian	5 th July 2016
6	Prof. Joseph R.	Director	58	PhD in Engineering	Tanzanian	5 th July 2016
7	Mr. Charles G. Singili	Managing Director	60	BCOM – Accounting; CPA (T) - (Certified Public Accountant) NBAA registered.	Tanzanian	1 st May 2016

7. COMPANY SECRETARY

During the year Mr. Crispin Mwebesa, a qualified Lawyer and an admitted advocate of the High Court of Tanzania and subordinate courts, served as the company Secretary.

8. CORPORATE GOVERNANCE

The Board of Directors is comprised of six (6) 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 fifteen (15) times during the year and deliberated on a wide range of issues including overall bank strategy, policy approvals, staffing issues, budget approvals, financial reporting and reports from the Board committees. 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.

8. CORPORATE GOVERNANCE (Continued)

Board and Committee Meetings

The Board has three (3) committees namely Board Investment Committee (BIC), Board Audit and Risk Committee (BARC) and Board Human Resources Committee (BHRC). The number of meetings held by the Board and its committees is detailed in the table 2 below. Due to small number of members in the committees there were times members were co-opted to participate in other committee meetings.

Table 2: Number of Meetings attended by the current Board members

S/No	Name	Full Board	BIC	BARC	BHRC
	Total number of meeting held	15	5	6	8
1	Brig. Gen (rtd) Mabula B. Mashauri	15	1	-	1
2	Mr. Maduka P. Kessy	10	4	6	-
3	Dr. Said S. Mzee	13	-	6	8
4	Dr. Arnold M. Kihale	13	5	4	8
5	Ms. Rose J. Aiko	13	5	3	1
6	Prof. Joseph R. Buchweishaija	10	1	4	7
7	Mr. Charles G. Singili	15	5	6	7

Board Investment Committee

The function of the Committee 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 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.

Table 3: The Board Investment Committee Members

Name	Position	Nationality	Qualifications
Mr. Maduka P. Kessy	Member	Tanzanian	BA Economics, MSc. Development Planning
Dr. Arnold M. Kihale	Member	Tanzanian	PhD (Economics and Finance)
Ms. Rose J. Aiko	Member	Tanzanian	Master of Arts (Economics)

The Board Investment Committee reports to the main Board and met 5 times during the year and deliberated on investment related matters especially loans monitoring and progress reports. The committee also approved rescheduling, new loan requests and policy documents.

Board 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 members of the Board of 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 3: The current Human Resources and Remuneration Committee Members

Name	Position	Nationality	Qualification
Prof. Joseph R. Buchweishaija	Chairman	Tanzanian	PhD in Engineering
Dr. Arnold M. Kihale	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 8 times and deliberated on staff recruitments and placements as well as policy matters.

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; reviewing the appropriateness of the bank's risk management framework and its implementation; considering the appropriateness of the accounting policies and procedures adopted and reviewing the Bank's risk matrix and specific business controls.

8. CORPORATE GOVERNANCE (Continued)

Audit and Risk Committee (Continued)

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

Table 4: 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

The Audit and Risk Committee reports to Board of Directors and met 6 times during the year and deliberated on the internal and external auditors' reports, bank's performance and overall risk management.

9. 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 Group paid directors fees to all Board members amounted to TZS 243 million (2016: TZS 184 million). The Bank (DFI) paid TZS 94 million (2016: TZS 95 million).

Other Board expenses as well as compensation of management are shown on Note 37 of the financial statements.

10. CAPITAL STRUCTURE AND SHAREHOLDING

Capital structure

The Bank's capital structure for the year ended 31 December 2017 is shown below.

Table 6: Authorised, called up and fully paid

	2017 TZS 'Million	2016 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: 202,137,661 shares @ TZS 1,000) – (2016: 152,137,661 shares @ TZS 1,000).	202,138	152,138

Shareholding

The Group had two (2) shareholders during the year namely, Treasury Registrar (on behalf of the Government of Tanzania) and National Insurance Corporation of Tanzania Limited. 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	2017		%	2016		%
	Number of Shares held	Value (TZS Million)		Number of shares held	Value (TZS Million)	
Treasury Registrar (on behalf of the Government of Tanzania)	202,127,661	202,128	99.9999	152,127,661	152,128	99.99
National Insurance Corporation of Tanzania Ltd	10,000	10	0.0001	10,000	10	0.01
	202,137,661	202,138	100	152,137,661	152,138	100

None of the directors hold any share of the Bank.

As at the end of December 2017 the Bank's core capital stood at TZS 79,417 million which was above the regulatory minimum of TZS 50,000 million. However, the ratio of core capital to total risk weighted assets was 12% and was below the minimum regulatory requirement of 13%. The Bank has engaged the regulator and agreed on remedial measures and therefore there is no negative impact expected. In the meantime the bank is implementing strategies to improve the quality of loans which will release loan impairment provision and boost the capital. In addition, there is commitment of the shareholder to add the paid up capital of the bank.

As a long term lender, the Bank primarily depends on capital and other long term funding sources. Given Tanzania's relatively shallow market in long term funding sources, in the interim, the Bank depends on capital from the shareholder. The bank received an additional capital of TZS 50,000 million during the year in line with the Government's plan to appropriately capitalise the bank.

11. 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 2017, organisational structure of the Bank comprised of the following directorates/independent departments/units.

11. MANAGEMENT OF THE BANK (Continued)

Directorates:

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

Independent departments and units:

- Risk and Compliance;
- Internal Audit;
- Procurement Management Unit; and
- Technical Services Unit.

The Managing Director reports to the Board and in turn the Deputy Managing Director (DMD). Directorates responsible for business namely Strategic Planning and Corporate Affairs, Development Financing, Portfolio Management, Managed Funds and Technical Services Unit functionally report to the DMD.

During the year the post of DMD became vacant and the directorates supposed to report to DMD reported directly to the Managing Director. During the year the Board resolved to make changes in the Management team of the Bank by recruiting a new team. The recruitment process is now completed and some members have reported to work. The new team is expected to turn around the bank operations and improve profitability.

Internal Audit

The Bank has an independent internal audit department headed by the Chief Internal Auditor who functionally reports to the Board Audit and Risk Committee and administratively to the Managing Director.

12. ACCOUNTING POLICIES

The accounting policies of the Bank are approved by the Board of Directors and are subject to annual reviews. The 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).

13. PERFORMANCE FOR THE YEAR

The financial statements show that the Group made a loss of TZS 29,602 million before tax which is lower than a loss of TZS 35,620 million recorded in 2016. On the other hands the Group assets grew to TZS 958,675 million compared to TZS 956,186 million in 2016.

The performance of the Bank (DFI) shows that there was a loss of TZS 20,921 million before tax compared to a loss of TZS 33,578 million recorded in year 2016. The results have been largely driven by the high loan impairment provisions emanating from high non-performing loans. The bank is now implementing a Non-performing Loan (NPL) reduction strategy and by the end of 2018, most of the provisions are expected to be reversed as the quality of the loans will improve.

During the year, the Bank experienced balance sheet shrinkage whereby total assets decreased to TZS 760,741 million from TZS 811,788 million recorded in 2016.

Table 8: Summary of Performance (TZS Millions)

	2017	2016	Change	2017	2016	Change
	GROUP			BANK		
Net Interest income	59,754	57,713	4%	48,474	44,750	8%
Non-interest income	10,208	23,754	-57%	4,700	18,170	-74%
Impairment provisions	(49,282)	(67,428)	-27%	(47,182)	(67,227)	-30%
Operating expenses	(50,282)	(49,659)	1%	(26,913)	(29,271)	-8%
Profit(Loss) Before Tax	(29,602)	(35,620)	-17%	(20,921)	(33,578)	-38%
Cash, Bank, Money market investments	211,805	132,357	60%	135,177	80,553	68%
Loans	671,914	746,676	-10%	537,819	641,853	-16%
Other Assets	74,956	77,153	-3%	87,745	89,382	-2%
Total Assets	958,675	956,186	0%	760,741	811,788	-6%
Deposits	639,209	656,682	-3%	442,828	521,200	-15%
Long Term Borrowing	73,785	70,712	4%	73,785	70,712	4%
Other Liabilities	12,380	22,810	-46%	13,301	22,323	-40%
Shareholders' fund	233,301	205,982	13%	230,827	197,553	17%
Total Liabilities and Capital	958,675	956,186	0%	760,741	811,788	-6%

Detailed information on the financial performance is contained on pages 23 to 27 and the accompanied notes.

13. PERFORMANCE FOR THE YEAR (Continued)

The Bank used the following key indicators to measure achievement of the Bank's strategies. The Board of Directors continued to place importance in the management of loans with the view to reduce the non-performing loans which have been impacting the performance of the bank due to high impairment provisions. The Board is implementing a strategy to improve the quality of the Bank's loans and 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

Table 9: Key Performance Indicators

Indicator	Definition and Formula	GROUP			BANK		
		2017	2016	Change	2017	2016	Change
Return on Assets	Profit Before Tax/Average Total Assets	-3.1%	-4.0%	-22.7%	-2.7%	-4.5%	-40.9%
Return on Equity	Net Profit/Average Total Equity	-8.3%	-11.4%	-27.3%	-5.6%	-11.4%	-50.8%
Non-interest income to Gross income	Non-Interest Income/(Interest + non-interest Income)	8.0%	10.6%	-24.8%	4.6%	7.6%	-40.1%
Interest Expense to Interest Income	Interest Expense/Interest Income	49.4%	50.2%	-1.6%	50.8%	50.9%	-0.2%
Operating expenses to gross income	Operating Expenses/(interest + non-interest income)	39.2%	38.3%	2.3%	26.1%	29.7%	-12.2%
Non-interest expense to gross income	Non-interest expenses (including provisions)/(Interest + non-interest income)	77.6%	90.3%	-14.1%	71.8%	97.9%	-26.7%
Non-performing loans to total advances	Non-Performing Loans / Gross Loans	31.6%	32.8%	-3.7%	37.5%	37.0%	1.4%
Loans to total assets	Net Loans/Total Assets	70.1%	78.1%	-10.3%	70.7%	79.1%	-10.6%
Growth of Loans and Advances	(Current -prev. year net loans)/prev. year Net Loans	-10.0%	14.5%	-169.1%	-16.2%	19.2%	-184.4%
Growth of Assets	(Current -prev. year Total Assets)/prev. year Total Assets	0.3%	17.3%	-98.5%	-6.3%	17.8%	-135.3%
Tier 1 Capital	Core Capital/Risk Weighted Assets (incl. Off B. sheet)	8.7%	8.1%	6.8%	11.7%	10.2%	15.1%

14. THE FINANCIAL POSITION

The financial position of the Group shows that total assets grew slightly to TZS 958,675 million from TZS 956,186 million in 2016 mostly driven by growth in cash, bank balances and placements with other banks.

There was equally substantial growth in bank balances and placements with other banks mainly as a result of receipt of additional capital at the end of the year.

15. CASHFLOW AND LIQUIDITY MANAGEMENT

Cash flow

During the year most of the cash inflows resulted from loan repayments and additional capital received during the year. The bank also continued to mobilize deposits from the public and long term borrowing. The funds were mostly used to clear maturing funding obligations and other investments.

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. 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 (TIB CBL) will continue to fund the short term assets created by the subsidiary.

Liquidity Management

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

16. MARKET OVERVIEW

The operating environment remained challenging during the year but provided opportunities for growth to the Bank.

According to the Bank of Tanzania's Monetary Policy Statement issued in February 2018, the economy sustained strong real GDP growth at 6.8% in the first three quarters of 2017 led by growth in mining and quarrying (24.3%), information and communication (13.1%), transport and storage (11.9%), water (10.0%), manufacturing (9.8%) and construction (9.5%).

16. MARKET OVERVIEW (Continued)

On the other hand inflation rate is reported to have declined to 4.0% in December 2017 from 5% reported in December 2016. According to the Bank of Tanzania the improvement has been supported by improved food supply, stability in the value of Tanzanian shilling against the major currencies, improvement in domestic power supply and sustained prudence in monetary and fiscal policies.

During the year the Bank of Tanzania maintained an accommodative monetary policy stance thus providing much required liquidity in the market. The reduction of discount rate to 9% in August 2017 helped to keep inter-bank interest rates low with positive impact to the Bank's interest expenses.

Overall, the year witnessed significant fall in interest rates with the overall Treasury bill rate declining to 8.19% in December 2017 from 15.12% in December 2016. The trend is expected to be sustained in 2018 and for a long term lender like TIB, this is a positive movement because some of the long term projects are known to have struggled in the past due to high interest rates.

As for the exchange rate trend, the Bank of Tanzania website shows that the Tanzanian shilling closed the year at an exchange rate of TZS 2,230.07 against the US dollar, compared to TZS 2,172.62 per US dollar recorded at the end of 2016 translating to a 2.6% depreciation compared to 1.1% depreciation in 2016 (2015 exchange rate was TZS 2,148.52). The movements imply a relatively stable local currency which enabled the Bank to avoid negative impact on the foreign exchange movement. It is expected that the Tanzania Shilling will continue to be stable in 2018.

According to BOT, the banking sector remained stable having maintained average capital levels above the regulatory requirements and the industry's ratio of core capital to total risk weighted assets was 18.9% in December 2017 which was above the minimum regulatory requirement of 10%.

Regarding the quality of loans, the Monetary Policy statement shows that there was deterioration as the Non-Performing Loans ratio increased to 11.7% in December 2017 compared to 9.5% in December 2016. In response, the Bank of Tanzania directed banks with high NPLs ratio to formulate and implement strategies to reduce the ratio to a maximum of 5 percent, and introduced mandatory requirement for all banks and financial institutions to make use of credit reports of credit applicants during appraisals in order to increase the use of the existing credit reference system to reduce risks.

The Bank and its subsidiaries is already implementing NPL reduction strategies and there are already signs of positive outcomes; the plan is to halve the NPL ratio by the end of 2018.

The bank expects the operations in year 2018 to continue to be challenging on the back of the sustained high NPL ratio as implementation of some projects take longer than expected. In addition, the operationalization of the new International Financial Reporting Standard 9 (IFRS 9) is expected to affect the booking of new loans as banks tighten the approval process due to the

requirement to book credit impairment costs upfront based on the expected credit loss model contrary to the previous incurred loss model. The Bank of Tanzania issued a guidance note to banks for implementation of the IFRS 9 which is expected to provide relief with regard to impact to the capital adequacy resulting IFRS 9.

There are, however, great opportunities expected in 2018 with the envisaged infrastructure projects being implemented by the Government as well as the industrialization drive currently under way. According to the Bank of Tanzania, the economy is expected to grow by 7% (down from earlier projection of 7.1%) hence continued generation of business growth opportunities to the Bank. The growth is expected to be fuelled by the projected rebound of the global economy, expected favourable weather conditions, which may lead to good harvests, improvement in power supply from natural gas and hydropower plants, transportation services and implementation of infrastructural projects under the second Five Year Development Plan (FYDP II).

In addition, the Bank of Tanzania has stated that it will maintain the accommodative monetary policy stance aiming at stimulating further the recovery of growth of credit to the private sector and general support of various economic activities. This provides another positive indication on the operations of the banking sector in 2018.

17. FUTURE DEVELOPMENT PLANS

The Group will continue to focus on the Government priorities especially industrialization which goes hand in hand with the development of enabling infrastructure to facilitate the industrialization process. The Bank has therefore taken the initiative to incorporate the Five Year National Development Plan II (FYDP II) in its strategy and is expected to play a key role in the Government infrastructure development and industrialization programme.

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.

Following completion of its restructuring and installation of the new management team, the bank expects to re-start issuance of new loans during the year.

18. RESULTS AND DIVIDEND

During the year 2017, the Group recorded a loss after tax of TZS 18,200 million (2016: loss of TZS 24,573 million). The Bank's operations recorded a loss after tax of TZS 12,010 million (2016: loss of TZS 23,382 million). The Board of Directors does not recommend payment of dividend for the year ended 31 December 2017 because of unsatisfactory performance and the fact that the Group still requires more capital to build capacity to participate in bigger strategic industrial and enabling infrastructure projects per the new mandate of the Bank.

19. 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 of interest rate and foreign exchange risks. In addition, the Group is exposed to operational risk.

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

20. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2017 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.

21. 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 762 million compared to TZS 1,136 million in 2016. These fees are part of the Fees and commissions income shown in Note 8.

Details on the managed funds are included in Note 43.

22. SERIOUS PREJUDICIAL MATTER

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

23. 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.

24. RESOURCES

Motivated and skilled staff team is a key resource to the success of the Group. The Board will therefore ensure that the Group continues to attract and retain a motivated staff team while at the same time taking timely action against those who will be found to have acted unethically.

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.

Committed shareholder and other key stakeholders are also viewed to be an important resource to the Bank and its subsidiaries. Strategies are therefore in place to ensure that stakeholders' engagement continuously improve.

25. 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.

25. EMPLOYEES WELFARE (Continued)

Training

Training and development of staff capacity is one of the key priorities of the Bank as re-orientation to development banking continues. During the year the Bank spent TZS 369 million (Group TZS 642 million) to train staff on various programs compared to TZS 592 million spent in 2016 (Group TZS 873 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 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 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 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 based on pre-determined formula approved by the Board.

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 is provided. 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 38.

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 257 (2016: 290 employees) while that for the Bank was 137 (2016:165 employees).

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 0.5% of the monthly basic salaries it has paid to its staff for which all the dues were settled by end of December 2017.

26. GENDER PARITY

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind.

As at 31 December 2017 the Bank had the following distribution of employees by gender.

Table 10: Gender Parity

Gender	GROUP		BANK (DFI)	
	2017	2016	2017	2016
Male	154	178	88	107
Female	103	112	49	58
Total	257	290	137	165

27. RELATED PARTY TRANSACTIONS

Transactions with related parties during the year as well as balances outstanding from those transactions as at 31 December 2017 are disclosed in Note 37 to the financial statements.

28. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year (2016: Nil). In addition the Bank did not make any charitable donation during the year other than those made under corporate social responsibility as reported under item 31 of the directors' report.

29. ENVIRONMENTAL CONTROL

The Group 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 considered 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.

30. 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 41.

The existence of high interest rates during the year continued to impact the Bank's interest expenses in addition to once again forcing postponement of the corporate bond issue plans.

31. 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 the year, the Bank did made charitable donations amounting to TZS 6 million (2016: TZS 52 million).

32. RELATIONSHIP WITH STAKEHOLDERS

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

33. EVENTS AFTER REPORTING DATE

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

34. 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 31 December 2017.

BY ORDER OF THE BOARD



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

21/6/ 2018



Ms. Rose J. Aiko
Director

21/6/ 2018



Mr. Charles G. Singili
Managing Director

21/6/ 2018



Manufacturing

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31TH DECEMBER 2017

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 2017, 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 21st June, 2018 and signed on its behalf by:

BY ORDER OF THE BOARD



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

21/6/2018



Ms. Rose J. Aiko
Director

21/6/2018



Mr. Charles G. Singili
Managing Director

21/6/2018

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 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 **Bernard 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 2017 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.

Signed by:



Position: Ag. Director of Finance

NBAA Membership No.: GA 076

Date: 21st June, 2018



TIB CRAFTSMEN OF THE INTENDED FUTURE

INDEPENDENT AUDITOR'S REPORT

To: Chairman of the Board of Directors,
Building No 3, Mlimani City Office Park
Sam Nujoma Road,
P.O Box 9373,
Dar es Salaam.

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

Introduction

I have audited the consolidated and separate financial statements of TIB Development Bank Limited ("the Group"), set out on pages 22 to 90 which comprise the consolidated and separate statement of financial position as at 31 December 2017, 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.

Opinion

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 2017, and of its consolidated and separate financial performance and its consolidated 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), together with the ethical requirements that are relevant to my audit of the financial statements in Tanzania, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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 2017. 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 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 key audit matter	How the matter was addressed in our audit
Impairment loss on loans and advances to customers – TZS 47 billion	
Refer to Note 5 (K) on page 91 to 99 and Note 21 on page 109 to 111.	
<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> <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 concentrated on.</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 during the period under audit. 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 reasonability of management assumptions through among others performing retrospective review of prior year assumption. For specific allowances I independently assessed the appropriateness of provisioning methodologies and policies for a sample of loans across the portfolio selected on the basis of risk. An independent view was formed on the levels of provisions booked based on the detailed loan and counterparty information in the credit file. Calculations within a sample of discounted cash flow models were performed. For collective allowances we independently assessed the appropriateness of the modelling and methodology used by reference to the accounting standards and market practices and model calculations were tested through re-performance.

Other Information

The directors are responsible for the other information. The other information comprises General Information, Directors' Report, the Statement of Directors' Responsibilities and the Declaration of the Director of Finance. The other information does not include the consolidated and separate financial statements and my auditor's 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

As stated on page 16, 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.

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.

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

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 to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the Group 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.

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 to you based on my audit, that:

- In my opinion, proper accounting records have been kept by the Bank;
- The individual accounts are in agreement with the accounting records of the 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, and as included in Note 36 to the financial statements, the Bank has not complied with the minimum capital requirements as required by sections 19(2) of the Bank and Financial Institution Act, 2006 (Development Finance Regulation, 2011)
- Except for the matter 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:

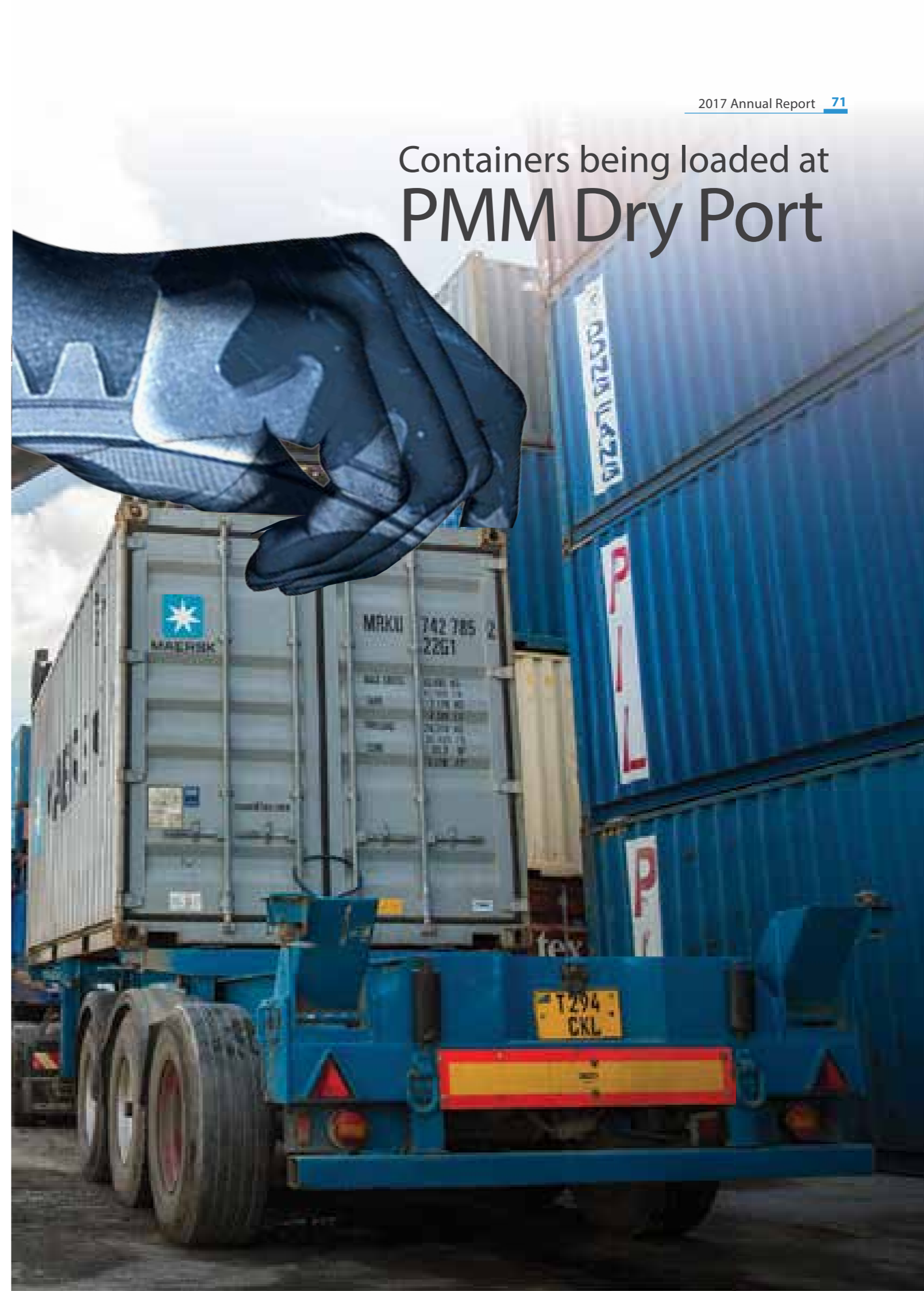
- Based on my audit, nothing has come to my attention that causes me to believe that the Group and Bank has not complied with the Public Procurement Act, 2011 and its regulations issued in 2013.



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



29th June, 2018



Containers being loaded at PMM Dry Port

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2017


	Notes	GROUP		BANK	
		2017	2016	2017	2016
		TZS Millions	TZS Millions	TZS Millions	TZS Millions
Interest and similar income	6	118,115	115,828	98,520	91,077
Interest and similar expense	7	(58,361)	(58,115)	(50,046)	(46,327)
Net interest income		59,754	57,713	48,474	44,750
Impairment losses on loans and advances	21	(49,282)	(67,428)	(47,182)	(67,227)
Net operating income after loan impairment		10,472	(9,715)	1,292	(22,477)
Fees, commissions and other income	8	7,184	9,844	2,897	5,671
Commission expenses		(28)	-	-	-
Net fees, commissions and other income		7,156	9,844	2,897	5,671
Foreign currency dealing and exchange income	9	1,726	2,320	596	206
Gains on value of shares and investments	10	119	9,957	-	10,660
Recoveries on charged off loans	11	1,207	1,633	1,207	1,633
Total operating income		20,680	14,039	5,992	(4,307)
Personnel expenses	12	26,852	27,774	13,443	16,775
Occupancy expenses	13	6,081	5,651	2,403	2,775
General and administration expenses	14	14,906	14,112	10,263	8,692
Depreciation of property and equipment	26	1,576	1,522	648	815
Amortization of leasehold improvements	27	624	440	36	90
Amortization of intangible assets	28	243	160	120	124
Total operating expenses		50,282	49,659	26,913	29,271
Profit(Loss) before tax		(29,602)	(35,620)	(20,921)	(33,578)
Income tax (expense)/credit	29	11,402	11,047	8,911	10,196
Profit(Loss) for the year		(18,200)	(24,573)	(12,010)	(23,382)
Other comprehensive income					
Re-measurement (losses) / gains on employment benefit obligations		(253)	(537)	(578)	(420)
Valuation of Investments		(6,148)	10,280	(6,158)	10,296
Income tax effect	29	1,920	(2,923)	2,021	(2,963)
Other comprehensive income, net of tax		(4,481)	6,820	(4,715)	6,913
Total comprehensive income for the year		(22,681)	(17,753)	(16,725)	(16,469)

The Notes on pages 78 to 168 form an integral part of these financial statements. Auditors' report is on pages 66 to 70.

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31ST DECEMBER 2017

	Notes	GROUP		BANK	
		2017	2016	2017	2016
		TZS Millions	TZS Millions	TZS Millions	TZS Millions
Assets					
Cash and balances with Bank of Tanzania	15	99,289	28,235	50,000	-
Balance with other banks	16	3,479	2,271	670	2,807
Placements with other banks	17	54,956	26,457	48,133	25,171
Financial assets held for trading	18	1,894	2,584	-	-
Government and Corporate securities held - to - maturity	19	52,187	72,810	36,374	52,575
Loans and advances	21	671,914	746,676	537,819	641,853
Accounts receivable and Prepayments	22	5,008	13,552	3,616	9,799
Equity investment-available for sale	23	15,707	21,372	15,638	21,288
Investment in subsidiaries	24	-	-	22,251	22,251
Investment property	25	22,160	22,160	22,160	22,160
Property and equipment	26	3,459	4,428	1,146	1,744
Leasehold improvements	27	2,036	2,470	87	123
Intangible assets	28	517	446	119	223
Tax recoverable	29	1,573	1,551	740	738
Deferred tax asset	29	24,496	11,174	21,988	11,056
Total assets		958,675	956,186	760,741	811,788
Liabilities and equity					
Deposits	30	639,209	656,682	442,828	521,200
Payables and Accruals	31	6,232	15,953	8,518	16,951
Deferred Income	32	1,457	2,456	1,044	2,175
Long-term Borrowing	33	73,785	70,712	73,785	70,712
Government Grants	34	467	835	418	617
Employment benefit liabilities	38	4,224	3,566	3,321	2,580
Total liabilities		725,374	750,204	529,914	614,235
Shareholders' equity					
Share capital	35	202,138	152,138	202,138	152,138
Advance towards share capital		5,281	5,281	5,281	5,281
Retained earnings		(100,769)	(60,893)	(99,512)	(65,836)
Non distributable reserve		116,468	94,774	113,524	92,263
General Reserve		791	986	-	-
Available-for-sale reserve		2,892	7,196	2,896	7,207
Technical assistance		6,500	6,500	6,500	6,500
Total equity		233,301	205,982	230,827	197,553
Total liabilities and equity		958,675	956,186	760,741	811,788

These financial statements were approved by the Board of Directors for issue on 21st June, 2018 and were signed on its behalf by:


Chairman


Managing Director

The Notes on pages 27 to 90 form an integral part of these financial statements. Auditors' report is on pages 78 to 168.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2017

	GROUP							Total
	Share capital	Retained earnings	*Non-distributable reserve	General Reserve	Available-for-sale reserve	Asset revaluation reserve	Technical assistance	

TZS Millions

2017

At 01 January	152,138	(60,893)	94,774	986	7,196	-	6,500	5,281	205,982
Profit for the year	-	(18,200)	-	-	-	-	-	-	(18,200)
Additional Capital	50,000	-	-	-	-	-	-	-	50,000
Other comprehensive income	-	(177)	-	-	(4,304)	-	-	-	(4,481)
Transfer to general reserve	-	195	-	(195)	-	-	-	-	-
Transfer to regulatory reserve	-	(21,694)	21,694	-	-	-	-	-	-
As at 31 December	202,138	(100,769)	116,468	791	2,892	-	6,500	5,281	233,301

2016

At 01 January	152,138	18,781	41,873	662	-	-	5,000	5,281	223,735
Profit for the year	-	(24,573)	-	-	-	-	-	-	(24,573)
Other comprehensive income	-	(376)	-	-	7,196	-	-	-	6,820
Transfer to Technical Assistance Fund	-	(1,500)	-	-	-	-	1,500	-	-
Transfer to General reserve	-	(324)	-	324	-	-	-	-	-
Transfer to regulatory reserve	-	(52,901)	52,901	-	-	-	-	-	-
As at 31 December	152,138	(60,893)	94,774	986	7,196	-	6,500	5,281	205,982

*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 and is excluded in calculation of the Bank's core capital

The Notes on pages 78 to 168 form an integral part of these financial statements. Auditors' report is on pages 66 to 70.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2017

	BANK							Total
	Share capital	Retained earnings	*Non-distributable reserve	General Reserve	Available-for-sale reserve	Asset revaluation reserve	Technical assistance	

TZS Millions

2017

At 01 January	152,138	(65,836)	92,263	-	7,207	-	6,500	5,281	197,553
Profit for the year	-	(12,010)	-	-	-	-	-	-	(12,010)
Additional Capital	50,000	-	-	-	-	-	-	-	50,000
Other comprehensive income	-	(405)	-	-	(4,311)	-	-	-	(4,716)
Transfer to Technical Assistance Fund	-	-	-	-	-	-	-	-	-
Transfer to general reserve	-	-	-	-	-	-	-	-	-
Transfer to regulatory reserve	-	(21,261)	21,261	-	-	-	-	-	-
At 31 December	202,138	(99,512)	113,524	-	2,896	-	6,500	5,281	230,827

2016

At 01 January	152,138	16,656	33,726	-	-	-	5,000	5,281	212,801
Profit for the year	-	(23,382)	-	-	-	-	-	-	(23,382)
Reserve on loans Transfers	-	1,221	-	-	-	-	-	-	1,221
Other Comprehensive Income	-	(294)	-	-	7,207	-	-	-	6,913
Transfer to Technical Assistance Fund	-	(1,500)	-	-	-	-	1,500	-	-
Transfer to regulatory reserve	-	(58,537)	58,537	-	-	-	-	-	-
At 31 December	152,138	(65,836)	92,263	-	7,207	-	6,500	5,281	197,553

The Notes on pages 78 to 168 form an integral part of these financial statements. Auditors' report is on pages 66 to 70.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	GROUP		BANK	
		2017 TZS Millions	2016 TZS Millions	2017 TZS Millions	2016 TZS Millions
Cash flow from operating activities					
Interest receipt	39	87,874	95,878	69,652	70,871
Interest payments	39	(66,048)	(52,776)	(59,490)	(40,717)
Proceeds from commissions and other income	39	9,784	10,359	3,441	5,306
Payments to employees and suppliers	39	(61,088)	(38,455)	(34,319)	(19,683)
Dividends received		202	271	86	117
Income tax paid	29	(22)	(3,746)	(2)	(2,918)
(Investments)/Repayments on longer placements		20,090	(14,347)	20	-
Net payments on statutory minimum reserve		1,446	(22,338)	-	-
(Investments)/Repayments on loans and advances	39	66,940	(138,536)	94,648	(145,474)
(Investments)/Repayments on debt securities		24,779	2,935	16,363	1,706
Proceeds (repayment) of deposits		(42,465)	153,489	(70,180)	109,365
Net cash flow generated from operations		41,492	(7,266)	20,219	(21,427)
Cash flow from investing activities					
Purchases of equipment	26	(640)	(1,961)	(21)	(966)
Purchases of intangible assets	28	(314)	(205)	(16)	(100)
Additional leasehold improvements	27	(190)	(261)	-	(103)
Proceeds on disposal	-	1	-	-	-
Proceeds from disposal of financial assets held for trading		810	206	-	-
Investments in Subsidiaries	24	-	-	-	(1,550)
Net cash flow used in investing activities		(334)	(2,220)	(37)	(2,719)
Cash flow from financing activities					
Proceeds from long term borrowing	33	5,593	21,830	5,593	21,830
Repayments of long term borrowing	33	(4,474)	(8,732)	(4,474)	(8,732)
Proceeds from disposal of available for sale investments	28	-	-	-	-
Capital Injection		50,000	-	50,000	-
Net cash flow from financing activities		51,147	13,098	51,119	13,098
Net Increase in cash and cash equivalents		92,305	3,612	71,301	(11,048)
Cash and cash equivalents					
At the beginning of the year		53,559	49,947	29,963	41,011
At the end of the year	20	145,864	53,559	101,264	29,963

The Notes on pages 78 to 168 form an integral part of these financial statements. Auditors' report is on pages 66 to 70.

Infrastructure Intergration & Development



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 comprise the Bank and its subsidiaries namely TIB Corporate Bank Limited and TIB Rasilimali Limited (together known as the "Group").

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

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). Details of the Group's accounting policies are included in Note 5.

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 Bank and its subsidiaries. All amounts have been rounded to the nearest million except where otherwise indicated.

d) Presentation of financial statements

The Bank and its subsidiaries present the 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.

(ii) Transactions eliminated on consolidation

Inter-company transactions, balances and any unrealised income and expenses arising from intra company transactions are eliminated on consolidation. 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 which are maintained off-the statement of financial position. Determination of whether the Bank controls such funds usually focuses 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 is recognised in the statement of profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group'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 42 – 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 2017 is included in the following notes:

- Note 5(K) - impairment of financial assets
- Note 18, Note 23 and Note 40- determination of fair value of financial instruments
- Note 21 – impairment test: key assumptions underlying recoverable amounts;
- Note 29 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used;
- Note 38 – measurement of employment benefit obligation; key actuarial assumptions:
- Note 42 – 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 2017, the following relevant Standards were in issue but not yet effective. Although there is an option for early adoption, the Group has not early adopted any standard.

The following standards are expected to have major impact to the Group's financial statements when they are finally adopted:

New standard or amendments	Effective for annual periods beginning on or after
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments	1 January 2018
• IFRS 16 leases	1 January 2019
• IFRIC 23 Uncertainty over Income Tax Treatments	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 Group.

IFRS 15 Revenue from contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRS 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 continuing to assess the impact of this standard in its financial statements covering presentation of some revenue and expenses, the timing and measurement of some revenue recognition as well as additional qualitative and quantitative disclosures. The bank does not expect a significant impact on adoption of this regulation.

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

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standard Board (IASB) issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

In October 2017, the IASB Issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 but will not early adopt the amendments. The Group is still finalising the impact on the opening balance of its equity as at 1st January 2018.

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. It eliminates the existing IAS 39 categories of Held to Maturity, Loans and Receivables and Available for Sale.

Business model assessment

Owing to the specificity of the products offered by the Group, it will make an assessment of the objective of the business model in which a financial asset is held at customer/project level since that is the way portfolio is managed and information is provided to management. Issues to be considered include policies and strategies on each product, how performance is evaluated and managers rewarded.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1st January 2018 as follows:

- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will continue to be measured at amortised cost under IFRS 9.
- Held-to-maturity investment securities measured at amortised cost under IAS 39 will also continue to be measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances
- Investment securities that are designated as at FVTPL under IAS 39 will in general continue to be measured at FVTPL under IFRS 9.
- The majority of the equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVTPL under IFRS 9

The Group is still assessing the impact of changes on the adoption of IFRS 9.

ii. Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement over how changes in economic factors affect Expected Credit Losses (ECLs), which will be determined on a probability-weighted basis.

Under IFRS 9, no impairment loss is recognised on equity investments. It requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

Measurement of ECLs

ECLs are probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are credit-impaired at the reporting date: the different between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments; the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive and;
- Financial guarantee contracts: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Financial assets that are credit-impairment are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Significant increase in credit risk.

Under IFRS 9, when determining whether the credit risk (i.e. Risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information. Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. Modifying the contractual terms of a financial instrument may also affect this assessment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the terms structures of the following variables:

- Probability of Default (PD)
- Loss given default (LGD); and
- Exposure at default (EAD),

These parameters will be derived from internally developed statistical models and other historical data that leverage on regulatory models. They will be adjusted to reflect forward-looking information as described below:

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comparing both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to change in the estimate of the associated PD. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group will estimate LGD parameters based on the history of recovery rates of claims against counterparties who have defaulted. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation and prepayments. The EAD of a financial asset will be the gross carrying amount at reporting date. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

IFRS 16 Leases

IFRS 16 was published in January 2016 which 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.

IFRIC 23 Uncertainty over Income Tax Treatments

The International Accounting Standard Board (IASB) issued IFRIC Interpretation 23 – Uncertainty over Income Tax treatment on 7 June 2017 which clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

The interpretation is effective for annual periods beginning on or after 1st January 2019 with an option for early adoption.

The Group has not chosen early adoption and at the moment it is still analysing the impact although there is no significant impact expected mainly due to the fact that the Group does not have any operations outside Tanzania

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Net interest income

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) Net 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Fee income from 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

Other income comprises 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 gains on disposals of non-financial assets are also 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 Group's right to receive the payment is established. Dividends are presented as other operating income based on the nature of investments currently held.

(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 Group as a public institution is required to contribute to the fund 0.5% of the monthly basic salaries. The Group remits the contributions on month to month basis and costs recognised in respective months.

• Defined benefit plan

The Group operates an unfunded lump sum benefit plan with effect from June 2013. The arrangement is unfunded thus, 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.

• 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

- 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 Group or 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.

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 Cost

Subsequent cost 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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) Leasehold improvements

These includes improvements made on leased Group 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 Group's intangible assets include the value of Computer software.

• Recognition and Measurement

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.

• Amortization

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

Description of items	Useful lives
Computer software	4 years

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

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

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

• Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

(I) Intangible assets (continued)

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.

(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 cash generating unit's (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 Group or 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

(ii) Measurement and classification (Continued)

- 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Measurement and classification (Continued)

• 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 Group or 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 Group or Bank, upon initial recognition, designates as available for sale.
- Those for which the Group or 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.

• 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 Group 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 33 (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 Group or Bank are recorded at the proceeds received, net of direct issue costs.

(iii) De-recognition

• 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 Group or 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 Group or Bank has transferred substantially all the risks and rewards of the asset, or
 - The Group or Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Measurement and classification (Continued)

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 de-recognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is 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 40.

(iv) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iv) Impairment (Continued)

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the 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.

(v) Offsetting financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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:

- 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.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 identified those projects are strategic project for national development and community support.

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
	TZS Millions			

6. INTEREST AND SIMILAR INCOME

Loans and advances	107,296	98,905	90,287	80,674
Government/Corporate securities - held to maturity	8,417	10,983	6,191	7,574
Placements	2,402	5,940	2,042	2,829
	118,115	115,828	98,520	91,077

7. INTEREST AND SIMILAR EXPENSE

Fixed deposits	37,237	34,866	31,506	30,168
Savings deposits	590	2,071	-	-
Notice accounts and borrowing	20,534	21,178	18,540	16,159
	58,361	58,115	50,046	46,327

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
	TZS Millions			

8. FEES, COMMISSIONS AND OTHER INCOME

Loans appraisal fee	1,649	1,959	856	982
SAAFI Administration fee	243	397	243	397
Income from Insurance brokerage	131	299	131	296
Commission on TEDAP	53	95	53	95
Fees from Flower Projects	166	257	166	257
Fees income from Commodity Import Support	85	100	85	100
Agency fees from Agricultural Window	4	70	4	70
Mining Projects Management fee	-	55	-	55
Results Based Management fee	142	81	142	81
Fees income from THB liquidation	69	82	69	82
Rental income	30	29	30	29
Write back over-accrued expenses	607	868	491	868
Restructuring fees on loans	45	19	45	19
Income From Grants	368	360	199	360
Dividend Income	202	271	86	117
TISS charges	82	98	-	-
Teller charges and commissions	707	576	-	-
Cash withdrawal charges	336	412	-	-
LC Commissions and collections	960	630	-	-
Guarantees commissions	207	730	207	296
ATM commission	32	34	-	-
Recovery from bad debtors	11	-	11	-
Loss from assets disposal	-	(2)	-	-
Dealing and Agency Commissions	898	-	-	-
Residual value of lease rentals	50	-	50	1
Other income	107	2,424	29	1,566
	7,184	9,844	2,897	5,671
Collection Commissions and charges	(28)	-	-	-
Net Fees, Commissions and Other income	7,156	9,844	2,897	5,671

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				
9. FOREIGN CURRENCY DEALING, GAINS ON VALUE OF SHARES AND EXCHANGE INCOME				
Foreign currency dealing (buying and selling of forex)	1,726	2,320	596	206
	1,726	2,320	596	206
10. GAINS ON VALUE OF SHARES AND INVESTMENTS				
Gain on Fair value of shares	119	(703)	-	-
Revaluation Gain on Land	-	10,660	-	10,660
	119	9,957	-	10,660
11. RECOVERIES FROM CHARGED OFF LOANS				
Recoveries from charged off loans	1,207	1,633	1,207	1,633
	1,207	1,633	1,207	1,633
12. PERSONNEL EXPENSES				
Wages and salaries	17,837	18,704	8,859	11,082
Social security costs	2,422	2,601	1,293	1,506
Skills and Development levy	944	1,105	488	716
Sub-total	21,203	22,410	10,640	13,304
Training cost	642	873	369	592
Staff passage and leave allowances	1,498	1,754	439	1,236
Staff medical insurance	908	717	481	436
Staff terminal benefit	125	52	108	40
Staff transfer/1st appointments	281	370	147	211
Office sundries	196	172	111	98
Employment benefits	1,690	1,085	1,006	611
Staff loan fair valuation expenses	232	215	141	213
Other employment costs	77	126	1	34
Sub-total	5,649	5,364	2,803	3,471
Total	26,852	27,774	13,443	16,775

The number of employees at the end of the year for the Group was 257 (2016:290) while that for the Bank was 137 (2016:165).

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				
13. OCCUPANCY COSTS				
Rent for Office premises	4,815	4,544	1,816	2,032
Repairs and maintenance bank premises and residential	595	495	324	411
Repairs and maintenance office Machine and automations	38	31	5	5
Repairs and maintenance office furniture & Equipment	210	162	25	93
Water and light	400	397	212	223
Insurance premium on furniture and equipment	10	21	8	10
Other occupancy cost (land rent)	13	1	13	1
	6,081	5,651	2,403	2,775

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				
14. GENERAL AND ADMINISTRATION EXPENSES				
Auditors' remuneration	372	429	240	230
Directors' emoluments	243	184	94	95
Board of Directors expenses	371	316	169	173
Correspondent Bank and SWIFT Charges	117	408	9	4
Communication costs	725	650	335	479
Travelling and accommodation	458	587	310	433
Local authority service charges	84	360	57	98
Insurance cost	1,348	1,150	799	720
Marketing and advertising cost	654	1,136	180	531
Grant expenses	-	-	671	-
Printing, consumables and stationeries	367	420	176	213
Repairs and fuel motor vehicles	1,113	669	297	241
Security cost	649	629	161	200
Umoja switch expenses	196	214	-	-
System management fees and licence	829	973	301	605
Consultancy expenses	829	456	650	306
Regional integration costs	52	11	52	11
Subscription and contribution	148	111	98	86
Provisions on sundry receivables	4,387	3,450	4,407	3,450
Written off Assets (other than loans)	(77)	192	-	-
Tuico and Workers council expenses	19	19	3	13
Borrowing costs	721	701	595	700
Excise duty	44	125	44	38
VAT expenses	308	-	308	-
Expenses on loan recovery	11	51	11	51
Loss on disposal of fixed assets	18	-	18	-
Interest on late payment of withholding tax	331	-	264	-
Other operating expenses	589	871	14	15
	14,906	14,112	10,263	8,692

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				
15. CASH AND BALANCES WITH BANK OF TANZANIA Cash				
Cash in hand-Local currency	2,865	1,746	-	-
Cash in hand-Foreign currency	1,801	949	-	-
	4,666	2,695	-	-
Balance with Bank of Tanzania				
Balance in local currency	50,962	1,170	50,000	-
Balance in foreign currency	20,769	32	-	-
	71,731	1,202	50,000	-
Statutory Minimum Reserve	22,892	24,338	-	-
	99,289	28,235	50,000	-
16. BALANCE WITH OTHER BANKS				
Balance in local currency	1,801	1,169	396	2,704
Balance in foreign currency	1,678	1,102	274	103
	3,479	2,271	670	2,807
17. PLACEMENTS WITH OTHER BANKS				
Maturity period within three months	53,299	24,737	48,080	24,737
Interest receivable within 3 months	835	414	53	414
Maturity period of more than three months	822	1,306	-	20
	54,956	26,457	48,133	25,171
18. FINANCIAL INVESTMENT HELD - FOR TRADING				
The financial investments held-for-trading includes shares held by Rasilimali Limited (a subsidiary company) for trading purposes. The market values of respective shares as at 31 December 2017 and 2016 are as hereunder:				
Financial Sector	100	177	-	-
Manufacturing Sector	1,595	2,119	-	-
Other Sectors	199	288	-	-
	1,894	2,584	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

19. GOVERNMENT AND CORPORATE SECURITIES HELD - TO - MATURITY

Treasury bills-held to maturity

Maturity period within three months	11,207	20,726	2,339	417
Interest receivable within three months	647	-	122	74
Maturity of over three months	5,567	6,080	-	5,752
Interest receivable over three months	-	-	-	328
	17,421	28,806	2,461	6,571

Treasury bonds-held to maturity

Maturity period within three months	-	1,514	-	1,514
Interest receivable over three months	958	-	961	927
Maturity period within two years	18,224	36,111	18,224	35,184
Maturity period above two years	15,584	8,379	14,728	8,379
	34,766	46,004	33,913	46,004
Total	52,187	72,810	36,374	52,575

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 hold them to maturity. As at year end, a total of TZS 35,291 billion were pledged as collateral, for short term inter-bank borrowing.

20. CASH AND CASH EQUIVALENTS

Cash	4,666	2,695	-	-
Balances with Bank of Tanzania	71,731	1,202	50,000	-
Balance with other banks	3,479	2,271	670	2,807
Placements with other banks	54,134	25,151	48,133	25,151
Government securities held to maturity within 3 months	11,854	22,240	2,461	2,005
	145,864	53,559	101,264	29,963

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.

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

21. LOANS AND ADVANCES

Advances to customers (gross)	669,081	753,134	540,666	654,487
Accrued interest receivable	71,192	44,661	69,481	44,403
	740,273	797,795	610,147	698,890
Less: Allowances for losses on loans and advances	(78,315)	(61,398)	(75,937)	(61,103)
Advances to customers net	661,958	736,397	534,210	637,787
Loans and Advances to staff	11,287	11,200	4,880	4,994
Accrued interest on staff loans	12	14	5	7
Staff loans fair value provisions	(1,343)	(935)	(1,276)	(935)
Net loans and advances	671,914	746,676	537,819	641,853
Gross Loans				
Advances to Customers (gross)	669,081	753,134	540,666	654,487
Loans and Advances to Staff	11,287	11,200	4,880	4,994
Accrued interest receivable (customers)	71,192	44,661	69,481	44,403
Accrued interest on staff loans	12	14	5	7
Total Gross Loans	751,572	809,009	615,032	703,891

Out of the total loans and advances issued by the bank an amount equivalent to TZS 299,472 million is denominated in foreign currencies (2016: TZS 394,124 million)

Movement in allowance for impairment losses on loans and advances:

At 01 January	61,398	17,991	61,103	17,897
Charge for the year	49,282	67,428	47,182	67,227
Charged off and written-off loans	(32,365)	(24,021)	(32,348)	(24,021)
At 31 December	78,315	61,398	75,937	61,103

Non - performing loans

Non-performing loans and advances for the Group amounted to TZS 237,345 million equivalent to 31.6% while for the Bank it amounted to TZS 230,670 million equivalent to 37.5%. The Group NPLs in previous year amounted to TZS 265,375 million equivalent to 32.8% while the Bank's NPLs amounted to TZS 260,232 million equivalent to 37.0%. In the opinion of directors credit enhancement in respect of these loans and advances fair values are TZS 315,681 million (2016: TZS 396,971 million) and such collaterals the Bank has the right to sell.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

21. LOANS AND ADVANCES (Continued)

Lending concentration

Economic sector risk concentrations within the customers loan and advances portfolio as at 31st December 2017 and 2016 were as follows:

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
Agriculture and Agro processing	165,337	155,877	157,184	149,452
Oil Company and Gas	100,983	195,478	97,956	195,478
Electricity	34,157	35,417	34,157	35,417
Manufacturing	77,594	87,991	59,056	74,448
Real Estate	63,218	58,954	63,218	58,954
Building ,Construction	11,483	4,505	5,346	4,505
Transport and communication	12,132	9,569	6,592	9,331
Tourism and Forestry	19,937	49,950	19,937	49,950
Trade	95,674	69,602	21,275	19,993
Mining and Quarrying	75,056	65,203	74,703	65,203
Education and Health	14,894	11,975	13,615	11,975
Hotel & Restaurants	47,457	14,680	47,360	12,512
Financial Intermediaries	12,143	8,087	7,071	6,038
Leasing	607	1,489	607	1,489
Individuals and SMEs	15,445	29,340	4,934	5,021
Fishing	1,251	391	376	391
Other Services	4,204	10,501	1,645	3,734
	751,572	809,009	615,032	703,891

	Exposure Impairment	Impairment	Suspended Interest	Exposure Impairment	Impairment	Suspended Interest
2017			2016			

21. LOANS AND ADVANCES (Continued)

GROUP

Current and Especially Mentioned	514,230	520	-	542,388	1,232	-
Substandard	34,223	13,870	1,712	86,258	13,821	4,828
Doubtful	42,273	6,595	5,544	93,518	16,540	7,323
Loss	160,846	24,254	23,250	86,845	29,805	11,463
Gross Loans	751,572	45,239	30,506	809,009	61,398	23,614

BANK

Current and Especially Mentioned	384,361	-	-	443,659	1,232	-
Substandard	32,566	13,804	1,703	86,258	13,821	4,789
Doubtful	38,032	5,757	5,429	87,192	16,540	7,122
Loss	160,072	23,524	23,150	86,782	29,510	11,463
Gross loans	615,031	43,085	30,282	703,891	61,103	23,374

Analysis of the loans maturity profile is contained in Note 41 dealing with risk management (in the liquidity risk section).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

22. ACCOUNTS RECEIVABLE AND PREPAYMENTS

Accounts receivable	12,422	15,210	10,808	11,475
Intercompany Receivables	-		1,192	1,857
Prepaid expenses	2,519	4,023	1,520	1,970
	14,941	19,233	13,520	15,302
Less: Allowances for losses	(9,933)	(5,681)	(9,904)	(5,503)
	5,008	13,552	3,616	9,799

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	5,503	2,050	5,503	2,050
Expenses for the year	4,436	3,628	4,407	3,450
(Recoveries)/Charge offs	(6)	3	(6)	3
At 31st December	9,933	5,681	9,904	5,503

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

Neither past due nor impaired				
Past due but not impaired	328	11,624	-	9,745
Less than 30 days	150	263	150	264
Within 30 - 60 days	234	49	234	49
Within 60 - 90 days	289	234	289	234
Over 90 days	11,421	3,040	11,327	3,040
	12,422	15,210	12,000	13,332

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

23. AVAILABLE - FOR - SALE INVESTMENTS

Unquoted shares of Tanzania Mortgage Refinance Company Limited(TMRC)	12,422	15,210	10,808	11,475
Unquoted shares of Umoja Switch Company	20	20	20	20
Unquoted shares of NORSAD Finance	10,670	14,207	10,670	14,207
Preference shares of NORSAD Finance	2,492	4,709	2,492	4,709
Unquoted corporate bond	69	84		
Total	15,707	21,372	15,638	21,288

Valuation of Norsad Finance Limited

Fair Value of TIB Investments	13,162	18,916	13,162	18,916
Historical Value	(19,424)	(9,394)	(19,424)	(9,522)
Gain (Loss)	(6,262)	9,522	(6,262)	9,394

Valuation of TMRC Limited

Fair Value of TIB Investments	2,456	2,352	2,456	2,352
Historical Value	(2,352)	(1,450)	(2,352)	(1,450)
Gain (Loss)	104	902	104	902

Bond Valuation

Fair Value of Rasilimali Investments	69	84	-	-
Historical Value	(59)	(100)	-	-
Gain (Loss)	10	(16)	-	-

The Bank holds unquoted equity shares in the Companies listed above. The amounts of investments are recorded at market value following their valuation by professional valuers at the end of the year following the same valuation at the end of last year. As it was the case in previous year, the Group and Bank did not make any additional investment during the year in equity investments available for sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

24. INVESTMENT IN SUBSIDIARY

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

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 did not make any additional investment in subsidiaries (2016: 1,550 million).

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

25. INVESTMENT PROPERTY

At 1 January	22,160	11,500	22,160	11,500
Revaluation Gain	-	10,660	-	10,660
As at 31st December	22,160	22,160	22,160	22,160

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 policy of the Bank is to maintain the investments at market value. The policy provides that external independent valuation will be done every five years or earlier when necessary. Internal professional valuers prepare valuation in years where external valuers have not been engaged but any significant market change will warrant engagement of external valuer. An assessment made by internal professional valuer confirmed that the value obtained from revaluation of these properties by independent professional valuer namely Lloyd Jones at the end of 2016 is still valid and there has not been any changes warranting to report a different figure.

	Buildings	Motor vehicles	Machinery and automation	IT Equipment	Furniture and equipment	Total
GROUP						

26. PROPERTY AND EQUIPMENT

2017

Cost

At 01 st January	252	2,965	1,093	3,553	2,270	10,133
Additions	-	280	-	243	117	640
Disposal	-	-	(101)	(125)	(104)	(330)
At 31st December	252	3,245	992	3,671	2,283	10,443

Depreciation

At 01 st January	201	1,970	321	2,195	1,018	5,705
Disposal	-	-	(101)	(122)	(74)	(297)
Charge for the year	10	360	20	656	530	1,576
At 31st December	211	2,330	240	2,729	1,474	6,984

Net book value

At 31st December	41	915	752	942	809	3,459
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2016

Cost

At 01 st January	252	2,961	1,078	2,152	1,731	8,174
Additions	-	4	15	1,401	541	1,961
Disposal	-	-	-	-	(2)	(2)
At 31st December	252	2,965	1,093	3,553	2,270	10,133

Depreciation

At 01 st January	191	1,586	281	1,556	569	4,183
Charge for the year	10	384	40	639	449	1,522
At 31st December	201	1,970	321	2,195	1,018	5,705

Net book value

At 31st December	51	995	772	1,358	1,252	4,428
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No Property Plant and Equipment was placed as security to raise liabilities (2016: Nil)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	Buildings	Motor vehicles	Machinery and automation	IT Equipment	Furniture and equipment	Total
GROUP						

26. PROPERTY AND EQUIPMENT (Continued)

2017						
Cost						
At 01 st January	252	2,132	353	2,720	1,050	6,507
Additions	-	-	-	-	21	21
Transfer from CBL	-	-	-	-	62	62
Disposal	(101)	(125)	(104)	(330)		
At 31 st December	252	2,132	252	2,595	1,029	6,260
Depreciation						
At 01 st January	201	1,790	320	1,829	623	4,763
Transfer from CBL	-	-	-	-	26	26
Disposal	-	-	(101)	(122)	(100)	(323)
Charge for the year	10	147	20	336	135	648
At 31 st December	211	1,937	239	2,043	684	5,114
Net book value						
At 31 st December	41	195	13	552	345	1,146
2016						
Cost						
At 01 st January	252	2,132	338	1,854	1,065	5,641
Additions	-	-	16	887	63	966
Transfer to CBL	-	-	(1)	(21)	(78)	(100)
At 31 st December	252	2,132	353	2,720	1,050	6,507
Depreciation						
At 01 st January	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 st December	201	1,790	320	1,829	623	4,763
Net book value						
At 31 st December	51	342	33	891	427	1,744

No Property Plant and Equipment was placed as security to raise liabilities (2016: Nil)

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

27. LEASEHOLD IMPROVEMENTS

Cost				
At 1 st January	5,008	4,747	2,153	2,050
Additions	190	261	-	103
As at 31 st December	5,198	5,008	2,153	2,153
Amortisations				
At 1 st January	2,538	2,098	2,030	1,940
Amortisation during the year	624	440	36	90
As at 31 st December	3,162	2,538	2,066	2,030
Net book value				
As at 31 st December	2,036	2,470	87	123

28. INTANGIBLE ASSETS

Cost				
At 1 st January	3,323	3,118	2,973	3,096
Additions	314	205	16	100
Transfer to CBL	-	-	-	(223)
As at 31 st December	3,637	3,323	2,989	2,973
Amortisations				
At 1 st January	2,877	2,717	2,750	2,714
Amortisation during the year	243	160	120	124
Transfer to CBL	-	-	-	(88)
As at 31 st December	3,120	2,877	2,870	2,750
Net book value				
As at 31 st December	517	446	119	223

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

29. TAX

a) Tax expense

Current year income tax	-	2,216	-	2,215
Deferred tax liability/(asset)	(11,402)	(13,263)	(8,911)	(12,411)
	(11,402)	(11,047)	(8,911)	(10,196)

b) Reconciliation of tax expense to tax based on accounting profit:

Accounting profit before taxation	(29,602)	(35,620)	(20,921)	(33,578)
Tax applicable rate of 30%	(9081)	(10,686)	(6,276)	(10,073)
Effects of non-qualifying capital allowances	289	203	289	207
Permanently disallowed expenditure and income	422	104	422	79
(Under)/ over provision of Prior year taxes – Deferred	139	1,037	-	1,037
Under-provision of Prior year taxes -current	(3,346)	(1,445)	(3,346)	(1,446)
Permanent differences	175	-	-	-
Incomes not subject to tax	(260)	-	-	-
Tax (income)/expense	(11,402)	(11,047)	(8,911)	(10,196)

c) Deferred tax

Accelerated depreciation for tax purposes	(960)	(792)	(962)	(693)
Change in fair value of available for sale investment	(6,158)	11,542	(6,158)	10,177
Change in fair value of property investment	22,160	22,160	22,160	22,160
Re-measurement gains on employment benefits actuarial valuation	(251)	(537)	(578)	(420)
General provisions	(89,888)	(68,423)	(87,734)	(68,337)
Deferred tax assets as a result of tax losses	(6,894)	(1,455)	(357)	-
Gain on Foreign Exchange Revaluation	337	260	337	260
	(81,654)	(37,245)	(73,292)	(36,853)
Deferred tax (assets)/ liability thereon	(24,496)	(11,174)	(21,988)	(11,056)
	(24,496)	(11,174)	(21,988)	(11,056)
Less: opening deferred tax	(11,174)	(834)	(11,056)	(1,608)
Deferred tax (asset) / liability release	(13,322)	(10,340)	(10,932)	(9,448)

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

29. TAX (Continued)

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

Charged to profit or loss	(11,402)	13,263	(8,911)	(12,411)
Charged to other comprehensive income	(1,920)	2,923	(2,021)	2,963
	(13,322)	(10,340)	(10,932)	(9,448)

d) Tax recoverable

Tax payable brought forward	(1,551)	(21)	(738)	(35)
Tax charge for the year	-	2,216	-	2,215
Tax payments during the year	(22)	(3,746)	(2)	(2,918)
Tax (recoverable)/ Payable	(1,573)	(1,551)	(740)	(738)

30. DEPOSITS

Interest bearing deposits				
Customer accounts	366,602	328,280	203,895	248,432
Interest payable	8,664	-	6,388	15,270
Banks and other financial institutions	119,678	232,669	143,052	254,095
Interest payable	4,649	-	4,075	3,385
	499,593	560,949	357,410	521,182

Non-interest bearing deposits

Customer accounts	139,616	95,733	85,418	18
	639,209	656,682	442,828	521,200

Maturity Analysis

Payable on demand	177,706	18	89,096	18
With Maturity of 3 months or less	249,721	282,240	224,617	285,615
With Maturity over 3 months	211,779	374,424	129,115	235,567
	639,206	656,682	442,828	521,200

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

31. PAYABLES AND ACCRUALS

Accruals	758	3,693	758	2,231
Other liabilities	5,474	12,260	3,954	10,924
Intercompany Liability	-	-	3,806	3,796
	6,232	15,953	8,518	16,951

Movement in account payable

Carrying amount at the beginning of the period	15,953	6,291	16,951	8,681
Addition made during the period	6,400	13,542	1,634	12,150
Obligation honoured during the period	(15,514)	(2,889)	(9,576)	(2,889)
Amount reversed during the year	(607)	(991)	(491)	(991)
Carrying amount at the end of the period	6,232	15,953	8,518	16,951

32. DEFERRED INCOME

Deferred fees income on loans	1,446	2,455	1,044	2,175
Deferred income on guarantees fees	11	1	-	-
	1,457	2,456	1,044	2,175

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 amortised over the period of the facilities.

33. LONG TERM BORROWINGS

Principal Amount	72,751	69,760	72,751	69,760
Interest payable	1,034	952	1,034	952
	73,785	70,712	73,785	70,712

Movement in Long Term Borrowing

At the beginning of the period	70,712	56,123	70,712	56,123
New Loan facility	5,593	21,830	5,593	21,830
Interest accrued	5,178	5,107	5,178	5,107
Impact of exchange rate movement	2,286	1,514	2,286	1,514
Principal Repayments	(4,474)	(8,732)	(4,474)	(8,732)
Interest repayments	(5,510)	(5,130)	(5,510)	(5,130)
At the end of the period	73,785	70,712	73,785	70,712

During the year 2017 the bank received USD 2.5 million from a new provider of long term funds, being initial disbursement for the loan of USD 10 million entered into agreement with TIB Development Bank during the year. The loan is to be repaid in five and half years after grace period of one and half years; Principal repayment will start in November 2019. The bank maintained and continued to service interest on other two long term loan facilities, one from a regional housing financing DFI which provided the bank a line of credit of USD 10 million in year 2015 to be repaid in three years starting from January 2018. Another regional DFI provided a line of credit amounting to USD 20 million to be repaid in eight years after grace period of two years (principal repayments will start from March 2018). During the year the bank fully repaid its line of credit from another provider (the facility was originally USD 10 million and was to be repaid in three years starting (2015).

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

34. GOVERNMENT GRANTS

Capital Grants				
At the beginning of the period	835	157	617	157
Additions	-	1,038	-	820
Released to the statement of profit or loss	(368)	(360)	(199)	(360)
As at 31st December	467	835	418	617

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

35. SHARE CAPITAL

Authorised share capital				
The total authorised 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
Authorised, called up and fully paid				
202,137,661 ordinary shares of TZS 1,000 each (2016: 152,137,661 ordinary shares)	202,138	152,138	202,138	152,138
Advance towards share Capital	5,281	5,281	5,281	5,281

Shares in NORSAD Finance Limited, acquired by TIB at no consideration from the Government

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

36. REGULATORY CAPITAL

The Bank of Tanzania, as a regulator of the banking industry in Tanzania, has set among other measures, the rules and ratios to monitor adequacy of the 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's 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 and 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 to other stakeholders; and
- To maintain a strong capital base to support the development of the Group's business.

The Group and 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 Group and 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 capital level and returns.

The Group and Bank partially complied with minimum capital requirements as required by sections 16 and 17 of the Banking and Financial Institutions Act, 2006 and the Bank of Tanzania Capital Adequacy Regulations 2008. The Group core capital amounted to TZS 74,304 million while the total

capital amounted to TZS 75,095 million and were both above the required minimum of TZS 50,000 for the development financing institution. The Group's ratio of Core and total capital to risk weighted assets amounted to 9% compared to required minimum capital ratio of 13% and 15% respectively.

On the other hand the Bank's core capital and total capital amounted to TZS 79,417 million and was above the required minimum of TZS 50,000. The actual capital translated to core capital and total capital ratio of 12% which was below the required minimum of 13% and 15% respectively.

The bank has already engaged the regulator and agreed on the capital restoration plan and therefore there are no negative implications expected from the reported ratios. The bank has also engaged the regulator with regard to subsidiaries capital adequacy ratio and a separate capital restoration plan is in place.

The bank's capital is computed in accordance with these regulations as follows:

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
	TZS Millions			
Share capital	202,138	152,138	202,138	152,138
Retained earning	(100,769)	(60,893)	(99,512)	(65,836)
	101,369	91,245	102,626	86,302
Add:				
Capital Grant	467	835	418	617
Less:				
Prepaid expenses	2,519	4,023	1,520	1,970
Intangible assets	517	446	119	223
Deferred tax assets	24,496	11,174	21,988	11,056
	27,532	15,643	23,627	13,249
Core capital (Tier 1)	74,304	76,437	79,417	73,670
Add: Supplementary capital (Tier 2)	791	986	-	-
Tier 1 Capital & Tier 2 Capital	75,095	77,423	79,417	73,670
Required capital	50,000	50,000	50,000	50,000
Risk - weighted assets				
On financial position	708,599	807,107	596,202	624,331
Off financial position	148,103	135,514	81,253	96,818
Total risk - weighted assets	856,702	942,621	677,455	721,149

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
	TZS Millions			
Bank Ratios	Actual	Actual	Actual	Actual
Tier 1 (BoT Minimum 13%)	9%	8%	12%	10%
Tier 1 + Tier 2 (BoT Minimum 15%)	9%	8%	12%	10%

37. RELATED PARTY

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions and payments made on behalf of each other to be recovered later. The volumes of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
	TZS Millions			
GROUP				
a. Loans to Key management personnel				
At the beginning of the year	2,972	3,466	615	1,108
Loans issued during the year	679	244	120	244
Loan repayments during the year	(1,267)	(738)	(375)	(738)
As at the end of the year	2,384	2,972	360	614
b. Key management compensation				
Salaries and other short-term benefits	4,250	4,123	1,795	2,025
Contributions to Pension funds	478	594	228	279
Post-employment benefits	493	798	118	580
	5,221	5,515	2,141	2,884

Key management comprise of Managing Director, Directors and Independent Departmental Heads. Directors' remuneration

Made up of:

Directors' emoluments (Note 14)	243	184	94	95
	243	184	94	95

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
	TZS Millions			

37. RELATED PARTY DISCLOSURES (Continued)

c. Cash and short term funds

TIB Corporate Bank Limited	-	-	639	2,752
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d. Accounts Receivables

TIB Corporate Bank Limited	-	-	767	1,433
TIB Rasilimali Limited	-	-	425	426
As at the end of the year	-	-	1,192	1,859

e. Deposits:

At the beginning of the year	-	-	-	235
Deposits received during the year	-	-	-	-
Deposits repaid during the year	-	-	-	(235)
As at the end of the year	-	-	-	-

f. Interbank borrowings and deposits

TIB Corporate Bank Limited	-	-	78,808	37,086
As at the end of the year	-	-	78,808	37,086

g. Accounts Payable

TIB Corporate Bank Limited	-	-	3,781	3,787
TIB Rasilimali Limited	-	-	24	9
As at the end of the year	-	-	3,805	3,796

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

38. EMPLOYMENT BENEFIT OBLIGATION

The Group operates an unfunded lump sum Gratuity Agreement which (since it is unfunded) is 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 Group, 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 (KE2001-2003) mortality tables published by Kenya Institute of insurers for preretirement mortality. In the absence of similar table in Tanzania, this is considered to represent the trend in Tanzania.

Terminations (voluntary or resignation) are assumed to follow the Specimen Salaried Male/Female Similar

Schemes 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:

Discount rate of 14% per annum as at 31 December 2017 (2016: 19%.)

Salary escalation rate of 10% per annum as at 31 December 2017 (2016:10%)

The amount recognised in the statement of financial position is as follows:

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
	TZS Millions			
Present value of unfunded obligation	4,224	3,566	3,321	2,580
Net underfunding in funded plan	4,224	3,566	3,321	2,580
Defined benefit obligation/(asset) recognised in the	9%	8%	12%	10%
statement of financial position	4,224	3,566	3,321	2,580

Reconciliation of benefit obligation

Opening benefits Obligation	3,566	2,656	2,580	2,129
Current service cost (employer)	715	344	479	238
Interest cost	662	474	456	373
Actuarial (gain)/loss due to change in assumptions	4	168	200	51
Actuarial (gain) / loss due to Experience	157	602	449	369
Benefit paid	(880)	(678)	(843)	(580)
Closing Benefit obligation	4,222	3,566	3,321	2,580

Reconciliation of assets

Employer Contributions	(880)	(678)	(843)	(580)
Benefits paid	880	678	843	580
Closing market value of assets	-	-	-	-

The amount recognised in the statement of profit or loss are as follows:

Service costs

Current service cost (employer)	715	344	479	238
Past service cost	-	233	-	-
Losses/(gains) on curtailments and settlements	71	-	71	-
Total service costs	786	577	550	238

Interest cost

Interest cost on defined benefit obligation	662	474	456	373
Net Interest cost on benefits sheet liability	662	474	456	373
Total included in profit and loss in respect of scheme	1,448	1,051	1,006	611

Re-measurement in the statement of other comprehensive income (OCI)

Actuarial (gain)loss-obligation	88	537	578	420
Amount recognised in OCI in the financial year	88	537	578	420

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

38. EMPLOYMENT BENEFIT OBLIGATION (Continued)

Reconciliation				
Net liability at start of the period	3,566	2,656	2,580	2,129
Net expense recognised in the income statement	1,285	1,051	1,006	611
Employer contributions	(880)	(678)	(843)	(580)
Amount recognised in OCI	253	537	578	420
Net liability at end of period	4,224	3,566	3,321	2,580

Sensitivity analysis

The actuarial liability estimated at 31 December 2017 is sensitive to the financial assumptions used. Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the obligation as follows:

A 1% per annum reduction in the discount rate will increase the actuarial liability estimated at 31 December 2017 by 11%. If the discount rate is increased by 1% per annum then there is an opposite effect of 9% to the actuarial liability.

On the other hand a 1% per annum reduction in the salaries rate will decrease the actuarial liability by 10% while if the salary rate is increased by 1% then the actuarial liability increases by 11%.

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

39. CASH FLOW FROM OPERATING ACTIVITIES

Interest Receipt				
Opening Balance Interest Receivable	46,340	29,096	46,172	28,672
Interest Income	118,115	115,828	98,520	91,077
Closing Balance Interest receivable	(72,162)	(46,340)	(70,621)	(46,172)
Interest charged off and written off	(4,733)	(2,802)	(4,733)	(2,802)
Foreign exchange impact	314	96	314	96
(a) Interest Receipt	87,874	95,878	69,652	70,871

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				

39. CASH FLOW FROM OPERATING ACTIVITIES (Continued)

Interest Payments				
Opening balance interest payable	20,700	14,481	19,606	13,116
Interest expenses	58,361	58,115	50,046	46,327
Foreign exchange impact	1,334	880	1,334	880
Closing Balance interest payable	(14,347)	(20,700)	(11,496)	(19,606)
(b) Interest Payments	66,048	52,776	59,490	40,717

Net fee commission receipts

Opening Balance of Receivables	15,210	9,805	11,475	9,768
Closing Balance of grants	467	835	418	617
Fee Income	8,363	12,985	4,104	7,304
Less: Opening Balance of grants	(835)	(157)	(617)	(157)
Less: Closing Balance of Receivables - Note 22	(12,422)	(15,210)	(10,808)	(11,475)
Add: Closing Balance of deferred income	1,457	2,456	1,044	2,175
Less Opening Balance of deferred income	(2,456)	(355)	(2,175)	(2,926)
(c) Net fee commission receipts	9,784	10,359	3,441	5,306

Payments to employees and suppliers

Opening balance Accounts Payable	15,953	6,291	16,951	8,681
Opening balance Prepayments	4,023	3,773	1,520	1,970
Cash Operating Expenses	49,636	48,097	26,109	28,242
Payments for services to charged off loans	227	270	227	270
Less: Closing balance accounts payable	(6,232)	(15,953)	(8,518)	(16,951)
Closing balance prepayments	(2,519)	(4,023)	(1,970)	(2,529)
(d) Payments to employees and suppliers	61,088	38,455	34,319	19,683

Loans Principal Movement

Closing Balance - Gross Loans	681,777	659,481	545,546	659,481
Add: Charged off loans	26,247	20,952	26,247	20,952
Less: Foreign Exchange Impact	(10,519)	(10,258)	(6,960)	(3,320)
Less: Opening Balance - Gross Loans	(764,445)	(531,639)	(659,481)	(531,639)
(e) Disbursement (collection) of principal loans	(66,940)	(138,536)	(94,648)	145,474

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

40. 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).

40. FAIR VALUE MEASUREMENT (continued)

Table 40.1: Fair value hierarchy

	Level 1	Level 2	Level 3	Total
TZS Millions				
GROUP				
31st December 2017				
Financial investment held for trading – Note 18	1,894	-	-	1,894
Government and Corporate Securities held to maturity – Note 19	-	52,187	-	52,187
Available-for-sale investment securities – Note 23	-	15,707	-	15,707
Loans and advances – Note 21	-	-	671,914	671,914
	1,894	67,894	671,914	741,702
31st 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 23	-	21,372	-	21,372
Loans and advances – Note 21	-	-	746,676	746,676
	2,584	94,182	746,676	843,442
BANK				
31st December 2017				
Government and Corporate Securities held to maturity – Note 19	-	36,374	-	36,374
Available-for-sale investment securities – Note 23	-	15,638	-	15,638
Loans and advances – Note 21	-	-	537,819	537,819
	-	52,012	537,819	589,831
31st December 2016				
Government and Corporate Securities held to maturity – Note 19	-	52,575	-	52,575
Available-for-sale investment securities – Note 23	-	21,288	-	21,288
Loans and advances – Note 21	-	-	641,853	641,853
	-	73,863	641,853	715,716

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

40. FAIR VALUE MEASUREMENT (continued)

Financial instruments at amortized costs

The Group does not have a perfect 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.

Table 40.2: Financial Instruments at amortized cost

	2017	2017	2016	2016
	Carrying amount	Fair Value	Carrying amount	Fair Value
TZS Millions				
GROUP				
Financial assets				
Cash and balances with Bank of Tanzania – Note 15	99,289	99,289	28,235	28,235
Balance with other banks – Note 16	3,479	3,479	2,271	2,271
Placements with other banks – Note 17	54,956	54,956	26,457	26,457
Loans and advances – Note 21	671,914	671,914	746,676	746,676
Government securities – Note 19	52,187	52,187	72,810	72,810
Equity investment-available for sale - Note 23	15,707	15,707	21,372	21,372
	897,532	897,532	897,821	897,821
Financial liabilities				
Deposits – Note 30	639,209	639,209	656,682	656,682
Payables and Accruals – Note 31	6,232	6,232	15,953	15,953
Long Term Borrowing – Note 33	73,785	73,785	70,712	70,712
	719,226	719,226	743,347	743,347

Table 40.2: Financial Instruments at amortized cost (Continued)

	2017	2017	2016	2016
	Carrying amount	Fair Value	Carrying amount	Fair Value
TZS Millions				
BANK				
Financial assets				
Cash and balances with Bank of Tanzania – Note 15	50,000	50,000		
Balance with other banks – Note 16	670	670	2,807	2,807
Placements with other banks – Note 17	48,133	48,133	25,171	25,171
Loans and advances – Note 21	537,819	537,819	641,853	641,853
Government securities – Note 19	36,374	36,374	52,575	52,575
Equity investment-available for sale – Note 23	15,638	15,638	21,288	21,288
	688,634	688,634	743,694	743,694
Financial liabilities				
Deposits – Note 30	442,828	442,828	521,200	521,200
Payables and Accruals – Note 31	8,518	8,518	16,951	16,951
Long Term Borrowing – Note 33	73,785	73,785	70,712	70,712
	525,131	525,131	608,863	608,863

41. 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 staff, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (continued)

Risk Management framework

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 Group and Bank's reputation;
- Comprehensive risk assessment, measurement, monitoring and reporting;
- Independent review; and
- Formal risk governance processes.

The Group has been constantly evaluating its internal capacities to ensure a good balance between its corporate results and its mandate. In 2017 the Bank continued with program to implement team oriented approach in the credit process. More efforts were directed towards monitoring the already disbursed loans and as such no new approvals were made.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. 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) 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 Board's Audit and Risk committee is assisted in its oversight role by Internal Audit and Head of Risk and Compliance.

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 Directorate

The Development Bank within the Group 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 that the Bank meets all its maturing obligations while at the same time providing resources for expansion of the Bank's lending activities.

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 Group's activities expose it to a variety of financial risks including credit risk, liquidity risk, market risks and operational risks. The Group'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.

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 Group considers and consolidates all elements of credit risk exposure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

The table below show the amounts of maximum credit exposures in the bank held products as at the end of the year.

Table 41.1: Maximum Credit Exposures

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				
GROUP				
Cash and balances with Bank of Tanzania	99,289	28,235	50,000	-
Balance with other banks	3,479	2,271	670	2,807
Placements with other banks	54,956	26,457	48,133	25,171
Government and Corporate securities held - to - maturity	52,187	72,810	36,374	52,575
Loans and advances	751,572	809,009	615,032	703,891
Accounts receivable and Prepayments	14,941	19,233	13,520	15,302
Total Credit exposure	976,424	958,015	763,729	799,746

(i) Management of Credit Risk

The Board of Directors has delegated responsibility for the management of credit risk to the Management which in turn has assigned the role to the Development Finance Directorate which is responsible for appraisal function and Portfolio Management Directorate responsible for follow up of credit. These are two key directorates in the Investment and Portfolio Review Committees. The Risk and Compliance department, through its credit risk unit make an independent review of the credit risk taking transactions in the bank. These directorates are, among other things, 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. Directorate of Development Financing 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 delegated authority approved by the Board of Directors sets exposure limits to 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 the Portfolio Review Committee, Board Investment Committee and the 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.

The Group has a Technical Services Department which provides professional inputs in on specific areas especially engineering and related fields for effective appraisal and monitoring processes.

In order to ensure effective credit monitoring, Zonal offices have been assigned the task to monitor completed projects under their zones. The projects still under implementation continue to be 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

Table 41.2 (a): Credit quality

GROUP	Neither past due nor impaired						
	Current	Especially mentioned	Past due but not impaired	Past due and impaired	Total	Impairment	Carrying amount
2017							
Cash and balances with Bank of Tanzania	99,289	-	-	-	99,289	-	99,289
Balance with other banks	3,479	-	-	-	3,479	-	3,479
Placements with other banks	54,956	-	-	-	54,956	-	54,956
Financial investment held for trading	1,894	-	-	-	1,894	-	1,894
Government and corporate securities held - to - maturity	52,187	-	-	-	52,187	-	52,187
Loans and advances	356,816	148,307	50,403	196,046	751,572	79,658	671,914
Equity investment-available for sale	15,707	-	-	-	15,707	-	15,707
Total	584,328	148,307	50,403	196,046	979,084	79,658	899,426
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
Total	590,811	105,314	-	266,613	962,738	61,398	901,340

Table 41.2 (b): Credit quality (Continued)

BANK	Neither past due nor impaired						Carrying amount
	Current	Especially mentioned	Past due but not impaired	Past due and impaired	Total	Impairment	
2017							
Cash and balances with Bank of Tanzania	50,000	-	-	-	50,000	-	50,000
Balance with other banks	670	-	-	-	670	-	670
Placements with other banks	48,133	-	-	-	48,133	-	48,133
Government and corporate securities held - to - maturity	36,374	-	-	-	36,374	-	36,374
Loans and advances	356,507	69,151	-	189,374	615,032	77,213	537,819
Equity investment-available for sale	15,638	-	-	-	15,638	-	15,638
Total	507,322	69,151	-	189,374	765,847	77,213	688,634
2016							
Cash and balances with Bank of Tanzania	-	-	-	-	-	-	-
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
Total	440,192	105,314	-	260,226	805,732	61,103	744,629

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

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 are graded as (1) Current, (2) Watch List (3) Substandard, (4) Doubtful, and (4) Loss. This policy will however, change with the adoption of IFRS 9 in 2018 and impairment will be based on expected loss rather than incurred loss.

Loans and advances graded as 3 to 5 (substandard to Loss) in the Group's internal credit risk grading system are classified as nonperforming and are impaired.

A loan that has been renegotiated due to 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 Group 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 Group.

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 Group:

- 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 Group'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 28,657 million were charged off (2016: TZS 24,021 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 2017 the cumulative balance of charged off accounts was TZS 117,181 million (2016: TZS 83,791 million) which exclude TZS 1,207 million recovered during the year (2016: TZS 1,633 million). Interest is usually calculated and added to the exposure unless there are legal provisions preventing the bank from doing so.

Write-off policy

The Group 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.

During the year an amount of TZS 3,691 million was written off (2016: Nil) after it was established that the amount was uncollectable.

(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

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 of not less than 1.25 times.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(iii) Collateral and other credit enhancements (Continued)

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.

During the year there were no pledged securities repossessed by the Group and bank.

The Group can make 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.

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

Table 41.3 (a): Credit Concentration

Industry analysis	Financial Services	Agriculture & Fishing	Government Services	Energy & Mining	Manufacturing	Building & Construction	Transport & Communication	Services	Total
GROUP									
2017									
Financial assets									
Cash and balances with Bank of Tanzania	-	-	99,289	-	-	-	-	-	99,289
Balance with other banks	3,479	-	-	-	-	-	-	-	3,479
Placements with other banks	54,956	-	-	-	-	-	-	-	54,956
Financial investment held for trading	101	-	-	-	1,595	28	170	-	1,894
Government/Corporate securities HTM	71	-	52,116	-	-	-	-	-	52,187
Loans and advances	12,143	186,525	-	210,196	78,201	74,701	12,132	177,674	751,572
Equity investment available for sale	15,707	-	-	-	-	-	-	-	15,707
	86,457	186,525	151,405	210,196	79,796	74,701	12,160	177,844	979,084
2016									
Financial assets									
Cash and balances with Bank of Tanzania	2,695	-	25,540	-	-	-	-	-	28,235
Balance with other banks	2,271	-	-	-	-	-	-	-	2,271
Placements with other banks	26,457	-	-	-	-	-	-	-	26,457
Deferred tax asset	177	-	-	-	2,119	-	288	-	2,584
Government/Corporate securities HTM	-	-	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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Table 41.3 (b): Credit Concentration

Industry analysis	Financial Services	Agriculture & Fishing	Government	Energy & Mining	Manufacturing	Building & Construction	Transport & Communication	Services	Total
BANK									
2017									
Financial assets									
Cash and balances with Bank of Tanzania	-	-	50,000	-	-	-	-	-	50,000.00
Balance with other banks	670	-	-	-	-	-	-	-	670
Placements with other banks	48,133	-	-	-	-	-	-	-	48,133
Government /Corporate securities HTM	-	-	36,374	-	-	-	-	-	36,374
Loans and advances	7,071	177,497	-	206,816	59,663	68,564	6,592	88,829	615,032
Equity investment available for sale	15,638	-	-	-	59,663	68,564	6,592	-	15,638
	71,512	177,497	86,374	206,816	59,663	68,564	6,592	88,829	765,847
2016									
Financial assets									
Cash and balances with Bank of Tanzania	-	-	0	-	-	-	-	-	0
Balance with other banks	2,807	-	-	-	-	-	-	-	2,807
Placements with other banks	25,171	-	-	-	-	-	-	-	25,171
Government /Corporate securities HTM	-	-	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

41. 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:

Table 41.4: Geographic Concentration

	Tanzania	Europe	America	Others	Total
GROUP					
2017					
Financial assets					
Cash and balances with Bank of Tanzania	99,289	-	-	-	99,289
Balance with other banks	3,135	262	55	27	3,479
Placements with other banks	54,956	-	-	-	54,956
Financial investment held for trading	1,894	-	-	-	1,894
Government securities held to maturity	52,187	-	-	-	52,187
Loans and advances	671,914	-	-	-	671,914
Equity investment available for sale	2,545	-	-	13,162	15,707
	885,920	262	55	13,189	899,426
2016					
Financial assets					
Cash and balances with Bank of Tanzania	28,235	-	-	-	28,235
Balance with other banks	1,309	482.00	472.00	8.00	2,271
Placements with other banks	26,457	-	-	-	26,457
Total assets	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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(iv) Concentration of credit risk (Continued)

	Tanzania	Europe	America	Others	Total
GROUP					
2017					
Financial assets					
Cash and balances with Bank of Tanzania	50,000	-	-	-	50,000
Balance with other banks	670	-	-	-	670
Placements with other banks	48,133	-	-	-	48,133
Government securities held to maturity	36,374	-	-	-	36,374
Loans and advances	537,819	-	-	-	537,819
Equity investment available for sale	2,476	-	-	13,162	15,638
	675,472	-	-	13,162	688,634
2016					
Financial assets					
Cash and balances with Bank of Tanzania	-	-	-	-	-
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

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 Directorate of Funds Mobilization 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 Audit and Risk 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.

The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

As a lender of long term loans, the Bank depends on long term sources of funds. However, during the year the Bank continued to access short term deposits something that led to extended periods of liquidity pressure. The bank is now finalising its Corporate Bond issuance preparations and the Bond is expected to be issued by the third quarter 2018.

In addition, as all other development banks do, the Bank depends on high capital from the shareholder to both provide liquidity as well as cushion for the higher credit risks underwritten. During the year the Bank received an additional capital of TZS 50,000 million and the Government, as the main shareholder has made commitment to continue capitalizing the Bank.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

- b) Liquidity risk (Continued)
(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 at the reporting date.

Table 41.5 (a): Liquidity Gaps

GROUP	Up to 1 month	Up to 3 months	Up to 6 months	Up to 12 months	Above 1 year	Total
2017						
Financial assets						
Cash and balances with Bank of Tanzania	99,289	-	-	-	-	99,289
Balance with other banks	3,479	-	-	-	-	3,479
Placements with other banks	54,956	-	-	-	-	54,956
Financial investment held for trading				1,894		1,894
Government securities held to maturity	3,341	9,999	11,042	1,353	26,452	52,187
Loans and advances	77,649	73,694	21,795	78,451	499,981	751,570
Equity investment available for sale	-	-	-	-	15,707	15,707
Total undiscounted financial assets	238,714	83,693	32,837	81,698	542,140	979,082
Financial liabilities						
Deposits	220,021	149,813	117,399	86,260	65,716	639,209
Borrowing		2,072	1,551	6,505	59,492	69,620
	220,021	151,885	118,950	92,765	125,208	708,829
Net liquidity gap	18,693	(68,192)	(86,113)	(11,067)	416,932	270,253
Cumulative gap	18,693	(49,499)	(135,612)	(146,679)	270,253	-
GROUP						
2016						
Financial assets						
Cash and balances with Bank of Tanzania	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
Government 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
Borrowings		2,180	2,180	3,114	63,238	70,712
Total liabilities	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	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

(ii) Maturity analysis of financial assets and financial liabilities (Continued)

Table 41.5 (b): Liquidity Gaps

	Up to 1 month	Up to 3 months	Up to 6 months	Up to 12 months	Above 1 year	Total
BANK						
2017						
Financial assets						
Cash and balances with Bank of Tanzania	50,000	-	-	-	-	50,000
Balance with other banks	670	-	-	-	-	670
Placements with other banks	48,133	-	-	-	-	48,133
Government securities held to maturity	1,083	2,339	6,000	500	26,452	36,374
Loans and advances	22,460	62,252	19,122	50,622	460,576	615,032
Equity investment available for sale	-	-	-	-	15,638	15,638
Total undiscounted financial assets	122,346	64,591	25,122	51,122	502,666	765,847
Financial liabilities						
Deposits	85,239	121,985	104,324	66,509	64,771	442,828
Borrowing	4,165	2,072	1,551	6,505	59,492	73,785
	89,404	124,057	105,875	73,014	124,263	516,613
Net liquidity gap	32,942	(59,466)	(80,753)	(21,892)	378,403	249,234
Cumulative gap	32,942	(26,524)	(107,277)	(129,169)	249,234	-

	Up to 1 month	Up to 3 months	Up to 6 months	Up to 12 months	Above 1 year	Total
BANK						
2016						
Financial assets						
Cash and balances with Bank of Tanzania	-	-	-	-	-	-
Balance with other banks	2,807	-	-	-	-	2,807
Placements with other banks	4,703	20,448	-	20	-	25,171
Government 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
Borrowings		2,180	2,180	3,114	63,238	70,712
Total liabilities	163,611	124,165	106,504	69,623	128,009	591,912
Net liquidity gap	(132,528)	(10,598)	(61,666)	(1,864)	358,439	151,782
Cumulative gap	(132,528)	(143,126)	(204,792)	(206,657)	151,782	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. 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.

(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 Audit and Risk Committee. Trading portfolios include those positions arising from market-making transactions where the Group 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 Audit and Risk Committee on quarterly basis.

- Interest risk exposure

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

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 Group does not bear any interest rate risk on off financial position item.

c) Market risk (Continued) (ii) Interest rate risk (Continued)

Table 41.6 (a): Interest rate Gaps

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Non-interest Bearing	Total
GROUP							
2017							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	99,289	99,289
Balance with other banks	3,479	-	-	-	-	-	3,479
Placements with other banks	54,956	-	-	-	-	-	-54,956
Financial investment held for trading	-	-	-	1,894	-	-	1,894
Government and corporate securities HTM	3,341	9,999	11,042	1,353	26,452	-	52,187
Loans and advances	77,649	73,694	21,795	78,451	499,981	-	751,570
Equity investment available for sale	-	-	-	-	-	15,707	15,707
Total assets	139,425	83,693	32,837	81,698	526,433	114,996	979,082

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

- c) Market risk (Continued)
(ii) Interest rate risk (Continued)

Table 41.6 (a): Interest rate Gaps (Continued)

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Non-interest Bearing	Total
GROUP							
2017							
Liabilities							
Deposits	220,021	149,813	117,399	86,260	65,716	-	639,209
Borrowing	4,165	2,072	1,551	6,505	59,492	-	73,785
Other liabilities	-	-	-	-	-	6,232	6,232
Total liabilities and equity	224,186	151,885	118,950	92,765	125,208	6,232	719,226
Interest sensitivity Gap	(84,761)	(68,192)	(86,113)	(11,067)	401,225	108,764	259,856
Cumulative Gap	(84,761)	(152,953)	(239,066)	(250,133)	151,092	259,856	-

GROUP

2016

Assets

Cash and bank balances with Bank of Tanzania	-	-	-	-	-	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
Government and corporate securities HTM	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
Cumulative Gap	(127,928)	(227,742)	(301,678)	(252,788)	123,404	157,058	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Table 41.6 (b): Interest rate Gaps

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Non-interest Bearing	Total
BANK							
2017							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	50,000	50,000
Balance with other banks	670	-	-	-	-	-	670
Placements with other banks	48,133	-	-	-	-	-	48,133
Government and corporate securities HTM	1,083	2,339	6,000	500	26,452	-	36,374
Loans and advances	22,460	62,252	19,122	50,622	460,576	-	615,032
Equity investment available for sale	-	-	-	-	-	15,638	15,638
Total assets	72,346	64,591	25,122	51,122	487,028	65,638	765,847
Liabilities							
Deposits	85,239	121,985	104,324	66,509	64,771	-	442,828
Borrowing	4,165	2,072	1,551	6,505	59,492	-	73,785
Other liabilities	-	-	-	-	8,518	8,518	-
Total liabilities and equity	89,404	124,057	105,875	73,014	124,263	8,518	525,131
Interest sensitivity gap	(17,058)	(59,466)	(80,753)	(21,892)	362,765	57,120	240,716
Cumulative Gap	(17,058)	(76,524)	(157,277)	(179,169)	183,596	240,716	-
BANK							
2016							
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	-	-
Balance with other banks	2,807	-	-	-	-	-	2,807
Placements with other banks	4,703	20,448	-	20	-	-	25,171
Government and corporate securities HTM	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
Borrowings	-	2,180	2,180	3,114	63,238	-	70,712
Other liabilities	-	-	-	-	-	16,951	16,951
Total liabilities	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)	337,151	4,337	134,831
Cumulative Gap	(132,528)	(143,126)	(204,792)	(206,657)	130,494	134,831	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(ii) Interest rate risk (Continued)

• Interest rate sensitivity analysis

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 4,781 million (2016: TZS 6,034 million) due to increase in annual interest expense. The impact of this increase on capital of the Group is reduction by TZS 3,347 million (2016: TZS 4,223 million). However, with the core capital of TZS 74,304 million (see note 36) the amounts are not expected to significantly impair the ability of the Group to operate profitably.

Table 41.7: Impact of Interest rate movement

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
	TZS Millions			
Assets re-pricing after 6 months	255,955	226,897	162,059	189,488
Liabilities re-pricing after 6 months	495,021	528,575	319,336	394,280
Interest rate Gap	(239,066)	(301,678)	(157,277)	(204,792)
Impact of interest rate rise by additional				
200 bps	(4,781)	(6,034)	(3,146)	(4,096)
Impact in Capital	(3,347)	(4,223)	(2,202)	(2,867)

(iii) Foreign currency risk

The Bank and its subsidiaries operate within Tanzania and own 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.

It is the policy of the Group to limit exposure to foreign exchange risk by ensuring that foreign currency denominated funding sources are used to create foreign currency denominated assets.

As such, 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.

The actual exposure for the group at the end of the year was (17,973) million equivalent to -23% which is higher than the limit of +/-7.5%. The bank received temporary waiver for the excess which arose from a particular transaction.

• Foreign currency sensitivity analysis

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 table below 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.

Based on the exposure carried by the group at the end of the year a 20% depreciation of the shilling would have resulted to a foreign exchange loss of TZS 5,056 million (2016: foreign exchange gain/profit of TZS 6,068 million). A similar movement (20%) to the bank position would have resulted to a foreign exchange loss of TZS 4,732 million (2016: foreign exchange gain/profit of TZS 1,635 million). An opposite movement would have caused a gain of the same magnitude. It is the view of the Board that any such movement will not significantly impair the total capital of the Group or Bank which stood at TZS 74,750 million and TZS 79,419 million respectively (see note 36) at the end of the year.

The table below shows the impact of foreign exchange movement.

Table 41.8: Impact of exchange rate movement

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
	TZS Millions			
Foreign Currency Denominated Assets	425,431	435,894	303,556	401,182
Foreign Currency Denominated Liabilities	450,710	405,554	327,218	393,005
Net open Position	(25,279)	30,340	(23,662)	8,177
USD/TZS Exchange rate	2,238.5	2,180.0	2,238.5	2,180.0
Impact of 20% Depreciation of the TZS against the USD	(5,056)	6,068	(4,732)	1,635

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

• Foreign currency exchange risk exposure -

The Group maintains trade with the customers and other correspondent banks and its foreign currency exposure as at 31 December 2017 was a short position of TZS 25,279 million compared to long position of TZS 30,340 million in 2016. The bank's position was short position of TZS 23,662 million in 2017 and long position of TZS 8,177 million in 2016. The various currencies to which the Group is exposed at 31 December 2017 are summarised in the table below (All amounts are expressed in millions of Tanzania Shillings).

Table 41.9 (a): Foreign exchange Exposure

	TZS	USD	GBP	Euro	Others	Total
	TZS Millions					
GROUP						
2017						
Assets						
Cash and balances due from banks	79,925	22,482	129	227	5	102,768
Placements with other banks	54,956	-	-	-	-	54,956
Financial investment held for trading	1,894	-	-	-	-	1,894
Government and corporate securities						
held - to - maturity	52,187	-	-	-	-	52,187
Loans and advances	282,687	385,378	279	3,570	27	671,941
Equity investment-available for sale	2,476	13,162	-	-	-	15,638
Other Assets		71,935	172	-	-	-
	546,060	421,194	408	3,797	32	971,491
Liabilities						
Deposits	264,638	370,569	430	3,572	-	639,209
Borrowing	-	73,785	-	-	-	73,785
Payables and Accruals	3,900	2,352	2	-	-	6,232
Total liabilities	268,538	446,706	432	3,572	-	719,226
Net financial position	277,522	(25,512)	(24)	225	32	252,265

	TZS	USD	GBP	Euro	Others	Total
	TZS Millions					
GROUP						
2016						
Assets						
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
Government and corporate 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
	454,588	433,111	283	2,483	17	890,482
Liabilities						
Deposits	323,837	330,987	383	1,475	-	656,682
Borrowing	-	70,712	-	755	-	71,467
Payables and Accruals	14,712	1,241	-	1	-	15,954
Total liabilities	338,549	402,940	383	2,231	-	744,103
Net financial position	116,039	30,171	(100)	252	17	146,379

Exchange rate during the year were as follows:

	USD	GBP	Euro
On 01 January 2017	2,180.0	2,686.0	2,303.0
On 31 December 2017	2,238.5	3,024.2	2,683.3

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

Table 41.9 (b): Foreign exchange Exposure

	TZS	USD	GBP	Euro	Others	Total
	TZS Millions					
BANK						
2017						
Assets						
Cash and balances due from banks	50,396	274	-	-	-	50,670
Placements with other banks	48,133	-	-	-	-	48,133
Financial investment held for trading						-
Government and corporate securities held - to - maturity	36,374	-	-	-	-	36,374
Loans and advances	247,871	289,948	-	-	-	537,819
Equity investment-available for sale	2,476	13,162				15,638
Other Assets	71,935	172				72,107
	457,185	303,556	-	-	-	760,741
Liabilities						
Deposits	191,725	251,103	-	-	-	442,828
Borrowing	-	73,785	-	-	-	73,785
Other Liabilities	10,971	2,330	-	-	-	13,301
Total liabilities	202,696	327,218	-	-	-	529,914
Net financial position	254,489	(23,662)	-	-	-	230,827

	TZS	USD	GBP	Euro	Others	Total
	TZS Millions					
BANK						
2016						
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	-	-	-	537,819
Other Assets	1,723	1,723				15,638
	332,588	401,182	-	-	-	733,770
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

Exchange rate during the year were as follows:

	USD	GBP	Euro
On 01 January 2017	2,180.0	2,686.0	2,305.0
On 31 December 2017	2,238.5	3,024.2	2,683.3

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

42. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments arise in the normal course of the Bank's business activities. To meet the financial needs of customers, the Group 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 of TZS 913 million (2016: 266 million) most of which relate to staff employment related cases. In the estimation of the bank and based on the progress of the cases the bank expect to win all these cases and has therefore not made any provision in the financial statements.

In addition, the Bank had claims amounting to TZS 63,155 million (2016: TZS 50,920 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 Group 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 Group.

Table 42.1: Off Balance sheet Exposure

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				
Outstanding letters of credit (foreign currency)	20,092	4,479	-	-
Outstanding guarantees and indemnities (Foreign currency)	72,941	67,420	37,634	47,959
	93,033	71,899	37,634	47,959

Letters of credit, guarantees (including standby letters of credit) commit the Group and 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.

Table 42.2: Commitments

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				
Commitments to extend credit – undrawn balance	55,739	49,242	47,414	48,859
Capital commitments	72,941	67,420	37,634	47,959
Capital expenditure that has been approved by the Board but not contracted for	854	2,601	854	2,601

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 Group and 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 Group and 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 31st December are as follows:

Table 42.3: Lease commitments

	GROUP 2017	GROUP 2016	BANK 2017	BANK 2016
TZS Millions				
Within one year	4,746	4,658	1,816	2,032
After one year but not more than five years	2,473	8,882	1,949	8,128
Total	7,219	13,540	3,765	10,160

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

43 MANAGED GOVERNMENT AND OTHER STAKEHOLDERS' FUNDS

Among the principal activities of the Bank is to administer Government funds disbursed for special projects on behalf of the Government. Establishment, design and approval of special projects rests with the Government under the Ministry of Finance. All risks and rewards arising from special projects are directly channelled to the Ministry of Finance. The administrative activities in respect of those Funds among others include, vetting applications for advances received from eligible applicants, monitoring the performance of the advances provided as well as collection/and or recovery of the advances from the borrowers, except for grants.

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. The table below summarises the Bank balance movement in the Funds /Grants accounts for the year ended 31 December 2017.

TIB DEVELOPMENT BANK LIMITED NOTES TO THE FINANCIAL STATEMENTS
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(Figures in TZS Millions)

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

	AFW	FF	RBF	CIS	TEDAP	SMDG	SAAFI	NEEC	THB
	TZS Millions								
Balance at 1 st January 2017	7,936	10	174	321	868	130	-	-	-
Adjustment*	-	44	-	(30)	-	1,357	9	-	1
Adjusted opening Balance	7,936	54	174	291	868	1,487	9	-	1
Funds received during the year	-	-	2,147	-	90	-	-	-	-
Funds disbursed during the year	(234)	-	(1,624)	-	-	-	-	-	-
Funds collected from the customers	4,080	1,026	-	8	1,871	49	-	-	27
Management fees and other expenses	(380)	-	-	-	(91)	(1)	-	-	-
Interest earned and exchange gain	3	-	70	-	-	36	-	-	-
Fund transferred during the year	-	-	-	-	(2,175)	-	-	-	-
Balance at 31st December 2017	11,405	1,079	767	299	563	1,571	9	-	28
Balance at 1st 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 31st December 2016	7,936	10	174	321	868	130	-	-	-

*The variations of opening balances were noted after reconciliation made by the bank on transactions performed to the funds in previous years. As such, the Bank has to effect restatement of opening balance for management funds accounts as at 01st January 2017.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

KEY:	FF	Floriculture Funds	TEDAP	Tanzania Energy Development and Access Expansion Programme	AFW	Agricultural Financing Window
	REA	Rural Energy Agency	NEEC	National Economic Empowerment Council	CIS	Commodity Import Support
	RBF	Results Based Fund	SAAFI	Sumbawanga Agricultural and Animal Food Industries Limited	SMDG	Miners Development Grant
	THB	Tanzania Housing Bank				

44. SUBSEQUENT EVENTS

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

45. COMPARATIVES

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

