MAENDELEO BANK
Together in Progress

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

April 2017

INNOVEX

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COMPANY INFORMATION

Name of organization	Maendeleo Bank PLC	
Chief Officers	Ibrahim A. Mwangalaba	Managing Director
	Silvan Makole	Ag. Internal Auditor Manager
	Peter B. Tarimo	Finance Manager
	Mumi P. Mwalyambile	Credit Manager
	George R. Wandwalo	ICT Manager
	Richard G. Mashiku	Human resources Manager
Directors	Amulike S. K. Ngeliama	Chairperson
	Dosca K. Mutabuzi	Vice Chairperson
	Anna T. Mzinga	Director
	Felix Mlaki	Director
	Reverend Ernest. W. Kadiva	Director
	Naftal M. Nsemwa	Director
	Ambassador Richard Mariki	Director
	Ibrahim A. Mwangalaba	Executive Director
Registered Office	Maendeleo Bank PLC Luther House Sokoine Drive PO Box 216 Dar es Salaam Tanzania	
Auditors	INNOVEX Auditors Certified Public Accountants 8 Kilimani Road Ada estate Kinondoni PO Box 75297 Dar es Salaam Email: info@innovexdc.com Web: www.innovexdc.com	
Bankers	Bank of Tanzania PO Box 2939 Dar es Salaam Tanzania	CRDB Bank Plc PO Box 700134 Mbagala Branch Dar es Salaam
	Diamond Trust Bank Main Branch PO Box 1115 Dar es Salaam Tanzania	Bank of Africa NDC Branch PO Box 3054 Dar es Salaam Tanzania

COMPANY INFORMATION (Continued)

Bank's Attorney	BM Attorneys 1st Floor Canton Building PO Box 4681 Dar es Salaam Tanzania	Bwana Attorneys 5th Floor ITS Building PO Box 20437 Dar es Salaam Tanzania
Nominated Advisors	CORE Securities Limited 4th Floor Elite City Building PO Box 76800 Dar es Salaam Tanzania	

DIRECTORS' REPORT

1. INTRODUCTION
The Board of Directors of Maendeleo Bank PLC has the pleasure to present their annual report and the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of the Bank. This report has been prepared in accordance with the Tanzania Financial Reporting Standards (TFRS) No. 1, *Directors' Report.*

2. BACKGROUND
Maendeleo Bank Plc started as a result of the strategical decision made during the Annual General Meeting of the Evangelical Lutheran Church of Tanzania – Eastern and Coastal Diocese in 2008 where it was decided to establish a Regional bank and in September 2013 the bank was established. The broader goal of the bank is to provide banking services to the emerging Tanzanian businesses with affordable price to enable the emerging businesses and financially disadvantaged people in the country to access financial services. Maendeleo Bank PLC is targeting to serve individuals, Savings and Credit Cooperative Society (SACCOS), micro, small and medium enterprises (SMEs), salaried workers as well as group and corporate customers. The shareholding structure comprises of various church institutions, individuals, Evangelical Lutheran Church Tanzania (ELCT) - Eastern and Coastal Diocese and United Evangelical Mission.

3. ESTABLISHMENT
Maendeleo Bank PLC is a public limited company established under Companies Act No. 2 of 2002, with registration number 81006 and granted a Banking Licence number NBA 00026 issued by the Bank of Tanzania.

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

The bank carries on business of assets and liabilities management through accounts operations and lending to micro, small and medium enterprises in all its departments, branches and agencies including:

- Receiving deposits of money, including savings and time deposits;
- Lending money to individuals, small scale business, industrial, commercial, Saving and Credit Cooperation Society (SACCOS), etc;
- Providing money transfer services; and
- Facilitating payment systems through operating current accounts, and other accounts for individuals.

5. VISION AND MISSION STATEMENTS
5.1 Vision
The vision of the Bank is "To become the premier bank in Tanzania, which is customer need driven with competitive returns to shareholders"

5.2 Mission
The mission of the Bank is "To grow our business whilst investing on communities that we serve and improving the lives of our employees. We strive to provide competitive and innovative financial services to all stake holders and the society".

DIRECTORS' REPORT (Continued)

6. OBJECTIVES
The Bank has several objectives, which are:

- To mobilize financial resources from the society in the form of deposits and make them available to entrepreneurs with viable businesses;
- To promote easy access to financial services for entrepreneurs running micro, small and medium enterprises;
- To promote viable investment owned by diocese sectors through making available loans and other financial services and investments advisory services; and
- To become a sustainable and profitable bank so as to enhance public confidence and create return to investors.

7. CAPITAL
The Bank has a capital of TZS 7,350,962,481 comprising of shares of various shareholders including; Church institutions, individuals, ELCT-Eastern and Coastal Diocese and United Evangelical Mission.

8. CAPITAL EXPANSION THROUGH RIGHTS ISSUE
As a means of raising capital that was needed to enable the bank to open branches and strengthen its operations, the shareholders during their first Annual General Meeting on 16 May 2015 approved issuance of rights issue and subsequent approval by necessary authorities were obtained. Rights issue of 6,000,000 new ordinary shares of TZS 500 par value was issued at an offer price of TZS 510 per share, at the rate of two new ordinary shares for every three shares held at 30 October 2015. The exercise was successfully done and completed on 29 January 2016 where TZS 2,839,000,000 was realized against a target of TZS 3,060,000,000 which is 93% achievement. When we add this to the existing capital of TZS 4,514,528,000 we have a total capital of TZS 7,350,962,481, which is enough to support branch expansion.

9. ANNUAL GENERAL MEETING
The second Annual General Meeting for the bank was held on 16 May, 2016 at Diamond Jubilee Hall whereby shareholders were informed on the bank's operations for the second full year since its inception. The following were the decisions that were made by the shareholders:

- The AGM packs should be timely available and be sent through emails of Shareholders to enable timely delivery and minimize printing costs.;
- The report on Corporate and Social Responsibility (CSR) should be indicating total costs spent on the CSR events.
- Approved directors' allowances and fees as follows
    - Chairman to be paid sitting allowance of TZS 650,000 and other members to be paid TZS 600,000;
    - Annual directors fees for Chairman were pegged at TZS 1,500,000/- and other directors TZS 1,000,000; and (there were no changes to the rates); and
- Appointed INNOVEX Auditors as the external auditors for the year ended 31 December 2016.

DIRECTORS' REPORT (Continued)

10. MEMBERSHIP OF THE BOARD OF DIRECTORS

The Directors of the Bank at the date of this report and who have served since 2013 and their appointment confirmed in 2015 are:

S/No.	Name	Position	Age (years)	Qualification/ Discipline	Nationality	Date of Appointment
1.	Amulike S. K. Ngeliama	Chairperson	67	Bachelor of Arts (Economics)	Tanzanian	16.05.2015
2.	Dosca K. Mutabuzi	Vice Chairperson	59	Bachelor of Law, High Court Advocate, MBA (Finance)	Tanzanian	16.05.2015
3.	Anna T. Mzinga	Director	40	Advanced Diploma in Accountancy, CPA (T), MBA Finance.	Tanzanian	16.05.2015
4.	Felix Mlaki	Director	42	Bachelor of Arts (Economics), MBA (Finance)	Tanzanian	16.05.2015
5.	Reverend Ernest. W. Kadiva	Director	50	Bachelor of Commerce Management, Masters in Theology	Tanzanian	16.05.2015
6.	Naftal M. Nsemwa	Director	70	Bachelor of Arts (Economics), PGD in Project Analysis	Tanzanian	16.05.2015
7.	Ambassador Richard Mariki	Director	73	Bachelor of Arts, MSc Management	Tanzania	16.05.2015
8.	Ibrahim Mwangalaba	Executive Director and Secretary of the Board	48	Bachelor of Commerce (Marketing), MBA Finance, Associate Diploma in Banking	Tanzanian	16.05.2015

11. CORPORATE GOVERNANCE

The Directors consider corporate governance as a key to good performance of the Bank. In view of this, the Directors continued to strengthen good governance system by reviewing policies in the areas of the Board and Board committees' activities and general management of the Bank. Board guidelines and committees' charters were reviewed during the period as well as policies of the Bank.

Chairman and Managing Director

The Chairman is a non-executive Director, and the roles of the Chairman and the Managing Director are separate, with their responsibilities clearly defined. The Chairman is responsible for leading the Board and ensuring its effectiveness. The Managing Director is responsible for the execution of the Bank's strategy, policies and the day-to-day business of the Bank, supported by management and executive committees which he chairs.

Board structure

The Board comprises of eight (8) Directors among them one Chairperson and Vice Chairperson. Members of the Board were appointed by the Bank Steering Committee and followed by vetting which was done by Bank of Tanzania. Followed by ratification by annual general meeting of 15 May 2015, the Board will serve for the period of three years from 16 May 2015.

Board Meetings

The Board of Directors and the Committees are each required to meet four times a year, i.e. once in every quarter, one annual General Meeting for Shareholders and Extra Ordinary Meetings when required or once when an urgent matter arises.

During the period ended 31 December 2016 the Board held seven meetings which deliberated on the Bank's policies, Bank's performance as well as the Bank's 2017 budget.

Committees of the Board

As at 31 December 2016 the Board had two Committees namely the Audit and Risk Committee and the Credit Committee. The activities of the Committees are governed by the Committee's charters approved by the Board.

Audit and Risk Committee

During the year, the Board of Directors had the Audit and Risk Committee to ensure a high standard of corporate governance is achieved. The committee had seven meetings during the year. The external auditors were invited and attended three meetings, two of which they were presenting their audit plan for the year ended 31 December 2016. The third meeting they presented their findings and opinion on the financial statements for the year ended 31 December 2015. The Managing Director, Head of Finance and Acting Head of Internal Audit attended all the meetings as invitees.

DIRECTORS' REPORT (Continued)

11. CORPORATE GOVERNANCE (Continued)

Audit and Risk Committee (Continued)
The Audit and Risk Committee has the following members:

Name	Position	Age (Years)	Qualifications
Mr. Naftal M. Nsemwa	Chairperson	70	Bachelor of Arts (Economics), PGD in Project Analysis
Mr. Felix Mlaki	Director	42	Advanced Diploma in Accountancy, CPA (T), MBA Finance.
Ms. Anna T. Mzinga	Director	40	Bachelor of Arts (Economics), MBA (Finance)

The Board Audit and Risk Committee reviewed significant accounting policies and financial reporting systems to ensure that they are adequate and are complied with at all times. It reviewed adequacy of internal control systems and monitored implementation of actions to address issues raised by internal auditors and external auditors. The secretary of the Audit and Risk Committee is Ibrahim Mwangalaba who is an Executive Director.

The Acting Head of Internal Audit reports directly to the Committee. On annual basis, the Committee reviews and approves the internal auditors work plan and budget for the year while ensuring that it covers all high risk areas in the Bank's operations. The Committee also receives reports of findings observed by internal auditors on quarterly basis for review and recommendation to the Board.

Credit Committee
The committee had seven meetings during the year. The Managing Director and Head of Credit participated in all of the meetings as invitees.

The Credit Committee has the following members:

Name	Position	Age (Years)	Qualifications
Ambassador Richard Mariki	Chairman	73	Bachelor of Arts, MSc Management
Naftal M. Nsemwa	Director	70	Bachelor of Arts (Economics), PGD in Project Analysis.
Dosca Mutabuzi	Director	59	Bachelor of Law, High Court Advocate, MBA (Finance)
Ibrahim Mwangalaba	Executive Director and Secretary	48	Bachelor of Commerce (Marketing), MBA Finance, Associate Diploma in Banking

DIRECTORS' REPORT (Continued)

11. CORPORATE GOVERNANCE (Continued)

Credit Committee (Continued)

The Credit Committee monitors performance and quality of the credit portfolio, appraises and approves loans within its credit approval limit and recommends to the Board for approval facilities beyond its limit. The Committee reviews the Credit Policy and ensures that it contains sound fundamental principles that facilitate the identification, measurement, monitoring and control of credit risk as well as having appropriate plans and strategies for credit risk management.

Attendance of Board and Committees meetings

The Board of Directors had seven Board meetings during the period. The Audit and Risk Committee met seven times whilst the Credit Committee met seven times during the year under review. The attendance to these Board and Committee meetings by the Directors in 2016 is tabulated below:

Name	Classification	BM	BRAC	BCC
Amulike S.K. Ngeliama	Non-Executive	7	N/A	N/A
Dosca K. Mutabuzi	Non-Executive	7	N/A	5
Anna T. Mzinga	Non-Executive	5	4	N/A
Felix Mlaki	Non-Executive	5	7	N/A
Reverend Ernest. Kadiva	Non-Executive	5	N/A	N/A
Naftal M. Nsemwa	Non-Executive	6	6	7
Amb. Richard Mariki	Non-Executive	7	N/A	7
Ibrahim Mwangalaba	Executive	7	7	7

Notes:
BM – Board Meeting
BRAC – Board Risk & Audit Committee Meeting
BCC – Board Credit Committee Meeting

Director`s shareholding

Name	Position	Number of shares	%
Amulike S.K. Ngeliama	Chairman	892	0.0061
Dosca K. Mutabuzi	Vice Chairperson	29,608	0.2029
Anna T. Mzinga	Member	30,000	0.2056
Felix Mlaki	Member	147,255	1.0092
Reverend Ernest. Kadiva	Member	400	0.0027
Naftal M. Nsemwa	Member	39,608	0.2715
Amb. Richard Mariki	Member	10,000	0.0685
Ibrahim Mwangalaba	Member and Executive Director	11,882	0.0814

DIRECTORS' REPORT (Continued)

12. MANAGEMENT

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

- Finance Department
- Credit Department
- Human Resources Department
- Information Communication Technology and Operations Department, and
- Internal Audit Department

13. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control systems of the Bank. It is the task of management to ensure 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 2016. The Board believes that the internal control system met accepted criteria.

14. PRINCIPAL RISKS AND UNCERTAINTIES

Operational, fraud and financial risks are the principal risks that may significantly affect the Bank's strategies and development. Below we provide a description of the operational, fraud and financial risks facing the Bank and the related management controls in place:

Fraud risk

There is a general increase in fraudulent transactions in the Banking industry in Tanzania.

Management has put in place several controls to mitigate the fraud risk. These controls include:

- The Bank has adequate segregation of duty control in each sensitive area of the operations which include cheque handling, Automated Teller Machine (ATM) card and Personal Identification Number (PIN) controls and strong room,
- The Bank has adequate internal reports generated by system on daily basis that helps detection of any misappropriations and irregularities, and

DIRECTORS' REPORT (Continued)

14. PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

Fraud risk (Continued)

- The Bank has an Internal Auditor who checks and provides assurance on the banks operations which serves as a protection against any future risk.

Operational risk

This is a risk resulting from the Bank's activities not being conducted in accordance with formally recognised procedures including non-compliance with Know Your Customer (KYC) and account opening procedures.

Management ensures that the Bank complies with KYC and other internal procedures.

Management has put in place several controls to mitigate the operational risk including the following:

- The Bank has operational manual for its daily activities, which provides adequately procedures and rules of attending every activity of the Bank,
- The Bank has several policies, which guide the operations of every department and units in a bank, and
- The Bank has a system of making sure every transaction and event concluded has proper supervision and authorization.

Financial risk

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. More details of the financial risks facing the Bank are provided in Note 4 to the financial statements.

Management has put in place several controls to mitigate the financial risk including the following:

- The Bank has adequate policies that guide each operation relating to financial risk like credit policy, financial policy and Asset and Liability Committee (ALCO) policy,
- Management has internal reports that serve as red flags which puts attention to management in thoroughly reviewing the respective operations like net open position, exchange rates and general asset revaluation, and
- The Bank has in place insurance policies that cover for credit life Insurances for its borrowers.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

DIRECTORS' REPORT (Continued)

14. PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

Interest rate risk (Continued)
The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly by the Bank. More details of the interest risks facing the Bank are provided in Note 4 to the financial statements.

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

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

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

15. CAPITAL STRUCTURE

The Bank`s capital structure for the year under review is as follows:

	2016 TZS`000	2015 TZS`000
Authorized share capital		
60,000,000 shares of TZS 500 each	**30,000,000**	30,000,000
Issued and fully paid-up share Capital		
9,029,056 shares of TZS 500 each	**4,514,528**	4,514,528
5,561,635 rights issue of TZS 500 each	**2,780,818**	-
Premium (5,561,635 rights issue of TZS 10 each)	**55,616**	-
	7,350,962	4,514,528

16. REGULATORY CAPITAL

During the period, the Bank has complied with the requirements of Bank of Tanzania. The details on capital management are provided on Note 4.5.

DIRECTORS' REPORT (Continued)

17. SHAREHOLDERS OF THE BANK

Below are the major shareholders of the Bank:

Shareholders	Number of Shares	Value of Shares'000'	% of total shares
United Evangelical Mission	2,808,815	1,418,040	19%
Diocese Institutions	1,797,816	905,672	12%
ELCT-Eastern and Coastal Diocese	1,389,216	700,000	10%
Companies & Saccos	817,558	414,785	6%
Hans Macha	426,783	215,100	3%
Other Individuals	7,350,503	3,697,365	50%
Total	**14,590,691**	**7,350,962**	**100%**

18. STOCK EXCHANGE INFORMATION

The shares of the Bank were listed in the Dar es Salaam Stock Exchange (DSE) on 5th November 2013 and became the first and the only bank listed at the point of its establishment. As at the end of the year 31 December 2016 the Bank's shares were traded at TZS 600 each. In September 2016 Maendeleo Bank Plc was nominated and awarded as the best listed bank under Enterprise Growth Market (EGM) in Dar Es Salaam Stock Exchange (DSE).

19. RESULTS AND DIVIDEND

The bank recorded a profit after tax of TZS 554,540,607 for the year under review (2015: Profit of TZS 177,792,000). The profit for the year is mainly attributed to lending activities. The Directors does not recommend payment of cash dividend for the year ended 31 December 2016.

20. PERFORMANCE FOR THE YEAR

20.1 Budget vs actual

Details	Budget TZS`000	Actual TZS`000	Achieved (%)
Customer deposit	80,000,000	32,451,131	41%
Loans and advances	54,010,000	24,913,340	46%
Interest earned	11,391,000	7,438,888	65%
Net interest income	5,497,000	4,030,256	73%
Other income	2,356,000	1,036,141	44%
Operating expenses	2,600,000	1,995,083	77%
Employee benefit	1,474,000	1,407,946	96%

DIRECTORS' REPORT (Continued)

20. PERFORMANCE FOR THE YEAR (Continued)

20.2 Actual financial performance

The results for the period set out on page 28 and are summarized below:

	2016	2015
	TZS`000	TZS`000
Net operating income	**4,137,715**	3,168,029
Less: Operating expenses	**(3,376,816)**	(2,991,962)
Profit/(loss) before tax	**760,899**	176,067
Tax (expense)/credit	**(206,358)**	1,725
	554,541	177,792

The total assets of the Bank as at 31 December 2016 stood at TZS 41,679,701,540 (2015: 54,505,968,000). Loans and advances stood at TZS 24,913,340,390 (2015: 17,714,204,000) and deposits were TZS 32,451,131,407 (2015: 48,722,834,000).

During the year the bank introduced the following services:

- To expend level of services offered to customers and in line with five years' strategies bank opened new branch at Mwenge along Coca Cola road in October 2016.
- Tax banking services to assist taxpayers on the tax payment to Tanzania Revenue Authority TRA.
- Automated insurance system, the system is used to remind customers for renewal of the insurance premiums when they fall due and keeping records for insurance premium finance clients.
- Tanzania Automated Clearing House (TACH), where all cheques are cleared online and in real time.
- Credit Reference Bureau (CRB), bank was connected to CRB system which enabled access of credit information for customers from other banks and financial institutions.

21. PERFORMANCE INDICATORS

The following Key Performance Indicators (KPIs) are effective in measuring the delivery of the Bank's strategy and managing the business.

Key performance Indicators	**Definition and calculation method**	**Bank's ratios**	
		2016	**2015**
Return on equity	Net profit/total equity	**7.61%**	3.53%
Return on assets	Net profit/total assets	**1.33%**	0.32%
Cost to income ratio	Total cost/Net income	**83.00%**	91.00%
Non interest to gross income	Non-interest /total income	**12.00%**	14.00%
Loans to deposit ratio	Total loans to customers /total deposits from customers	**79.65%**	37.27%
Non-performing loans	Total non-performing loans/gross loans		

DIRECTORS' REPORT (Continued)

Key performance Indicators	Definition and calculation method	Bank's ratios	
		2016	2015
to gross loans	and advances	**4.98%**	3.00%
Growth on total assets	Increase in assets for the year/total assets opening balance	**(23.5%)**	177%
Growth on loan and advances to customers	Increase in loans and advances/opening balances of loans and advances	**42.32%**	132%
Growth of customer deposits	Increase in customer deposits/opening balance of customer deposits	**(33.40%)**	207%
Tier 1 capital	Core capital/risk weighted assets including off balance sheet items	**23.61%**	12.84%
Tier 2 capital	Total capital/risk weighted assets including off balance sheet items.	**24.55%**	12.84%

22. CASH FLOWS
The Bank had favorable liquidity during the year and the liquidity ratio was above acceptable ratio of 20% of liquid assets throughout the year, however bank was impacted by government order for uplift all fixed deposits held by government institutions. During the time when government issued instruction the Bank had TZS 25.6 billion as a deposit from government institutions. To mitigate the effect of decrease in deposits bank increased deposit mobilization and close monitoring of the customer deposits. Bank recruited sales team of four staff who joined on 1st August 2016 to work on the deposit mobilization. One staff has been located to Mwenge Branch, while three staffs are in Luther house.

23. FUTURE DEVELOPMENTS PLANS
The Bank's future strategy is to expand by establishment of agency banking in order to have a wide presence that can serve its customers better by providing easier access to banking services. During the five years of its strategic plan, the Bank has planned to increase its branch networks to upcountry regions. As at 31st December 2016, the bank had two branches, i.e. Luther House and Mwenge branch which was opened in October 2016 while the third branch, Kariakoo branch was at the final stages to be opened.

The Bank also plans to purchase a system for human resources management that will include payroll system and interface with core banking activities. This integration will streamline the Bank's internal operations and management reporting.

The introduction of mobile phone banking has enabled customers to access basic banking and utility services such as electricity, water, DSTV subscription payments, purchase of airtime, balance enquiry, money transfers, bank statements, cheque book requests, and foreign exchange rate requests among others. Similarly, the Bank is considering introduction of chama mobile, group loans using mobile phones to serve customers in areas where the Bank does not have a physical branch presence.

DIRECTORS' REPORT (Continued)

23. FUTURE DEVELOPMENTS PLANS (Continued)

The Bank intends to continue being profitable through the introduction of innovative products, focusing on value added customer services and selective expansion of its branches while carefully managing both costs and risks. The Bank will continue to focus on improving productivity and introducing new products to the market.

24. SOLVENCY

The Bank's liquidity position is considered to be good. The total liquid assets amounted to TZS 19,972,372 (2015: TZS 38,849,943).

25. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions during the year with related parties were conducted at terms and conditions similar to those offered to other clients and in the normal course of business. Details of transactions and balances with related parties are included in Note 32.

26. EMPLOYEES WELFARE

Management and employees' relationship

There were continued good relations between employees and management for the year 2016. There were no unresolved complaints received by management from the employees during the year.

Management took measures to build strong workplace relations by ensuring that employees lived up to the standards of the institutions culture and values while maintaining effective communication at all levels. Staff meetings were conducted at branch, departmental and corporate levels whereby staffs were able to participate in helping shape the future of the organization.

Management and employees' relationship

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 and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties.

Training facilities

During the year, the Bank spent TZS 18 million (2015: TZS 16,375,004) for staff training. A total of 34 staff benefited from internal and external courses. They acquired new knowledge and skills led to the enhancement of business performance.

Financial assistance to staff

Salary advances are provided to all employees who have successfully completed probation according to the Bank's policies.

26. EMPLOYEES WELFARE (Continued)

Medical assistance

All members of staff and their spouses up to a maximum number of four beneficiaries (dependants) for each employee were availed medical services by the Bank through an external service provider.

Persons with disabilities

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

Employees benefit plan

The Bank has a statutory requirement to contribute to the fund preferred by the employee, which is a defined contribution scheme. The Bank contributes 10% of employee's gross emoluments to the scheme.

Compensation benefits

The Bank has a statutory requirement to contribute to the Workers Compensation Fund with effect from 1 July 2015. The main purpose of the Fund is to provide compensation benefits when employees suffer occupational injuries, contract occupational diseases or die as a result of employment related reason(s). The Bank contributes 1% of the employees' earnings.

27. GENDER PARITY

The Bank gives gender equal opportunities to all Tanzanians during recruitment and filling of positions provided they have the required qualifications and ability. Out of the total number of employees in the Bank as at 31 December:

Gender	2016	2015
Male	**32**	22
Female	**21**	13
	53	35

28. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year (2015: Nil). Donations made to charitable and other organizations during the period amounted to TZS 22,791,198 (2015: TZS 14,796,000).

29. CORPORATE SOCIAL RESPONSIBILITY

The bank has a Corporate Social Responsibility (CSR) policy, which provides guidelines for the identifications and management of corporate social responsibility programs.

DIRECTORS' REPORT (Continued)

30. RELATIONSHIP WITH STAKEHOLDERS

The Bank continued to maintain a good relationship with all stakeholders including the regulators.

31. ENVIRONMENTAL CONTROL

The Bank is committed to the prevention of environmental pollution and is in compliance with relevant environmental laws in the area we operate as a minimum standard and seek to implement best practices wherever possible.

32. ACCOUNTING POLICIES AND CRITICAL JUDGEMENT AND ESTIMATES

Results of the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. When preparing the financial statements, it is the Directors' responsibility under the Tanzania Companies Act 2002 to select suitable accounting policies and to make judgments and estimates that are reasonable and prudent. The accounting policies that are deemed critical to our results and financial position, in terms of the materiality of the items to which the policies are applied and the high degree of judgment involved, including the use of assumptions and estimation, are described in Notes 2 and 3 to the financial statements.

33. FIDUCIARY RESPONSIBILITY

Members of the Board of Directors as stewards of public trust always acted for the good of the bank rather than for the benefit of themselves throughout the period. Reasonable care was exercised in all decisions taken by the bank without placing the Bank under unnecessary risks.

34. PREJUDICIAL ISSUES

There are no prejudicial issues that may affect the Bank.

35. EVENTS AFTER REPORTING PERIOD

The Bank opened its third branch at Masasi/Likoma Street Kariakoo on 23 January 2017 and launched Chama mobile product in the year 2017. Management was not aware of any other significant events after reporting date which had material impact to the financial statements

36. INDEPENDENT AUDITORS

M/s INNOVEX Auditors, Certified Public Accountants of PO Box 75297, Dar es Salaam were appointed as the independent auditors of Maendeleo Bank PLC for the year ended 31 December 2016. The auditors have expressed their willingness to continue in office. A resolution proposing the reappointment of auditors of the Bank for the year ending 31 December 2017 will be put to the Annual General Meeting.

Approved by board of directors for issue in ____________________ and signed on its behalf by:

Date______________2017

____

Amulike S. K. Ngeliama
Chairperson

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Tanzania Companies Act No.12 of 2002 requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results of the Bank for that year. It also requires the Directors to ensure that the Bank keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act, 2002. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Approved by board of directors for issue in ____________________ and signed on its behalf by:

______________________________ **Date_______________2017**

Amulike S. K. Ngeliama
Chairperson

DECLARATION OF HEAD OF FINANCE

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 Maendeleo Bank Plc to discharge the responsibility of preparing financial statements showing true and fair view of the entity financial position and performance in accordance with applicable International Financial Reporting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors of Maendeleo Bank Plc as indicated under the statement of directors' responsibilities.

I, **Peter B. Tarimo,** being the Head of Finance of Maendeleo Bank Plc hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31st December 2016 have been prepared in compliance with applicable accounting standards and statutory requirements.

I, thus confirm that the financial statements give a true and fair view position of Maendeleo Bank Plc as on that date and that they have been prepared based on properly maintained financial records.

Signed by	____________________
Position	**Head of Finance**
NBAA Membership No	**GA 3634**
Date	________________**2017**

INNOVEX Auditors
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Ada Estate (Near the French Embassy)
P.O. Box 75297
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Landline: +255 22 2664099
Fax: +255 22 2664098
Email: admin@innovexdc.com
Website: www.innovexdc.com

The Chairperson
Maendeleo Bank PLC
PO Box 216
Dar es Salaam
Tanzania

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF MAENDELEO BANK PLC

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Maendeleo Bank Plc, set out on pages 27 up to 100 which comprise the statement of financial position as at 31 December 2016, statement of profit or loss and other comprehensive income, statement of cash flows statement, and statement of changes in equity for the year ended 31 December 2016 and summary of significant accounting policies as well as other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Maendeleo Bank Plc as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Maendeleo Bank Plc in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in United Republic of Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR`S REPORT (Continued)

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

Area of focus	How our audit addressed the area of focus and results of our audit
Allowance for impairment on loans and advances Refer to page 48 (Note 2.13 Accounting Policies) and page 56 (Note 3.1 and Critical Accounting Estimates and Judgements) Consideration is given at each financial statement position date to determine whether there is any indication of impairment of the carrying values of the bank's loans and advances. Indications could be failure by borrowers to fully meet terms and conditions of the loans and advances, poor servicing of loans and advances and severe economic slowdown in a given sector. The determination of impairment provisions remains a highly subjective and judgemental area. Furthermore, the Bank is subject to significant regulatory scrutiny with respect to provisioning levels. In assessing impairment amount, the estimated future loan recoveries (future cash flows) are discounted to their present value based on the time value of money and the risk specific to an individual loan or the group of loans.	Our work covered impairment of loans and advances to customers. We understood and tested key controls and focused on: • the identification of impairment events and classification of loans • the governance over the impairment processes • the review and approval process that management have in place for the outputs of the Bank's impairment model. We assessed the use of historic experience to estimate impairment events which have occurred but not reported and to derive estimates of future cashflows. We also focused on the calculation of required impairment provisions, including the use of a model, and in particular the critical assumptions used in the model and calculations. These assumptions include: 1. Timing of the expected cash flows 2. Expected future cash flows 3. Discount rates 4. Quality of security maintained 5. Time taken to realise security Further, we evaluated the accuracy of impairment tests applied. **Results of our work** Based on procedures performed and evidence obtained, we found management assumptions to be reasonable and therefore consider provisions to be appropriate.
Deferred tax asset	

Area of focus	How our audit addressed the area of focus and results of our audit
Refer to page 51 (Note 2.16 Significant Accounting Policies), and page 57 (Note 3.5 and Critical Accounting Estimates and Judgements). The recognition of a deferred tax asset in respect of tax losses is permitted only to the extent that it is probable that future taxable profits will be available to utilise the tax losses carried forward. When considering the availability of future taxable profits, judgement is required when assessing projections of future taxable income which are based on approved business plans/forecasts. The allocation of forecast profits is also judgemental when considering the utilisation of the deferred tax assets in the separate legal entities where the assets reside. Furthermore, there have recently been changes to legislation in relation to the level of profits which banking entities may offset with brought forward tax losses.	We understood and tested key controls over the production and approval of the forecast taxable profits used to support the recognition of various deferred tax assets. We found the key controls were designed, implemented and operated effectively, and therefore we were able to place reliance on these controls for the purposes of our audit. We assessed whether the forecast profits were appropriate by challenging both the underlying and economic assumptions, focusing on those directly impacting the adjusted profit figures, for example interest rates and gross domestic product. We used our independent benchmarking data to benchmark a number of the economic assumptions to external data sources where possible, and also assessed previous forecasts for evidence of bias. We have evaluated the impact recent tax law changes on the calculation of the Bank's deferred tax balances, including confirming that the loss restriction rules have been correctly applied. In addition, we ensured that management's forecasts considered the impacts of structural reform. We found that the both the utilisation period and the carrying value of the deferred tax asset together with the related disclosures are reasonable. ***Results of our work*** We found that both utilisation period and carrying value of deferred tax asset together with related disclosure are reasonable.
Revenue recognition Reference is made to page 46 (Significant Accounting Policies). Interest income is recognized in the statement of profit or loss and other comprehensive income for all interest bearing	We considered the appropriateness of the Bank's income and other similar income recognition accounting policies, including the recognition and classification criteria for revenue.

Area of focus	How our audit addressed the area of focus and results of our audit
instruments on an accrual basis using the effective interest method, based on the actual purchase price. The effective interest rate method is a method of calculating the amortized cost of financial assets or a financial liability and of allocating the interest or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Once a financial asset or a group of similar financial assets have been written down as a result of impairment loss, interest income is recognized using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss. Fees and commissions are generally recognized on an accrual basis when the service has been provided or significant act has been performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating or participating in the negotiation of, a transaction for a third party –such as arrangement of the acquisition of shares or other securities or the purchase or sale of business are recognized on completion of the underlying transaction. There is a risk that revenue may be overstated because fraud as a result of pressure management may feel to achieve performance targets.	Due to the high reliance of revenue recognition on IT, we evaluated the integrity of the IT general control environment and tested the operating effectiveness of key IT application controls. We performed tests on critical segregation of duties. We performed month to month trend analysis on interest income and interest expense and compared the results with our expectations. We assessed transactions taking place at either side of the statement of financial position date to evaluate whether interest income and interest expense were recognised in the correct period ***Results of our work*** Based on procedures performed and evidence obtained, we found that revenue was fairly stated. However, the following matter was observed: The loan interest figures as per the general ledger were different from those on the loan status reports by TZS 22,941,071. Ideally the two should agree since the source of information recorded in the general ledger is the loan module. This anomaly is attributed to lack of regular reconciliations between the general ledger and the loan module. The different noted is not significant to impact the financial statements for the year ended 31 December 2016.

Other key observations

- The number of shares issued and fully paid as per the Bank's records differ with the those in the records of Dar es Salaam Stock Exchange (DSE). The reconciliation is going on to find out the where about of the 37,645 difference in shares. Management has adopted the register from DSE. The difference is currently in a suspense account opened at DSE under the name of Core Securities.
- We noted significant delays in reversal of transactions that are passed in the core banking system, Bankers Realm. Net, to facilitate the restructuring and consolidation of loans. This practice exposes the bank to fraud in the event that the concerned borrowers decide to withdraw the funds that are credited to their bank accounts by management. Furthermore, at the time of the audit, an amount of TZS 17,000,000 that was deposited (credited) in Fabian Maganga Ninga's bank account during August 2016 has not yet been reversed (17th February 2017) and it was also still in the suspense account;
- We noted that the credit policy does not have procedures to guide requirements for restructuring/ consolidating loans and fees to be collected from the customers for the restructuring or consolidation service;
- From our review of all transactions during the year, we noted that there were gaps in transactions identification in the Banker Realm.Net system. There were a total of 47,445 missing transactions in 60 gaps. Furthermore, we noted that there is a difference in 113 general ledger accounts between 2015 and 2016 that cannot be explained by the net movement of all transactions. Our expectation was that all income and expense accounts were supposed to be zerorised using entry with code 999.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and the provisions of the Banking and Financial Institution Act, 2006 and Companies Act, No. 12 of 2002 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements
This report, including the opinion, has been prepared for, and only for, the company's members as a body in accordance with the Companies Act, No. 12 of 2002, the Banking and Financial Institutions Act 2006 and the Banking and Financial Institutions (External Auditors) Regulations, 2014 and for no other purposes.

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

As required by the Banking and Financial Institutions Act 2006 and the Banking and Financial Institutions (External Auditors) Regulations, 2014, we are also required to report to you if, in our opinion, the Bank has complied with the Banking and Financial Institutions Act 2006 and its regulations. In respect of the foregoing requirements, we have no matter to report.

The engagement partner on the audit resulting in this independent auditor's report is Christopher Mageka.

INNOVEX Auditors
Certified Public Accountants
Dar es Salaam
Christopher Mageka, CPA - PP Date ____________ 2017

MAENDELEO BANK PLC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

ASSETS	Notes	2016 TZS`000	2015 TZS`000
Cash and balances with Bank of Tanzania	5	**5,302,308**	6,793,705
Placements and balances with other banks	6	**8,777,313**	27,466,284
Government securities	7	**-**	994,364
Loans and advances to customers	8	**24,913,340**	17,714,204
Inventories	9	**10,484**	14,294
Other assets	10	**958,502**	238,015
Intangible assets	11	**171,647**	173,142
Property and equipment	12	**518,952**	444,984
Leasehold improvements	13	**767,020**	544,203
Deferred tax	16	**260,135**	122,773
Total assets		**41,679,701**	54,505,968
LIABILITIES			
Deposits from customers	14(a)	**29,151,131**	48,722,834
Deposits from banks	14(b)	**3,300,000**	-
Other liabilities	15	**1,797,667**	362,188
Income tax payable	17	**147,069**	66,610
Total liabilities		**34,395,867**	49,151,632
SHAREHOLDERS` EQUITY			
Share capital	18	**7,295,346**	4,514,528
Share premium		**55,616**	-
Advance towards share capital	19	**-**	1,461,477
Regulatory reserves	20(a)	**37,031**	315,599
General provision reserves	20(b)	**216,779**	-
Retained earnings		**(320,938)**	(937,268)
Total shareholder's equity		**7,283,834**	5,354,336
Total liabilities and equity		**41,679,701**	54,505,968

The Notes on pages 31 to 100 form an integral part of these financial statements. The financial statements on pages 27 to 30 were approved and authorized for issue by the Board of Directors on................................ 2017 and were signed on its behalf by:

Amulike S.K. Ngeliama	**Ibrahim Mwangalaba**
Chairperson	**Managing Director**

The independent auditor`s report is on pages 20 and 26.

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

	Notes	2016 TZS`000	2015 TZS`000
Interest income	21	**7,438,888**	5,589,976
Interest expense	22	**(3,408,632)**	(2,922,061)
Net interest income		**4,030,256**	2,667,915
Written off bad loans		**(282,298)**	-
Loan and advances impairment charges		**(599,357)**	(352,314)
Net interest income after impairment		**3,148,601**	2,315,601
Fees and commission income	23 (a)	**1,036,141**	890,427
Fees and commission expense	23(b)	**(47,027)**	(37,999)
Net fees and commission income		**989,114**	852,428
Net operating income		**4,137,715**	3,168,029
Foreign exchange gain/(loss)	24	**26,213**	(14,974)
Employee benefit expenses	25	**(1,407,946)**	(1,037,862)
General and administration costs	26	**(1,727,380)**	(1,644,082)
Depreciation and amortization	27	**(267,703)**	(295,044)
Operating expenses		**(3,376,816)**	(2,991,962)
Profit for the year before tax		**760,899**	176,067
Income tax (expenses)/credit	28	**(206,358)**	1,725
Profit/(loss) for the year		**554,541**	177,792
Other comprehensive income		**-**	-
Comprehensive income for the year		**554,541**	177,792
Basic and diluted earnings per share	29	**37.99**	19.69

The Notes on pages 31 to 100 form an integral part of these financial statements. The financial statements on pages 27 to 30 were approved and authorized for issue by the Board of Directors on................................ 2017 and were signed on its behalf by:

Amulike S.K. Ngeliama
Chairperson

Ibrahim Mwangalaba
Managing Director

The independent auditor`s report is on pages 20 and 26.

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

	Share capital TZS`000	Share premium TZS`000	Advanced towards share capital TZS`000	Regulatory reserves TZS`000	General provision reserves TZS`000	Retained earnings TZS`000	Total TZS`000
At 1 January 2015	4,514,528	-	-	15,348	-	(814,809)	3,715,067
Transfer to regulatory reserves	-	-	-	300,251	-	(300,251)	-
Deposit for right issue	-	-	1,461,477	-	-	-	1,461,477
Profit for the year	-	-	-	-	-	177,792	177,792
At 31 December 2015	4,514,528	-	1,461,477	315,599	-	(937,268)	5,354,336
At 1 January 2016	**4,514,528**	**-**	**1,461,477**	**315,599**	**-**	**(937,268)**	**5,354,336**
Transfer to capital	**2,780,818**	**55,616**	**(1,461,477)**	**-**	**-**	**-**	**1,374,957**
Transfer to regulatory reserve	-	-	-	**(278,568)**	-	**278,568**	**-**
Transfer to general reserve	-	-	-	-	**216,779**	**(216,779)**	**-**
Profit for the year	-	-	-	-	-	**554,541**	**554,541**
At 31 December 2016	**7,295,346**	**55,616**	**-**	**37,031**	**216,779**	**(320,938)**	**7,283,834**

The Notes on pages 31 to 100 form an integral part of these financial statements. The financial statements on pages 27 to 30 were approved and authorized for issue by the Board of Directors on............................... 2017 and were signed on its behalf by:

Amulike S.K. Ngeliama
Chairperson

Ibrahim Mwangalaba
Managing Director

The independent auditor`s report is on pages 20 and 26.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

	Notes	2016 TZS`000	2015 TZS`000
Cash flows from operating activities			
Profit for the year before tax		**760,899**	176,067
Adjustments for:			
Amortization of intangible assets	11	**15,527**	88,556
Loss on disposal		-	2,674
Impairment on loans and advances		**599,357**	-
Provision for written off loans and advances		**282,298**	-
Depreciation of property and equipment	12	**183,062**	163,740
Amortization of leasehold improvements	13	**84,773**	42,748
		1,925,916	473,785
Changes in operating assets and liabilities			
Increase in loans and advances		**(7,685,288)**	(10,063,317)
Decrease in inventories		**3,810**	945
Increase in placements with other banks		**18,688,971**	(14,019,650)
(Increase) /decrease in other assets		**(294,087)**	770
(Decrease)/increase in customer's deposits		**(16,271,703)**	32,898,513
Movement in statutory minimum reserve		**1,471,908**	(3,246,009)
Increase in other liabilities		**1,435,478**	190,186
Cash generated from operating activities		**(724,995)**	6,235,223
Income tax paid		**(196,650)**	(40,868)
Net cash (used)/ generated in operating activities		**(921,645)**	6,194,355
Cash flows from investing activities			
Purchase of government securities	7	**994,364**	(994,364)
Acquisition of intangible assets	11	**(14,032)**	(94,157)
Acquisition of property and equipment	12	**(257,031)**	(284,808)
Leasehold improvements costs incurred	13	**(307,589)**	(301,717)
Proceeds from sale of fixed assets		**-**	18,000
Net cash used in investing activities		**415,712**	(1,657,046)
Cash flows from financing activities			
Paid up share capital/right Issue		**1,374,957**	1,461,477
Net cash generated from financing activities		**1,374,957**	1,461,477
Net increase/(decrease) in cash and cash equivalents		**869,024**	5,998,786
Cash and cash equivalents 1 January		**9,100,736**	3,101,950
Cash and cash equivalents 31 December	33	**9,969,760**	9,100,736

The Notes on pages 31 to 100 form an integral part of these financial statements. The financial statements on pages 27 to 30 were approved and authorized for issue by the Board of Directors on................................ 2017 and were signed on its behalf by:

Amulike S.K. Ngeliama
Chairperson

Ibrahim Mwangalaba
Managing Director

The independent auditor`s report is on pages 20 and 26.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

1. REPORTING ENTITY

Maendeleo Bank PLC is a public limited company established under Companies Act No. 2 of 2002 with Certificate of Incorporation No. 81006 and domiciled in the United Republic of Tanzania. The shareholding structure comprises various church institutions, Individuals, ELCT-Eastern and Coastal Diocese and United Evangelical Mission. The Bank is engaged in the business of banking and provision of related services.

The address of the registered office is as follows:
Luther House Sokoine Drive
PO Box 216
Dar es Salaam

The Bank`s shares are listed on the Dar es Salaam Stock Exchange (DSE) under Enterprise Growth Market (EGM).

The Bank`s financial statements for the year ended 31 December 2016 have been approved for the issue by the Board of Directors on ……………. neither the entity`s owners nor others have the power to amend the financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of compliance

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

2.2 Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the Tanzania Companies Act 2002 and the Banking and Financial Institution Act, 2006 were included where appropriate. The financial statements comprise statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the notes.

The measurement basis applied in the preparation of these financial statements is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania shillings (TZS) and the amounts are rounded to the nearest thousand shillings except where otherwise indicated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

2.2 Basis of preparation (Continued)

The areas involving a higher degree of judgement, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.3 Improvements to IFRSs

i. **New and revised IFRSs mandatorily effective at the end of the reporting period with no material effect on the reported amounts and disclosures in the current or prior year**

The following new or revised IFRSs were mandatorily effective and adopted by Maendeleo Bank PLC as at the end of the reporting period, but did not have a material effect on the current or previously reported financial performance or financial position.

Name of standard	Changes made to the standard
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	**Changes in methods of disposal** • Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. • The amendment must be applied prospectively.
IFRS 7 *Financial Instruments: Disclosures*	**Servicing contracts** • The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7. B30 and IFRS 7.42C in order to assess whether the disclosures are required. • The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment. **Applicability of the offsetting disclosures to condensed interim financial statements** • The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to

	the information reported in the most recent annual report. • The amendments must be applied retrospectively.
IAS 19 Employee Benefits	**Discount rate: regional market issue** • The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. • The amendment must be applied prospectively.
IAS 34 Interim Financial Reporting	**Disclosure of information 'elsewhere in the interim financial report'** • The amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). • The other information within the interim financial report must be available to users on the same terms and at the same time as the interim financial statements. • The amendment must be applied retrospectively.
IAS 16 and IAS 41 Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41	The amendments to IAS 16 and IAS 41 *Agriculture* change the scope of IAS 16 to include biological assets that meet the definition of bearer plants (e.g., fruit trees). Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41. As a result of the amendments, bearer plants will be subject to all the recognition and measurement requirements in IAS 16, including the choice between the cost model and evaluation model for subsequent measurement. Effective for annual periods beginning on or after 1 January 2016. **Impact** The requirements will not entirely eliminate the volatility in profit or loss as produce growing on bearer plants will still be measured at fair value. Furthermore, entities will need to determine appropriate methodologies to measure the fair value of these assets separately from

	the bearer plants on which they are growing, which may increase the complexity and subjectivity of the measurement.
IAS 16 and IAS 38 Clarification of Acceptable Methods of depreciation and amortization –Amendments to IAS 16 and IAS 38	The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. Effective for annual periods beginning on or after 1 January 2016. **Impact** Entities currently using revenue-based amortisation methods for property, plant and equipment will need to change their approach to an acceptable method, such as the diminishing balance method, which would recognise increased amortisation in the early part of the asset's useful life.
IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception -Amendments to IFRS 10, IFRS 12 and IAS 28	The amendments address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Effective for annual periods beginning on or after 1 January 2016. **Impact** The amendments to IFRS 10 and IAS 28 provide helpful clarifications that will assist preparers in applying the standards more consistently. However, it may still be difficult to identify investment entities in practice when

	they are part of a multilayered group structure.
IFRS 14 Regulatory Deferral Accounts	IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

ii. Standards and interpretations in issue but not yet effective

At the reporting date, the following new and/or revised accounting standards and interpretations were in issue but not yet effective and therefore have not been applied in these financial statements. Maendeleo Bank PLC has not yet assessed the impact of these changes on their financial statements when they become effective:

Name of standard	Changes made to the standard
IAS 1 Disclosure Initiative – Amendments to IAS 1	The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify: • The materiality requirements in IAS 1 • That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated • That entities have flexibility as to the order in which they present the notes to financial statements • That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. **Impact** These amendments are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement. Although these amendments clarify existing requirements of IAS 1, the clarifications may facilitate enhanced disclosure effectiveness.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

Name of standard	Changes made to the standard
IFRS 15 Revenue from Contracts with Customers	IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets. Effective for annual periods beginning on or after 1 January 2018. **Impact** IFRS 15 is more prescriptive than the current IFRS requirements for revenue recognition and provides more application guidance. The disclosure requirements are also more extensive. The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to their current accounting, systems and processes.
IFRS 9 Financial Instruments	**Key requirements** *Classification and measurement of financial assets* All financial assets are measured at fair value on initial recognition, adjusted for transaction costs, if the instrument is not accounted for at fair value through profit or loss (FVTPL). *Classification and measurement of financial liabilities* For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

Name of standard	Changes made to the standard
	Impairment The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 and lease receivables under IAS 17 *Leases*. *Hedge accounting* Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative. Effective for annual periods beginning on or after 1 January 2018. **Impact** The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting.
IFRS 16 Leases	**Key requirements** The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

Name of standard	Changes made to the standard
	Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. **Transition** A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15. **Impact** The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted. Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities. Lessor accounting will result in little change compared to today's lessor accounting. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17 Effective for annual periods beginning on or after 1 January 2019.
IAS 7 Disclosure Initiative – Amendments to IAS 7	**Key requirements** The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and help users of financial statements better understand

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

Name of standard	Changes made to the standard
	changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). **Transition** On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted. **Impact** The amendments are intended to provide information to help investors better understand changes in an entity's debt. Effective for annual periods beginning on or after 1 January 2017.
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12	**Key requirements** The IASB issued the amendments to IAS 12 *Income Taxes* to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. **Transition** Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

Name of standard	Changes made to the standard
	Impact The amendments are intended to remove existing divergence in practice in recognising deferred tax assets for unrealised losses. Effective for annual periods beginning on or after 1 January 2017
IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2	**Key requirements** The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas: • *The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction*. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. • *The classification of a share-based payment transaction with net settlement features for withholding tax obligations.* This amendment adds an exception to address the narrow situation where the net settlement arrangement is designed to meet an entity's obligation under tax laws or regulations to withhold a certain amount in order to meet the employee's tax obligation associated with the share based payment. This amount is then transferred, normally in cash, to the tax authorities on the employee’s behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments that are equal to the monetary value of the employee’s tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment (‘net share settlement feature’). Where transactions meet the criteria, they are not divided into two components but are classified in their entirety as equity-settled share-based payment transactions, if they would have been so classified in the absence of the net share

Name of standard	Changes made to the standard
	settlement feature. • *The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity settled.* The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. Any difference (whether a debit or a credit) between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss. **Transition** On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. **Impact** The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. Effective for annual periods beginning on or after 1 January 2018.
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4	Key requirements The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. *Temporary exemption from IFRS 9* The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS *39*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

Name of standard	Changes made to the standard
	Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. Predominance must be initially assessed at the annual reporting date that immediately precedes 1 April 2016 and before IFRS 9 is implemented. Also the evaluation of predominance can only be reassessed in rare cases. Entities applying the temporary exemption will be required to make additional disclosures. *The overlay approach* The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets; effectively resulting in IAS 39 accounting for those designated financial assets. The adjustment eliminates accounting volatility that may arise from applying IFRS 9 without the new insurance contracts standard. Under this approach, an entity is permitted to reclassify amounts between profit or loss and other comprehensive income (OCI) for designated financial assets. An entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI. **Transition** The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. **Impact** The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4. When applying the temporary exemption, entities must still provide extensive disclosure that require the application of some aspects of IFRS 9. Effective for annual periods beginning on or after 1 January 2018

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

Name of standard	Changes made to the standard
Transfers of Investment Property (Amendments to IAS 40)	**Key requirements** The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. **Transition** Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed. **Impact** The amendments will eliminate diversity in practice. Effective for annual periods beginning on or after 1 January 2018.
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	**Key requirements** The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. **Transition** Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply

Name of standard	Changes made to the standard
	the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation Or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS. **Impact** The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency. Effective for annual periods beginning on or after 1 January 2018.

2.4 Interest income and expense

Interest income and expenses are recognized in the statement of profit or loss and other comprehensive income for all interest bearing instruments on an accrual basis using the effective interest method, based on the actual purchase price.

The effective interest rate method is a method of calculating the amortized cost of financial assets or a financial liability and of allocating the interest or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Interest on loans and advances given is recognized in the statement of profit or loss and other comprehensive income on accrual basis. Once a financial asset or a group of similar financial assets have been written down as a result of impairment loss interest income is recognized using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided or significant act has been performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating or participating in the negotiation of, a transaction for a third party –such as arrangement of the acquisition of shares or other securities or the purchase or sale of business are recognized on completion of the underlying transaction.

2.6 Foreign currency translations

(i) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates, Tanzania Shillings ("the functional currency"). The financial statements are presented in Tanzania Shillings (TZS) rounded to the nearest thousand shilling, which is the bank`s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into Tanzania Shilling, the functional currency, using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; nonmonetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statement of profit or loss and other comprehensive income.

Changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount, are recognized in other comprehensive income. Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets
Financial assets are any assets that is cash, a contractual right to receive cash or another financial asset from another financial institution, a contractual right to exchange financial instrument with another institution under conditions that are potentially favorable or equity instrument of another enterprise.

The Bank classifies its financial assets in the following categories:- Financial assets at fair value through statement of comprehensive income; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

i. Financial asset at fair value through statement of comprehensive income

This category has two sub categories; financial asset held for trading and those designated at fair value through statement of comprehensive income at inception. Financial asset is classified in this category if acquired primarily for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. The Bank’s only and listed equity investment will be designated as financial asset through statement of comprehensive income.

ii. Loans and receivables

Loans and receivables are non- derivative financial assets with fixed or determinable payments that are not quoted on the stock exchange. They arise when the Bank advances money to borrowers, or provides services directly to a debtor with no intention of trading the receivables.

iii. Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity. Where the Bank decides to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. Held-to-maturity securities are carried at amortized cost using the effective interest method less impairment loss. Interest calculated using the effective interest method is recognized in the statement of comprehensive income. Government securities and bonds are classified as held to maturity investments and stated at amortized cost.

iv. Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale financial assets are subsequently carried at fair value based on amounts derived from cash flow models.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial assets (Continued)

iv. Available-for-sale (Continued)

Gains and losses arising from changes in the fair value of available- for-sale financial assets are recognized directly in equity until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss. The fair values of quoted investments in active markets are based on current bid prices. Unlisted equity securities for which fair values cannot be measured reliably are recognized at cost less impairment loss. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income when the Bank's right to receive payment is established.

2.8 Recognition of financial assets

Financial assets are initially recognized at fair value through profit or loss. Financial assets are derecognized when the right to receive cash flows from the financial assets have expired or when the bank has transferred substantially all risks and rewards of ownership.

2.9 Loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrowers are categorized as originated loans and are stated at amortized cost less provision for impairment. A loss provision is established when there is doubt about the Bank's ability to recover all amounts due. The amount of the provision is the difference between the estimated recoverable amount and the carrying amount, but also takes into account the requirements of Management of Risk Assets Regulations, 2014 issued by the Bank of Tanzania. In the event that the provision required under the BOT Regulations exceeds that required by IFRS, the excess provision would be treated as a general banking provision and accounted for in reserves.

2.10 Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Financial liabilities are derecognised when extinguished. Such financial liabilities include deposits from banks or customers and other liabilities.

2.11 Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen on the table below:

Item on balance sheet	Class
Financial assets	
Cash and cash equivalents	Loans and receivables
Loans and advances to banks	Loans and receivables
Loans and advances to customer	Loans and receivables
Placements in other banks	Held to maturity
Other assets	Loans and receivables
Financial liabilities	
Deposits from banks	Financial liabilities at amortised cost
Deposits from customers	Financial liabilities at amortised cost
Other liabilities	Financial liabilities at amortised cost

2.13 Impairment of financial assets

i. Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficult of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payment;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position; and
- Deterioration in the value of collateral.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of financial assets (Continued)

i. Assets carried at amortised cost (Continued)

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, 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 impairment loss is or continues to be recognised are not included in a collective assessment of impairment.
The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is revised by adjusting the allowance account. The amount of the reversal is recognized in the profit and loss account in impairment charge for credit losses.

ii. Assets classified as available-for-sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of financial assets (Continued)

ii. Assets classified as available-for-sale (Continued)

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit and loss account.

iii. Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiable gain.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.15 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly to equity or other comprehensive income.

(i) Current tax

Current income tax is the expected amount of income tax payable or receivable on the taxable profit income or loss for the year determined in accordance with the Tanzanian Income Tax Act and any adjustment to the tax payable or receivable in respect of the previous years. It is measured using tax rates enacted or substantially enacted at the reporting date.

(ii) *Deferred tax*

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities used for tax purposes and their carrying values for financial reporting purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- Temporary differences related to investment in subsidiary to the extent that it is probable that they will not reverse in the foreseeable future
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets recognized for the unutilized tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax asset are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized. Unrecognized deferred tax are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profit will be available against which they can be used.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.18 Property and equipment

i. Recognition and measurement

Items of property and equipment are stated measured at cost less any accumulated depreciation less any accumulated impairment loss.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Cost includes expenditure that is directly attributable to the acquisition of the items. Initial estimate of dismantling/removal costs (as obligation arises); finance cost may arise if credit price is greater than cash price. Capitalization of increased liability due to adverse exchange rate movement is not allowed.

The cost of self-constructed includes cost of materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the initial estimate of costs of dismantling and removing the items and restoring the site on which they are located (as obligation arises) and capitalised borrowing costs, finance costs that may arise if credit price is greater than cash price. Capitalization of increased liability due to adverse exchange rate movement is not allowed.

ii. Subsequent costs

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Property and equipment (Continued)

iii. Depreciation

Depreciation is recognized in profit or loss on a straight line basis over the estimated useful lives of each part of an item of calculated to write off the cost of the Property and Equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset on straight line method.

The principal rates to be used per annum for the purpose of depreciation shall be as follows:

Assets Particulars	**Annual Rate %**
ATM and Generator	20
Motor vehicles	25
Office machines and equipment (including CCTV cameras)	25
Furniture and fittings	25
Computer equipment	33.3
Leasehold improvements	33.3

Depreciation charge starts when property and equipment is ready for use. Depreciation charge ceases when the property and equipment is disposed off or derecognized.

Depreciation method, the asset's residual values and useful lives are reviewed and adjusted if appropriate, at each statement of financial position date. In practice, the residual values of assets are insignificant and, therefore, immaterial in the calculation of the depreciable amount.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

iv. Derecognition

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss on disposal is determined by comparing proceeds from the disposal with carrying amount of the item of property and equipment. Any gain or loss arising on derecognition of the asset are recognised net within other income in statement of profit or loss or other comprehensive in the year the asset is derecognised.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included within other income in the statement of profit or loss and other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Leasehold improvements

Leasehold improvements are stated at cost, less accumulated amortization and accumulated impairment in value. Leasehold improvements 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.

2.20 Intangible assets – software costs

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production or procurement of identifiable and unique software products controlled by the bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight line basis over the expected useful life of three years (at the rate of 33.3% per year).

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

2.21 Employee benefits

(i) Retirement benefit obligations

The Bank has a statutory requirement to contribute to the pension fund preferred by employees, which is a defined contribution scheme. The Bank contributes 10% of the required 20% of gross emoluments to the scheme and the contributions are recognised as an expense in the period to which they relate.

(i) Retirement benefit obligations (Continued)

The remaining 10% is deducted from employees emoluments. The Bank has no legal or constructive obligation to pay further contributions if PPF does not hold sufficient assets to pay all employees the benefit relating to the employees service in the current and prior periods.

(ii) Other emoluments

Entitlements to annual leave are recognized when they accrue to employee. Outstanding days at year end are forfeited and therefore no provision is made for leave allowance.

2.22 Share capital

Ordinary shares are classified as ‘share capital’ in equity. Any premium received over and above the par value of the shares is classified as ‘share premium’ in equity. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

The leases entered into by the bank are operating leases. The total payments made under operating leases are charged to other operating expenses in the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.24 Contingencies and commitments
Transactions are classified as contingencies where the bank's obligations depend on uncertain future events. Items are classified as commitments where the bank commits itself to future transactions if the items will result in the acquisition of assets.

i. Financial guarantees

Financial guarantees are initially recognised in the financial statements at fair value on the date the financial guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed at arm`s length and the value of premium agreed corresponds to the value of the guarantee obligation.

ii. Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off the balance sheet transactions and disclosed as contingent liabilities.

2.25 Inventories
Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first in first out basis. Any obsolete items are provided for in full in the year they are detected.

2.26 Cash and cash equivalents
For the purposes of statement of cash flows, cash and cash equivalents comprise of cash in hand (notes and coins on hand), highly liquid financial assets with original maturity of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair values and are used by the Bank in the management of its short-term commitments, and unrestricted balances held with the Bank of Tanzania. Cash and cash equivalents excludes the cash reserve requirement held with Bank of Tanzania.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Dividends

The dividend distribution to the Bank's shareholders shall be recognized as a liability in the Bank's financial statements in the period in which the dividends are approved by Bank's shareholders. Proposed dividends are not recognized until ratified at the Annual General Meeting (AGM). Payment of dividend is subject to withholding tax at the enacted rate of 5% (2015: 5%).

2.28 Earnings per share

The Bank presents basic and diluted Earnings Per Share (EPS) in its financial statements. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Bank by the weighted average number of shares outstanding during the year. Diluted EPS is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding during the year for the effect of all dilutive potential ordinary shares.

2.29 Comparatives

Previous year's figures have been regrouped wherever considered necessary in order to make them comparable with the current year's figures.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies.

3.1 Impairment losses on loans and advances

The Bank reviews its loan portfolio on quarterly basis to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Judgments may also change with time as new information becomes available. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or economic conditions that correlate with defaults on assets in the Bank. The nature and carrying values of the loans and advances are disclosed in the Note 8 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

3.3 Held to maturity investments

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

3.4 Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3.5 Deferred tax assets

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning and strategies. The deferred tax asset recognized on the Bank's statement of financial position in year 2016 amounted to TZS 260,134,462 (2015: TZS 124,454,000). The judgments take into consideration the effect of both positive and negative evidence, including historical financial performance, projections of future taxable income, and future reversals of existing taxable temporary differences.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.6 Property, equipment and intangible assets

Critical estimates are made by the directors in determining the useful lives of property, equipment and intangible assets as well as their residual values. The Bank reviews the estimated useful lives of property, equipment and useful lives at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within `Other (losses)/gains – net' in profit or loss. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

4. FINANCIAL RISK MANAGEMENT

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

The Bank`s risk management policies are designed to identify and analyse these risks, set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up to date information systems. The Bank regularly reviews its risk management policies and systems to reflect the changes in markets, products and emerging best practices.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. As part of its governance structure, the Board of Directors has embedded a comprehensive risk management framework for identifying, measuring, controlling (setting risk mitigations) and monitoring of the Bank's risks. The policies are integrated in the overall management information systems of the Bank and supplemented by a management reporting structure. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered, and emerging best practice.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees / stakeholders understand their roles and obligations. The Board's Credit Committee,
and Audit Committee are responsible for monitoring compliance with the Bank's risk management policies and procedures, and review of the adequacy of risk management framework in relation to the risks faced by the group. These committees are assisted in these functions by various management committees which undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

4. FINANCIAL RISK MANAGEMENT (Continued)

The most important type of risks are:

- Credit risk
- Liquidity risk
- Market risk

The notes below provide detailed information on each of the above risks and the Bank's objectives, policies and processes for measuring and managing risk, and the Bank`s management of capital.

4.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that the counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank`s business. Management therefore, carefully manages its exposure to the credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank`s asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loans commitments. The credit risk management and control are centralized in the credit risk management team of the Bank and reported to the Board of Directors and heads of department regularly.

4.1.1 Credit risk measures

a. Loans and advances

In measuring credit risk of loans and advances to customers and banks at a counterparty level, the Bank reflects three components: (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model'), required by Basel Committee on Banking Regulations and the supervisors Banks (the Basel Committee) and are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to various categories of counterparty in line with the Bank of Tanzania guidelines. For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all customers are segmented into five rating classes as shown below:

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1.1 Credit risk measures (Continued)

a. Loans and advances (Continued)

Traditional loans (loans other than microfinance loans)

Classification	Past due (Days)	Provisioning rate
Current	0-30	1%
Especially mentioned	31-90	3%
Substandard	91-180	20%
Doubtful	181-360	50%
Loss	361-	100%

Microfinance Loans

Classification	Past due (Days)	Provisioning rate
Current	0-5	1%
Especially mentioned	6-30	5%
Substandard	31-60	25%
Doubtful	61-90	50%
Loss	91-	100%

b. Debt securities

Debt securities are Treasury Bills issued by the Government of the United Republic of Tanzania. These investments are internally graded as current.

Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan it is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

4.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1.2 Risk limit control and mitigation policies (Continued)

i. Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risks as loans. Documentary and commercial letters of credit - which are written undertakings by the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

ii. Collateral

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

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

Corporate, small and medium enterprise and micro enterprise loans are generally secured while salaried workers loans are unsecured. In order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

iii. Lending limits (for derivatives and settlement risk)

The Bank maintain strict control limits on net derivative positions (i.e difference between purchases and sales contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Bank (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1.2 Risk limit control and mitigation policies (Continued)

iii. Lending limits (for derivatives and settlement risk) (Continued)

This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties. Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits have been established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

4.1.3 Impairment and provisioning policies

Impairment provisions are recognized for the financial reporting purposes only for losses that have been incurred at the end of the reporting period based on objective evidence of impairment.

The main provision shown on the statement of financial position at year end is calculated on the basis of the requirement of IAS 39 and is made up of the following:

	31 December 2016		31 December 2015	
Categories	**Loans and advances to customers TZS`000**	**Impairment provisions TZS`000**	Loans and advances to customers TZS`000	Impairment provision TZS`000
Solidarity Group Loan	**1,635,899**	**36,220**	587,451	24,145
Micro Enterprise loans	**2,067,496**	**172,494**	1,080,469	55,879
Small Medium Enterprise loans	**8,509,570**	**497,133**	9,666,429	203,775
Salary Workers Loans	**2,129,392**	**44,540**	2,365,232	27,517
Other loans	**11,504,227**	**182,857**	4,461,715	135,776
	25,846,584	**933,244**	18,161,296	447,092

In assessing the level of impairment, management determines whether objective evidence of impairment exists under IAS 39, based on the criteria detailed in Note 2.13.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1.3 Impairment and provisioning policies (Continued)

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

The regulatory provision is derived from each of the five rating classes as shown below:

	31 December 2016		31 December 2015	
	Loans and advances to customers TZS`000	**Impairment provisions %**	Loans and advances to customers TZS`000	Impairment provisions %
Current	**22,750,111**	**0.00%**	16,567,453	-
ESM	**2,163,098**	**0.97%**	391,593	33.02%
Sub-standard	**229,284**	**21.99%**	730,574	28.87%
Doubtful	**460,348**	**49.36%**	389,280	22.45%
Loss	**243,743**	**27.68%**	82,396	60.98%
	25,846,584		18,161,296	

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements has been shown below:

Credit exposure	**2016 TZS`000**	**%**	2015 TZS`000	%
On balance sheet item				
Cash and balance with Bank of Tanzania	**5,302,308**	**13.27**	6,793,705	12.77
Placements and balances with other banks	**8,777,313**	**21.97**	27,466,284	51.62
Government securities	**-**		994,364	1.87
Loans and advances to customers	**24,913,340**	**62.36**	17,714,204	33.29
Other assets	**958,502**	**2.40**	238,015	0.45
	39,951,463	**100**	53,206,572	100
Off balance sheet items				
Guarantees	**198,273**	**100**	-	-

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

*Other assets (excludes prepayments, stock as they are not financial assets)
The total maximum exposure for the group is derived from loan and advances to customers at 62.63% (2015:33.35%).
The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from the loan and advances portfolio as corporate loans which represents the greatest group in the portfolio are backed by collaterals.

4.1.5 Loans and advances

Loans and advances are summarized as follows:

	2016 Loans and advances to customers TZS`000	2015 Loans and advances to customers TZS`000
Neither past due nor impaired	**21,528,331**	15,056,074
Past due but not impaired	**1,045,529**	1,330,905
Impaired	**3,272,724**	1,774,317
Gross	**25,846,584**	18,161,296
Less: Allowance for impairment (Note 8)	**(933,244)**	(447,092)
Net	**24,913,340**	17,714,204
Portfolio allowance	**25,675**	24,145
Individually impaired	**907,569**	422,947
	933,244	447,092

The total impairment provision for loans and advances is TZS 933,243,810 (2015: TZS 447,092,000). This amount represents individually impaired loans. Further information of the impairment allowance for loans and advances to customers is provided in Note 8.

During the year ended 31 December 2016, the Bank’s total loans and advances increased by 42% (2015: 124%) as a result of the expansion of the lending business.

When entering into new markets or new industries, the Bank focused more on the business with small and medium corporate enterprises with good performance records or retail customers providing sufficient collateral in order to contain the level of delinquency.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1.5 Loans and advances (Continued)

a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal system adopted by the Bank.
Loans and advances that were neither past due no impaired can be analyzed as follows:

	2016	2015
	TZS\`000	TZS\`000
Solidarity Group Loan	**694,987**	509,704
Small Medium Enterprise loans	**6,923,186**	885,093
Salary Workers Loans	**3,505,768**	328,775
Personal staff loan	**914,746**	8,342,676
Micro Enterprise	**322,277**	2,043,147
Other loans	**9,167,367**	2,946,679
	21,528,331	15,056,074
Amounts due from banks	**8,777,313**	27,466,284

All of the loans and advances that were neither past due nor impaired fall under the top grade of the internal rating system known as current.

Placements and balances with other banks include balances and placements with local banks. The local banks are highly rated banks nationally.

b) Loans and advances past due but not impaired

The loans and advances less than 30 days past due are not usually considered impaired unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired are as follows:

	2016	2015
	TZS\`000	TZS\`000
Solidarity Group Loan	**18,462**	54,010
Small Medium Enterprise loans	**512,466**	864,138
Salary Workers Loans	**258,270**	209,112
Personal staff loan	**34,535**	37,142
Micro Enterprise	**-**	67,936
Other loans	**221,796**	98,567
	1,045,529	1,330,905

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1.5 Loans and advances (Continued)

c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class is as follows:

	2016 TZS`000	2015 TZS`000
Solidarity Group Loan	**45,004**	80,295
Small Medium Enterprise loans	**987,617**	788,215
Salary Workers Loans	**699,203**	184,975
Micro enterprise	**1,281,905**	157,440
Staff loans	**14,862**	14,061
Other loans	**244,133**	549,331
	3,272,724	1,774,317

d) Amounts due from banks

The total gross amount of impaired amounts from banks as at 31 December 2016 was Nil (2015: Nil). No collateral is held by the Bank, and no impairment provision has been provided against the gross amount.

4.1.6 Debt securities

The only investment securities held by the Bank is the Treasury Bills issued by the Government. At the end of the reporting period, these investments were not impaired. There are no credit ratings for these investments.

4.1.7 Repossessed collateral

During the year, the bank did not obtain any asset by taking possession of collateral held as security. Repossessed properties are usually sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1.8 Concentration of loans and advances

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

	2016		2015	
Sector	**Required**	**Actual**	Required	Actual
Agriculture, fishing, forestry and Animal keeping	**8%**	**7%**	15%	7.03%
Finance, Insurance and Business services	**1%**	**1%**	1%	1.47%
Financial Services, Cooperatives and Associations(SACCOS, Women Groups,)	**2%**	**1%**	40%	5.60%
Manufacturing	**0%**	**0%**	5%	3.28%
Real Estate and Construction	**11%**	**13%**	3%	8.00%
Transport and communication	**4%**	**3%**	3%	4.50%
Trade and commerce	**40%**	**37%**	20%	47.12%
Tourism, hotel and restaurants	**2%**	**1%**	3%	2.00%
Personal including employee loans	**18%**	**19%**	10%	21.00%
Education	**4%**	**5%**	-	-
Others	**11%**	**13%**	-	-
Total	**100%**	**100%**	100%	100%

4.2 Market risk

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

The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market risk (Continued)

a. Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimizing the return on risk. The Bank Finance department is responsible for the development of detailed risk management policies while Treasury is responsible for day-to-day implementation of those policies.

The Bank applies stress testing analysis in measuring exposure to market risk for the purpose of managing and controlling market risk exposures within acceptable limits while optimizing the return on investment.

b. Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme or worst case conditions. The Bank applies risk factor stress testing, where stress movements are applied to each risk category. The Bank carries out stress testing quarterly to determine whether it has enough capital to withstand adverse developments. This is for the purpose of alerting the Bank's Management to unfavorable unexpected outcomes related to various risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur. The results are meant to indicate weak spots in the risks tested at an early stage and to guide preventative actions by the Bank. Stress testing is done to supplement the Bank's other risk management approaches and measures.

4.2.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

The table below summarizes that Bank`s exposure to foreign currency exchange rate risk at 31 December 2016. Included in the table are the Bank`s financial instruments at carrying amounts, categorized by currency (all amounts expressed in thousands of Tanzanian Shillings). The following table shows the concentration of currency risk on- and off the balance sheet financial instruments:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market risk (Continued)

4.2.1 Foreign exchange risk (Continued)

At 31 December 2016

	TZS TZS'000	USD TZS' 000	EUR TZS'000	Others TZS'000	Total TZS '000
Assets					
Cash and balances with Bank of Tanzania	4,563,023	661,163	64,058	14,064	5,302,308
Balances with other banks	5,310,839	3,188,151	278,323	-	8,777,313
Loans and advances to customers	24,913,340	-	-	-	24,913,340
Inventories	10,484	-	-	-	10,484
Other assets	917,178	41,324	-	-	958,502
Total financial assets	35,714,864	3,890,638	342,381	14,064	39,961,947
Liabilities					
Deposits from customers	25,755,215	3,302,071	81,652	12,193	29,151,131
Deposits from banks	3,300,000	-	-	-	3,300,000
Other liabilities	1,794,676	2,991	-	-	1,797,667
Total financial liabilities	30,849,891	3,305,062	81,652	12,193	34,248,798
Net on-balance sheet position	4,864,973	585,576	260,729	1,871	5,713,149
Off- balance sheet position					
Guarantees	198,273	-	-	-	198,273

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market risk (Continued)

4.2.1 Foreign exchange risk (Continued)

At 31 December 2015

	TZS TZS 000	USD TZS 000	EUR TZS 000	Others TZS 000	Total TZS 000
Assets					
Cash and balances with Bank of Tanzania	5,406,792	1,326,194	43,961	16,758	6,793,705
Balances with other banks	24,821,678	2,407,747	236,859	-	27,466,284
Loans and advances to customers	18,161,296	-	-	-	18,161,296
Inventories	14,294	-	-	-	14,294
Other assets	228,146	9,869	-	-	238,015
Total financial assets	48,632,206	3,743,810	280,820	16,758	52,673,594
Liabilities					
Deposits from customers	45,303,349	3,152,215	252,293	14,977	48,722,834
Other liabilities	360,348	1,841	-	-	362,189
Total financial liabilities	45,663,697	3,154,056	252,293	14,977	49,085,023
Net on-balance sheet position	2,968,509	589,754	28,527	1,781	3,588,571
Off- balance sheet position	**-**	**-**	**-**	**-**	**-**

Foreign exchange sensitivity analysis

At December 2016, if the Tanzania Shilling (TZS) had weakened /strengthened by 10% (2015:10%) against US dollar, with all other variables held constant, Bank`s post tax profit for the year would have been TZS 58,975,000 (2015: TZS 52,154,000) higher/lower mainly as a result of foreign exchange losses on transaction of US Dollar denominated cash and balances with the Bank of Tanzania, placements and balances with other banks and customers and deposits from customers and other banks.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market risk (Continued)

4.2.2 Price risk

The Bank is not exposed to equity securities price risk as it currently has no investment in listed shares.

4.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly by the Bank.

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market risk (Continued)

4.2.3 Interest rate risk (Continued)

INTEREST RATE SENSITIVITY GAP

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 repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

At 31 December 2016	1 – 3 Months TZS`000	4 – 6 Months TZS`000	7 – 12 Months TZS`000	Above 1 year Years TZS`000	Non-interest Bearing TZS`000	Total TZS`000
ASSETS						
Cash and balances with Bank of Tanzania	-	-	-	-	5,302,308	5,302,308
Balances with other Banks	7,777,313	1,000,000	-	-	-	8,777,313
Government securities	-	-	-	-	-	-
Loans and advances to customers	2,303,331	1,895,797	4,133,927	16,580,285	-	24,913,340
Other assets	-	-	-	-	958,502	958,502
Total financial assets*	**10,080,644**	**2,895,797**	**4,133,927**	**16,580,285**	**6,260,810**	**39,951,463**
LIABILITIES						
Deposits from customers	15,683,500	10,267,815	3,199,816	-		29,151,131
Deposits from bank	3,000,000	-	300,000	-	-	3,300,000
Other liabilities	-	-	-	-	1,797,667	1,797,667
Total financial liabilities	**18,683,500**	**10,267,815**	**3,499,816**	**-**	**1,797,667**	**34,248,798**
Interest rate sensitivity gap as at 31st December, 2016	**(8,602,856)**	**(7,372,018)**	**634,111**	**16,580,285**	**4,463,143**	**5,702,665**

*Other assets exclude prepayments as they are not financial assets.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market risk (Continued)

4.2.3 Interest rate risk (Continued)

At 31 December 2015	1 – 3 Months TZS`000	4 – 6 Months TZS`000	7 – 12 Months TZS`000	Above 1 year Years TZS`000	Non-interest Bearing TZS`000	Total TZS`000
ASSETS						
Cash and balances with Bank of Tanzania	-	-	-	-	6,793,705	6,793,705
Balances with other Banks	16,110,190	7,876,621	2,187,144	-	1,292,329	27,466,284
Government securities	-	994,364	-	-	-	994,364
Loans and advances to customers	5,589,876	792,877	878,365	10,453,086	-	17,714,204
Other assets	238,015	-	-	-	-	238,015
Total financial assets*	21,938,081	9,663,862	3,065,509	10,453,086	8,086,034	53,206,572
LIABILITIES						
Customer deposits	29,619,195	10,262,849	8,840,790	-		48,722,834
Other liabilities	-	-	-	-	362,188	362,188
Total financial liabilities	29,619,195	10,262,849	8,840,790	-	362,188	49,085,022
Interest rate sensitivity gap as at 31st December, 2015	(7,681,114)	(598,987)	(5,775,281)	10,453,086	7,723,846	(4,121,550)

*Other assets exclude prepayments as they are not financial assets.

**NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3 Fair value of financial assets and liabilities

4.3.1 Financial instruments not measured at fair value

The fair value of financial assets and liabilities not measured at fair value approximate carrying amounts.

Loans and advances to customers

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

Investment securities

The fair value for held-to-maturity assets is based on market prices. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. The carrying amount is a reasonable approximation of fair value.

Deposits due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount is a reasonable approximation of fair value.

Off-balance sheet financial instruments

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

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair values as 31 December 2016 (2015: Nil).

At 31 December 2016	**Carrying Amount TZS`000**	Fair Value TZS`000
Guarantee and performance bonds	**226,073**	226,073
Undrawn credit lines and other commitments to lend	**968,241**	968,241
	1,194,314	1,194,314

NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3 Fair value of financial assets and liabilities (Continued)

4.3.1 Financial instruments not measured at fair value (Continued)

The following table summarises the carrying amounts and fair values of those financial assets and liabilities presented on the Bank's balance sheet at their fair values;

	Carrying Amount TZS`000	Fair Value TZS`000
At 31 December 2016		
Financial assets		
Cash and balances with Bank of Tanzania	**5,302,308**	5,302,308
Placements and balances with other banks	**8,777,313**	8,777,313
Loans and advances to customers	**24,913,340**	24,913,340
Other assets	**958,502**	958,502
	39,951,463	39,951,463
Liabilities		
Deposits from customers	**29,151,131**	29,151,131
Deposits from banks	**3,300,000**	3,300,000
Other liabilities	**1,797,667**	1,797,667
	34,248,798	34,248,798

	Carrying Amount TZS`000	Fair Value TZS`000
At 31 December 2015		
Financial assets		
Cash and balances with Bank of Tanzania	**6,793,705**	6,793,705
Placements and balances with other banks	**27,466,284**	27,466,284
Government securities	**994,364**	994,364
Loans and advances to customers	**17,714,204**	17,714,204
Other assets	**238,015**	238,015
	53,206,572	53,206,572
Liabilities		
Deposits from customers	**48,722,834**	48,722,834
Other liabilities	**362,188**	362,188
	49,085,022	49,085,022

4.3.2 Fair value hierarchy and measurement

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3 Fair value of financial assets and liabilities (Continued)
4.3.2 Fair value hierarchy and measurement (Continued)

- 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) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

31 December 2016	Level 1 TZS`000	Level 2 TZS`000	Level 3 TZS`000	Total TZS`000
Financial assets				
Cash and balance with Bank of Tanzania	**-**	**5,302,308**	**-**	**5,302,308**
Placements and Balances with other banks	-	**8,777,313**	**-**	**8,777,313**
Loans and advances	-	**24,913,340**	**-**	**24,913,340**
Other assets	-	**958,502**	**-**	**958,502**
	-	**39,951,463**	**-**	**39,951,463**
Financial liabilities				
Deposits from customers	-	**29,151,131**	-	29,151,131
Deposits from banks	-	**3,300,000**	-	3,300,000
Other liabilities	-	**1,797,667**	-	1,797,667
	-	**34,248,798**	-	34,248,798

31 December 2015	Level 1 TZS`000	Level 2 TZS`000	Level 3 TZS`000	Total TZS`000
Financial assets				
Cash and balance with Bank of Tanzania	-	6,793,705	-	6,793,705
Placements and Balances with other banks	-	27,466,284	-	27,466,284
Government securities	-	994,364	-	994,364
Loans and advances	-	17,714,204	-	17,714,204
Other assets	-	238,015	-	238,015
	-	53,206,572		53,206,572
Financial liabilities				
Deposits	-	48,722,834	-	48,722,834
Other liabilities	-	362,188	-	362,188
	-	49,085,022	-	49,085,022

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3 Fair value of financial assets and liabilities (Continued)

4.3.2 Fair value hierarchy and measurement (Continued)

a. Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the bank is the current bid price of debt securities from the most current Bank of Tanzania auction results. Instruments included in Level 1 comprise primarily available-for-sale Treasury Bonds.

b. Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer/Bank of Tanzania quotes for similar instruments;
- Quoted prices for identical or similar assets or liabilities in markets that are not active.

4.3.3 Categories of the financial instruments

	Loans and receivables TZS`000	Held to maturity TZS`000	Total TZS`000
31 December 2016			
Financial assets			
Cash and balances with Bank of Tanzania	**5,302,308**	**-**	**5,302,308**
Balances with other banks – current and call accounts	**1,119,738**	-	**1,119,738**
Balances with other banks – Time deposits	**-**	**7,657,575**	**7,657,575**
Loans and advances	**24,913,340**	**-**	**24,913,340**
Other assets	**958,502**	**-**	**958,502**
	32,293,888	**7,657,575**	**39,951,463**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3 Fair value of financial assets and liabilities (Continued)

4.3.3 Categories of the financial instruments (Continued)

	Financial liabilities at amortized costs TZS`000
Financial liabilities	
Deposits from customers	**29,151,131**
Deposits from banks	**3,300,000**
Other liabilities	**1,797,667**
	34,248,798

31 December 2015

	Loans and receivables TZS`000	Held to maturity TZS`000	Total TZS`000
31 December 2015			
Financial assets			
Cash and balances with Bank of Tanzania	6,793,705	-	6,793,705
Balances with other banks – current and call accounts	1,292,329	-	1,292,329
Balances with other banks – Time deposits	-	26,173,955	26,173,955
Government securities	-	994,364	994,364
Loans and advances	17,714,204	-	17,714,204
Other assets	238,015	-	238,015
	26,038,253	27,168,319	53,206,572

	Financial liabilities at amortized costs TZS`000
Financial liabilities	
Deposits from customers	48,722,834
Other liabilities	362,188
	49,085,022

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4 Liquidity risk

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

4.4.1 Liquidity risk management process

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

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

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

4.4.2 Funding approach

The Bank's major source of funding is customer deposits. To this end, the Bank maintain a diversified and stable funding base comprising current/demand, savings and time deposits. The Bank places considerable importance on the stability of these deposits, which is achieved through the Bank`s retail banking activities and by maintaining depositor confidence in the Bank 's business strategies and financial strength.

The Bank borrows from the interbank market through transactions with other Banks for short term liquidity requirements. As part of the contingency funding plan, the Bank has funding lines with both local banks for short term funding requirements.

4.4.3 Non derivatives cash flows

The table below presents cash flow payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of financial reporting period. The amounts disclosed in the table below are the contractual undiscounted cash flows, as the Bank manage the inherent liquidity risk based on expected undiscounted cashflows.

**NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4 Liquidity risk (Continued)

4.4.3 Non derivatives cash flows (Continued)

Liquidity risk analysis

31 December 2016	1 – 3 Months TZS`000	4 – 6 Months TZS`000	7 – 12 Months TZS`000	1 – 3 Years TZS`000	Total TZS`000
Financial assets					
Cash and balances with Bank of Tanzania	5,302,308	-	-	-	5,302,308
Placements and balances with other banks	7,720,053	1,057,260	-	-	8,777,313
Loans and advances to customers	2,303,331	1,895,797	4,133,927	16,580,285	24,913,340
Other assets	958,502	-	-	-	958,502
Total	16,284,194	2,953,057	4,133,927	16,580,285	39,951,463
Financial liabilities					
Deposits from customers	15,342,014	10,528,166	3,280,951	-	29,151,131
Deposits from banks	3,000,000	-	300,000	-	3,300,000
Other liabilities	1,797,667	-	-	-	1,797,667
Total	20,139,681	10,528,166	3,580,951	-	34,248,798
Maturity gap as at 31 December, 2016	(3,855,487)	(7,575,109)	552,976	16,580,285	5,702,665

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4 Liquidity risk (Continued)

4.4.3 Non derivatives cash flows (Continued)

Liquidity risk analysis

31 December 2015	1 – 3 Months TZS`000	4 – 6 Months TZS`000	7 – 12 Months TZS`000	1 – 3 Years TZS`000	Total TZS`000
Financial assets					
Cash and balances with Bank of Tanzania	6,793,705	-	-	-	6,793,705
Placements and balances with other banks	17,402,519	7,876,621	2,187,144	-	27,466,284
Government securities	-	994,364	-	-	994,364
Loans and advances to customers	5,589,876	792,877	878,365	10,453,086	17,714,204
Other assets	238,015	-	-	-	238,015
Total	**30,024,115**	**9,663,862**	**3,065,509**	**10,453,086**	**53,206,572**
Financial liabilities					
Customer deposits	29,619,195	10,262,849	8,840,790	-	48,722,834
Other liabilities	362,188	-	-	-	362,188
Total	**29,981,383**	**10,262,849**	**8,840,790**	**-**	**49,085,022**
Maturity gap as at 31 December, 2015	**42,732**	**(598,987)**	**(5,775,281)**	**10,453,086**	**4,121,550**

The maturity gap analysis shows that the bank has unfavorable maturity in the first six months, followed by favorable maturities; however, the bank is determined to cover up the mismatches found by raising more liquid assets in the first three months.

NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4 Liquidity risk (Continued)

4.4.3 Non derivatives cash flows (Continued)

The table below shows the liquidity position of the bank as at the end of the year 31 December 2016.

	2016	2015
	TZS`000	TZS`000
Total Liability	**34,395,868**	49,151,632
Total liquid assets held	**19,972,372**	38,849,943
Liquidity ratio	**58%**	79%
Regulatory requirement	**20%**	20%

4.4.4 Assets held for managing liquidity risk

The Bank assets held for managing liquidity risk are as follows:

- Cash and balances held with Bank of Tanzania (excluding SMR)
- Treasury bills
- Placements with other banks.
- In normal course of business, a proportion of customers loans contractually repayable within one year will be extended. The Bank will also be able to meet unexpected net cash flows by selling securities and accessing additional funding sources such as asset backed market.

4.5 Capital management

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 set by the regulator, Bank of Tanzania
- to safeguard the Bank’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders
- to maintain a strong capital base to support the development of its business.

The Bank`s management monitors the adequacy of its capital and use of regulatory capital are monitored on a quarterly basis by management using the ratios established by the Bank of Tanzania (BOT) which rates are broadly in line with those for Basel Committee. The ratio measures capital adequacy by comparing the Bank`s eligible capital with its statements of financial position assets, off balance sheet component and market and other risk position at weighted amounts to reflect their relative risk. The required information is filed with Bank of Tanzania on a quarterly basis.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.5 Capital management

The Bank manages its capital to meet Bank of Tanzania requirements listed below:

- hold the minimum level of the regulatory capital of TZS 2 billion;
- maintain core capital of not less than 10% of total deposit liabilities; and
- maintain a ratio of total regulatory capital of not less than the internationally agreed 12% of risk-weighted assets (Basel ratio) plus risk-weighted off-balance sheet items.

The Bank regulatory capital as established by the Bank of Tanzania is divided into two tiers:

- Tier 1 capital which includes ordinary share capital, retained earnings and reserves created by appropriations of retained earnings deduct prepaid expenses and deferred charges
- Tier 2 capital (supplementary capital) which includes the general provisions.

The risk weighted assets are measured by means of a hierarchy, classified according to the nature and reflecting an estimate, of the credit risk associated with each assets and counter party. A similar treatment is adopted for off balance sheet exposure, with some adjustment to reflect the more contingent nature of the potential losses.

During the year, the Bank has complied with all the imposed capital requirements of Bank of Tanzania to which the Bank is subject.

REGULATORY CAPITAL	**2016** **TZS '000**	2015 TZS '000
Tier 1 Capital		
Share capital	**7,350,962**	4,514,528
Retained earnings	**(320,938)**	(937,268)
Prepaid expenses	**(228,810)**	(84,848)
Differed tax asset	**(260,134)**	(122,773)
Intangible assets	**(171,647)**	(173,142)
Total qualifying Tier 1 Capital	**6,369,433**	3,196,497
Tier 2 Capital		
Regulatory reserve	**37,031**	-
General provision reserve	**216,779**	-
Total qualifying Tier 2 Capital	**253,810**	-
Total regulatory capital	**6,623,243**	3,196,497
Risk - weighted assets		
On balance sheet position	**26,753,961**	24,902,897
Off balance sheet position	**226,073**	-
Total risk - weighted assets	**26,980,034**	24,902,897

**NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.5 Capital management (Continued)

	Required ratios 2016	Required ratios 2015	Bank's Ratio 2016	Bank's ratio 2015
Tier 1 Capital	**12.5%**	12.5%	**23.61%**	12.84%
Tier 1 + Tier 2 Capital	**14.5%**	14.5%	**24.55%**	12.84%

31 December 2016

Statement of Financial Position Assets(Net)	Nominal Statement of Financial Position Amounts TZS`000	Risk %	Weighted risk TZS`000
Cash and balances with Bank of Tanzania	5,302,308	0%	-
Balances with other banks	707,564	20%	141,513
Cheques and items for clearing	412,174	50%	206,087
Government securities	-	100%	-
Loans, advances and overdrafts	24,913,340	100%	24,913,340
Other assets	958,502	100%	958,502
Property and equipment	518,952	100%	518,952
Leasehold improvements	767,020	0%	-
Sundry receivables(Staff adv.& imp rests)	15,567	100%	15,567
Prepaid expenses (Deduction from core capital)	228,810	0%	-
Intangible assets (Deduction from core capital)	171,647	0%	-
TOTAL	**33,995,884**		**26,753,961**

NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

4.5 Capital management (Continued)

31 December 2015

Statement of Financial Position Assets (Net)	Nominal Statement of Financial Position Amounts TZS`000	Risk	Weighted risk TZS`000
Cash and balances with Bank of Tanzania	6,793,705	0%	-
Balances with other banks	27,123,212	20%	5,424,642
Cheques and items for clearing	343,072	50%	171,526
Government securities	994,364	100%	994,364
Loans, advances and overdrafts	17,714,204	100%	17,714,204
Other assets	138,877	100%	138,877
Property and equipment	444,984	100%	444,984
Leasehold improvements	544,203	0%	-
Sundry receivables(Staff adv.& imp rests)	14,290	100%	14,290
Prepaid expenses (Deduction from core capital)	84,848	0%	-
Intangible assets (Deduction from core capital)	173,142	0%	-
TOTAL	54,269,763		24,902,887

5. CASH AND BALANCES WITH BANK OF TANZANIA	**2016**	2015
	TZS`000	TZS`000
Cash in hand (Note 33)	**927,257**	750,793
Clearing account with Bank of Tanzania (Note 33)	**1,322,451**	585,573
Statutory minimum reserve*	**3,052,600**	1,278,500
	5,302,308	2,614,866

*Section 44 of the Bank of Tanzania Act of 2006 and Sections 4 and 71 of the Banking and Financial Institution Act of 2006 requires the Bank to maintain a statutory minimum reserve (SMR) on its total deposits and liabilities and funds borrowed from general public. Minimum reserve requirement was 10% (2015:10 %) of the average deposits.

The Statutory Minimum Reserve (SMR) deposit is not available to finance the Bank's day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the cash flow statement (See Note 33).

The cash on hand and balances with Bank of Tanzania are non-interest bearing.

6. PLACEMENTS AND BALANCES WITH OTHER BANKS	**2016**	2015
	TZS`000	TZS`000
Placements with local banks	**7,657,575**	26,173,955
Balances with local banks	**707,564**	949,257
Cheques and items for clearance with other banks	**412,174**	343,072
	8,777,313	27,466,284
Maturity analysis		
Redeemable on demand		
-Balances with local banks (Note 33)	**707,564**	949,257
-Cheques and items for clearing with other banks (Note 33)	**412,174**	343,072
Placements with local banks		
-Maturity within 3 months from acquisition (Note 33)	**6,600,315**	5,539,211
-Maturity after 3 months but within 6 months from date of acquisition	**1,057,260**	7,736,954
-Maturity after 6 months from date of acquisition	**-**	12,897,790
	8,777,313	27,466,284

7. GOVERNMENT SECURITIES		
Held to maturity		
Treasury bills	**-**	994,364

Treasury bills are debts securities issued by the Government of the United Republic of Tanzania. As at 31 December 2016 the Bank had not treasury bills (2015: Nil)

7. GOVERNMENT SECURITIES (Continued)

	2016 TZS`000	2015 TZS`000
Maturity analysis of Government securities is as follows:		
Maturity after 3 months from date of acquisitions		
Treasury bills	**-**	994,364
	-	994,364

There were no Government securities maturing within 3 months from date of acquisition which form part of Bank cash and cash equivalent for the purpose of statement of cash flows (Note 33)

8. LOANS AND ADVANCES TO CUSTOMERS

	2016 TZS`000	2015 TZS`000
Term loans	**20,655,987**	16,482,314
Overdrafts	**3,160,454**	614,096
Staff loans and advances	**739,053**	406,265
Interest receivable	**1,291,090**	658,621
Gross loans and advances to customers	**25,846,584**	18,161,296
Less: Provisions for impairment	**(933,244)**	(447,092)
Net loans and advances to customers	**24,913,340**	17,714,204

Maturity analysis

The maturity analysis is based on the remaining period to contractual maturity from 31 December.

	2016 TZS`000	2015 TZS`000
Maturing within 1 year	**8,333,055**	7,261,118
Maturing after 1 year but within 3 years	**16,580,285**	10,453,086
Net loans and advances	**24,913,340**	17,714,204

.

Credit impairment for loans and advances to customers

The movements in provisions for impairment losses on loans and advances as per International Financial Reporting Standards (IFRS) are as follows:

	2016 TZS`000	2015 TZS`000
At 1 January	**447,092**	94,778
Increase in allowances for loan repayment	**599,357**	352,314
Write off of bad loans	**(113,205)**	-
At 31 December	**933,244**	447,092

9. INVENTORY

	2016	2015
ATM cards	**10,484**	13,894
Stationery	**-**	400
	10,484	14,294

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2016 (Continued)

		2016 TZS`000	2015 TZS`000
10.	**OTHER ASSETS**		
	Prepayments	**228,810**	84,848
	Staff salary advances	**15,567**	14,290
	Withholding tax receivable	**95,533**	71,522
	Other assets	**618,592**	67,355
		958,502	238,015

All other assets are current and no provision for impairment was made (2015: Nil).

		2016 TZS`000	2015 TZS`000
11.	**INTANGIBLE ASSETS**		
	Year 2016		
	Cost		
	At 1 January	**344,001**	244,847
	Additions	**14,032**	94,157
	At 31 December	**358,033**	339,004
	Amortisation		
	At 1 January	**(170,859)**	77,306
	Charge for the year	**(15,527)**	88,556
	At 31 December	**(186,386)**	165,862
	Net Book Value		
	At 31 December	**171,647**	173,142

The intangible assets represent the computer software acquired by the Bank. No intangible assets have been pledged as security for liabilities (2015:173,142). There are no restrictions on the software other than those outlined in the software licence.

As at 31 December 2016, there were no significant intangible assets controlled by the entity which have not been recognised as assets.

12. PROPERTY AND EQUIPMENT

Year 2016	ATM & Generators TZS'000	Computers TZS'000	Office Machines & Equipment TZS'000	Furniture & Fittings TZS'000	Motor Vehicle TZS'000	Total TZS'000
Cost						
At January 2016	**118,662**	**90,400**	**236,870**	**110,987**	**182,396**	**739,315**
Additions	**31,000**	**88,090**	**99,462**	**38,478**	**-**	**257,030**
At 31st December 2016	**149,662**	**178,490**	**336,332**	**149,465**	**182,396**	**996,345**
						-
Accumulated Depreciation	**56,109**	**57,420**	**103,470**	**38,917**	**38,415**	**294,331**
Charge for the period	**24,542**	**25,330**	**62,303**	**25,288**	**45,599**	**183,062**
At 31 December 2016	**80,651**	**82,750**	**165,773**	**64,205**	**84,014**	**477,393**
						-
Net Book Value	**69,011**	**95,740**	**170,559**	**85,260**	**98,382**	**518,952**
Year 2015						
Cost						
At 1 January	118,662	73,656	168,421	82,768	52,347	495,854
Additions	-	16,744	68,449	28,219	171,396	284,808
Disposal	-	-	-	-	(41,347)	(41,347)
At 31 December	**118,662**	**90,400**	**236,870**	**110,987**	**182,396**	**739,315**
Accumulated depreciation						
At 1 January	32,377	28,970	54,171	21,048	14,698	151,264
Charge for the period	23,732	28,450	49,299	17,869	44,390	163,740
Depreciation on disposal	-	-	-	-	(20,673)	(20,673)
At 31 December	**56,109**	**57,420**	**103,470**	**38,917**	**38,415**	**294,331**
Net book value	**62,553**	**32,980**	**133,400**	**72,070**	**143,981**	**444,984**

No item of property and equipment has been pledged as security for liabilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)

13. LEASEHOLD IMPROVEMENTS

	2016 TZS`000	2015 TZS`000
Cost		
At 1 January	**654,686**	352,969
Additions	**307,589**	301,717
At 31 December	**962,275**	654,686
Amortization		
At 1 January	**(110,483)**	67,735
Charge for the year	**(84,772)**	42,748
At December	**(195,255)**	110,483
Net book value	**767,020**	544,203

14. DEPOSITS

(a) DEPOSITS FROM CUSTOMERS

Current accounts	**8,937,863**	10,538,842
Savings accounts	**4,659,850**	4,336,305
Time deposit accounts	**15,553,418**	33,847,687
	29,151,131	48,722,834

Savings and time deposits are interest bearing accounts. The interest bearing customer deposits accounts carry variable interest rates.

Maturity analysis		
Repayable on demand	**13,597,713**	14,875,148
Maturing within three months	**2,378,552**	14,744,047
After 3 months but within one year	**13,174,866**	10,262,849
Maturing after one year	**-**	8,840,790
	29,151,131	48,722,834

(b) DEPOSITS FROM BANKS

Deposits from banks	**3,300,000**	-

Deposits from banks are interest bearing with variable interest rates.

Maturity analysis		
Maturing within three months	**3,000,000**	-
After 3 months but within one year	**300,000**	-
Maturing after one year	**-**	-
	3,300,000	-

NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)

		2016	2015
15.	**OTHER LIABILITIES**	**TZS`000**	TZS`000
	Accrued expenses	**44,827**	48,027
	Insurance payables	**24,870**	198,591
	Others	**1,727,970**	115,570
		1,797,667	362,188
	Maturity analysis		
	Maturity within 3 months	**1,797,667**	362,188

16.	**DEFERRED INCOME TAX ASSET**		
	Deferred income tax asset	**(260,134)**	(122,773)

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

	2016	2015
	TZS`000	TZS`000
At start of the year	**(122,773)**	(13,570)
Credit to statement of profit or loss and other comprehensive income (Note 27)	**(137,361)**	(109,203)
At end of year	**(260,134)**	(122,773)

Deferred income tax liability and deferred income tax credit to the statement of profit or loss and other comprehensive income are attributed to the following items:

	2016	2015
Deferred income tax	**TZS`000**	TZS`000
Accelerated capital allowance	**11,975**	15,846
Provisions	**(279,973)**	(134,127)
Unrealized exchange (loss)/gains	**7,864**	(4,492)
	(260,134)	(122,773)

17.	**INCOME TAX PAYABLE**		
	At 1 January	**66,610**	-
	Tax charge to statement of profit or loss and other comprehensive income (Note 27)	**343,719**	107,478
	Tax paid during the year	**(263,260)**	(40,868)
	At 31 December	**147,069**	66,610
18.	**CAPITAL AND RESERVES**		
	Authorized		
	60,000,000 shares of TZS 500 each	**30,000,000**	30,000,000
	Issued and fully paid-up share Capital		
	9,029,056 shares of TZS 500 each	**4,514,528**	4,514,528
	5,561,635 Right issue of TZS 500 each	**2,780,818**	-
		7,295,346	4,514,528

19. ADVANCE TOWARDS SHARE CAPITAL

The shareholders approved issuance of rights issue at the Annual General Meeting. The rights issue exercise commenced on 9 November 2015 and closed on 29 January 2016. As of 31 December 2015, TZS 1,461,477,000 was paid by shareholders for the purpose of acquiring shares. These were subsequently allotted during 2016.

20. RESERVES

(a) REGULATORY RESERVE

Regulatory reserves represent an amount set aside to cover additional provision for losses over and above the impairment of loans advances required in order to comply with the requirements of the Bank of Tanzania. This reserve is not available for distribution.

Provision for non-performing assets is computed using both IAS 39 approach and BOT regulatory approach. IAS 39 provision is charged to the statement of profit or loss and other comprehensive income. Where the IAS 39 provision is less than BOT provision, then the excess over IAS 39 provision is taken to a non-distributable reserve known as Regulatory Risk Reserve. During the year under review the provisions using both approaches were as follows:

	2016 TZS`000	2015 TZS`000
Provision per Bank of Tanzania approach	970,274	791,022
Provision per IAS 39 (Note 8)	(933,244)	(475,423)
Excess over IAS provision taken to regulatory risk reserve	37,030	315,599

(b) GENERAL PROVISION RESERVE

General provision reserve represents the surplus of loan provision computed as per the Bank of Tanzania regulations over the impairment of loans and advances. This is a non-distributable reserve. The movements in general banking risk reserve are as follows:

	2016 TZS`000	2015 TZS`000
At 1 January	-	-
Movement during the year:		
Transfer from equity during the year	216,779	-
At 31 December	216,779	-

This is per the Banking and Financial Institutions (Management of Risk Assets) Regulation 2014 which is 1% of the current classification.

NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)

		2016	2015
21.	**INTEREST INCOME**	**TZS`000**	TZS`000
	Loans and advances to customers	**4,898,115**	2,930,109
	Placements and balances with other banks	**2,440,144**	2,554,230
	Interest on Government securities	**100,629**	105,637
		7,438,888	5,589,976
22.	**INTEREST EXPENSE**		
	Deposits from customers:		
	-Time deposits	**3,287,927**	2,864,275
	-Savings deposits	**59,645**	57,786
	-Borrowing from Banks	**61,060**	
		3,408,632	2,922,061
23.	**NET FEES, COMMISSION AND OTHER INCOME**		
(a)	**Fees and commission and other income**		
	Commission received from insurance services	**127,587**	90,825
	Commission received from other services	**208,870**	191,961
	Application fees	**212,342**	42,956
	Management fees	**322,411**	421,564
	Payroll processing fee	**16,716**	15,761
	Other fee	**116,362**	117,209
	Penalties	**31,853**	10,151
		1,036,141	890,427
(b)	**Fees and commission expense**		
	Financial charges	**47,027**	37,999
24.	**NET FOREIGN EXCHANGE INCOME**		
	Exchange gain on trading	**84,370**	126,457
	Exchange loss on revaluation	**(58,157)**	(141,431)
		26,213	(14,974)
25.	**EMPLOYEE BENEFIT EXPENSE**		
	Salaries and allowances	**1,171,581**	857,821
	Pension costs- defined contribution plan	**117,696**	82,306
	Skills and Development Levy	**59,041**	42,875
	Leave allowances	**49,085**	50,416
	Workman’s compensation	**10,544**	4,444
		1,407,947	1,037,862

**NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)**

		2016	2015
26.	**GENERAL AND ADMINISTRATION COSTS**	**TZS`000**	TZS`000
	Office expenses	**983,199**	691,128
	Deposit mobilization fee*	**137,963**	409,202
	Annual general meeting	**61,149**	48,094
	Legal fees	**23,843**	20,000
	Board expenses	**19,739**	37,501
	Directors` remuneration	**93,451**	62,160
	Auditors` remuneration	**42,301**	20,000
	Accounting fees	**27,687**	5,689
	Rent expense	**200,449**	172,591
	Property and equipment maintenance cost	**39,684**	47,803
	Fuel cost	**48,500**	24,992
	Staff welfare	**21,698**	94,616
	Other expenses	**27,717**	10,306
		1,727,380	1,644,082

*Deposit mobilization fee relates to amounts paid to Consultant, for mobilizing term deposits for the Bank. The consultant is paid 1.5% of the total deposits mobilized.

		2016	2015
27.	**DEPRECIATION AND AMORTISATION**	**TZS`000**	TZS`000
	Depreciation of property and equipment (Note 12)	**183,062**	163,740
	Amortization of intangible (Note 11)	**15,527**	88,556
	Amortization of leasehold assets (Note 13)	**69,114**	42,748
		267,703	295,044

28. INCOME TAX EXPENSE

	2016	2015
Current income tax (Note 17)	**343,719**	107,478
Deferred tax (Note 16)	**(137,361)**	(109,203)
	206,358	(1,725)

The tax on the Bank's profit differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2016	2015
Profit for the year before tax	**760,899**	176,067
Tax expense (calculated at the statutory income tax rate of 25% (2015: 30%)	**190,225**	52,820
Tax effect of:		
Expenses not deductible for tax purposes	**237,666**	213,138
Allowable expenses for tax purposes	**(84,172)**	(62,228)
Losses from previous years	**-**	(96,232)
Deductible temporary differences	**(137,361)**	(109,203)
Income tax expense	**206,358**	(1,725)

29. BASIC AND DILUTED EARNINGS PER SHARE

NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)

The calculation of the basic earnings per share was based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding at the close of the year, calculated as follows:

	2016 TZS`000	2015 TZS`000
Profit/(loss) attributable to shareholders	**554,541**	177,792
Weighted average number of share in issue (Note 16)	**14,596**	9,029
Basic and diluted earnings per share	**37.99**	19.6

There being no dilutive or potentially dilutive ordinary share outstanding as at 31 December 2016 (2015: Nil). The basic and diluted earnings per share are the same.

30. DIVIDEND PER SHARE

Dividends are not recognised as a liability until they have been ratified at the Annual General Meeting. The Bank made a profit after tax of TZS 554,540,607 (2015: Profit TZS 177,792,000) during the year ended 31 December 2016, however the Board of Directors does not recommend any payment of dividends to shareholders.

31. EFFECTIVE INTEREST RATES OF FINANCIAL ASSETS AND LIABILITIES

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

	2016	2015
Placements with other banks	**23.68%**	12.12%
Government securities	**10.62%**	10.62%
Loans and advances to customers	**19.47%**	25.82%
Deposits from customers (savings accounts)	**1.25%**	1.50%
Fixed deposit	**15.57%**	12.42%

32. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the normal course of business, a number of banking transactions are entered into with related parties i.e. key management personnel and directors. These include loans and deposits.

The volume of related party transactions for the year and the outstanding amounts at the year-end were as follows:

		2016 TZS`000	2015 TZS`000
(a)	**Loans and advances to related parties**		
(i)	**Directors**		
	At 1 January	**54,210**	42,034
	Advanced during the year	**121,916**	85,394
	Repayment during the year	**(25,293)**	(73,218)
	At 31 December	**150,833**	54,210

32. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016 (Continued)

(a) Loans and advances to related parties (Continued)
(i) Directors (Continued)

	2016 TZS`000	2015 TZS`000
Interest earned	**8,605**	14,294

There were no deposits from companies controlled by Directors or their families (2015: Nil).

(ii) **Key management**	2016 TZS`000	2015 TZS`000
At 1 January	**124,871**	242,319
Advanced during the year	**436,589**	180,260
Repayment during the year	**(137,498)**	(297,708)
At 31 December	**423,962**	124,871
Interest earned	**31,142**	15,834

(iii) **Shareholders**		
At 1 January	**599,657**	509,417
Advanced during the year	**5,224,450**	1,155,000
Repayment during the year	**(2,246,546)**	(1,064,760)
At 31 December	**3,577,561**	599,657
Interest earned	**936,603**	217,858

No provision has been made in respect of loans given to related parties (2015: Nil).

Loans to key management personnel were issued at off market interest rate of 7% per annum as per company policy.

Loans to directors were issued on commercial terms.

These loans are payable on demand.

As at 31 December 2016 there were no loans issued to companies controlled by Directors or their families (2015: Nil).

(b) **Deposits from related parties**	2016 TZS`000	2015 TZS`000
Deposits from shareholders, directors and key management		
Beginning of the year	**234,801**	603,621
Deposits during the year	**7,508,756**	4,361,371
Withdrawals during the year	**(5,073,365)**	(4,730,191)

Deposits as at end of the year	**2,670,192**	234,801

32. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Deposits from related parties (Continued)

The above deposits are unsecured; carry variable interest rates are repayable on demand.

The deposits in current accounts do not earn interest whist those in savings account earn interest at the rate of 2% per annum. These transactions are carried out at arm's length.

There were no deposits from companies controlled by Directors or their families (2015: Nil).

(c) Key management personnel compensation

The remuneration of key management personnel during the year was as follows:	**2016** **TZS`000**	2015 TZS`000
Salaries and allowances (Short term employee benefits)	**540,868**	447,000
Other long-term benefits (Post-employment benefits)	**108,174**	89,400
	649,042	536,400

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The bank`s key management is the Managing Director and all heads of departments. Compensations of the Bank`s key management personnel include basic salaries, transport allowances, housing allowance, telephone allowance and post-employment benefits.

(d) Directors compensation

	2016 **TZS`000**	2015 TZS`000
Allowances	**59,150**	48,900
Annual fees	**8,500**	-
	67,650	48,900

Sitting allowances paid to directors of the Bank during the year amounted to TZS 59.15million (2015: TZS 48.9 million). The fees were approved by the Annual General Meeting.

32. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(d) Directors compensation (Continued)

Directors` attendance and remuneration list for the year 2016 is shown in the table below:

Directors	Board meeting	Board Audit & Risk Committee Attendance	Board Credit Committee	Directors sitting allowances (TZS`000)
Amulike S.K Ngeliama	**7**	**-**	**-**	**4,550**
Dosca K. Mutabuzi	**7**	**-**	**5**	**7,200**
Anna T. Mzinga	**4**	**4**	**-**	**4,800**
Felix Mlaki	**5**	**7**	**-**	**7,200**
Reverend Ernest. Kadiva	**5**	**-**	**-**	**3,000**
Naftal M. Nsemwa	**6**	**6**	**7**	**11,400**
Amb. Richard Mariki	**7**	**-**	**7**	**8,400**
Ibrahim Mwangalaba	**7**	**7**	**7**	**12,600**
Total				**59,150**

33. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flow cash and cash equivalents comprise the following balances

	2016 TZS`000	2015 TZS`000
Cash on hand (Note 5)	**927,257**	750,793
Balances with Bank of Tanzania (Note 5)	**1,322,450**	1,518,403
Placements and balances with other banks(Note 6)	**7,720,053**	6,831,540
	9,969,760	9,100,736

Cash and cash equivalents exclude TZS 3,052,600,867 (2015: TZS 4,524,508,704) cash reserve requirement held with the Bank of Tanzania.

Banks are required to maintain a prescribed minimum cash balance with the Bank of Tanzania that is not available to finance the Bank's day to day activities. The amount is determined as 10% (2015: 10%) of the average outstanding deposits.

34. OFF SHORE BALANCE SHEET ITEMS

There were no off – shore balance sheet items as at the reporting date.

35. COMMITMENTS AND CONTINGENT LIABLITIES

(a) Contingent liabilities and commitment

There was a contingent liability amounting to TZS 1,194 million (2015: TZS Nil) on guarantees and performance bonds and on account of undrawn overdraft balances as shown below.

	2016	2015
	TZS`000	TZS`000
Guarantee and performance bonds	**226,073**	-
Undrawn credit lines and other commitments to lend	**968,241**	-
	1,194,314	-

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

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for a fixed period.

The bank may withdraw from its contractual obligation for the undrawn portion of agreed facilities by giving reasonable notice to the customer.

(b) Operating lease commitments

The Bank has a 3 year operating lease for office space effective from the 1st June 2016 and ending on the 31 May 2019. The lease may be renewed after consent of both parties for a similar or other period.

The future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	TZS`000	TZS`000
Not later than 1 year	**17,485**	32,022
Later than 1 year and not later than 5 years	**-**	-
Later than 5 years	**-**	-
	17,485	32,022

The Directors are of the view that these commitments will be sufficiently covered by future net revenues and funding.

(c) Legal claims

There are no pending legal claims against the Bank (2015: None). The Board of Directors is not aware of any potential legal claims against the Bank (2015:

None).

35. COMMITMENTS AND CONTINGENT LIABLITIES (Continued)

(d) Capital commitments

The Management certifies that there was no capital commitment authorized as at 31 December 2016. (2015 TZS 570,355,000) The 2015 funds was used for financing the opening of two new branches in Dar es Salaam and purchasing software for insurance agency management.

36. EVENTS AFTER REPORTING DATE

The Bank opened its third branch at Masasi/Likoma Street Kariakoo on 23.01.2017 and launched Chama mobile product in the year 2017.

Management was not aware of any other significant events after reporting date which had material impact to the financial statements.

37. COMPARATIVES

Wherever considered necessary comparative figures have been reclassified to conform to changes in presentation in the current year