Vibrant Colors of Growth

2016 Annual Report

I&M Bank LIMITED

I&M Bank (T) Ltd

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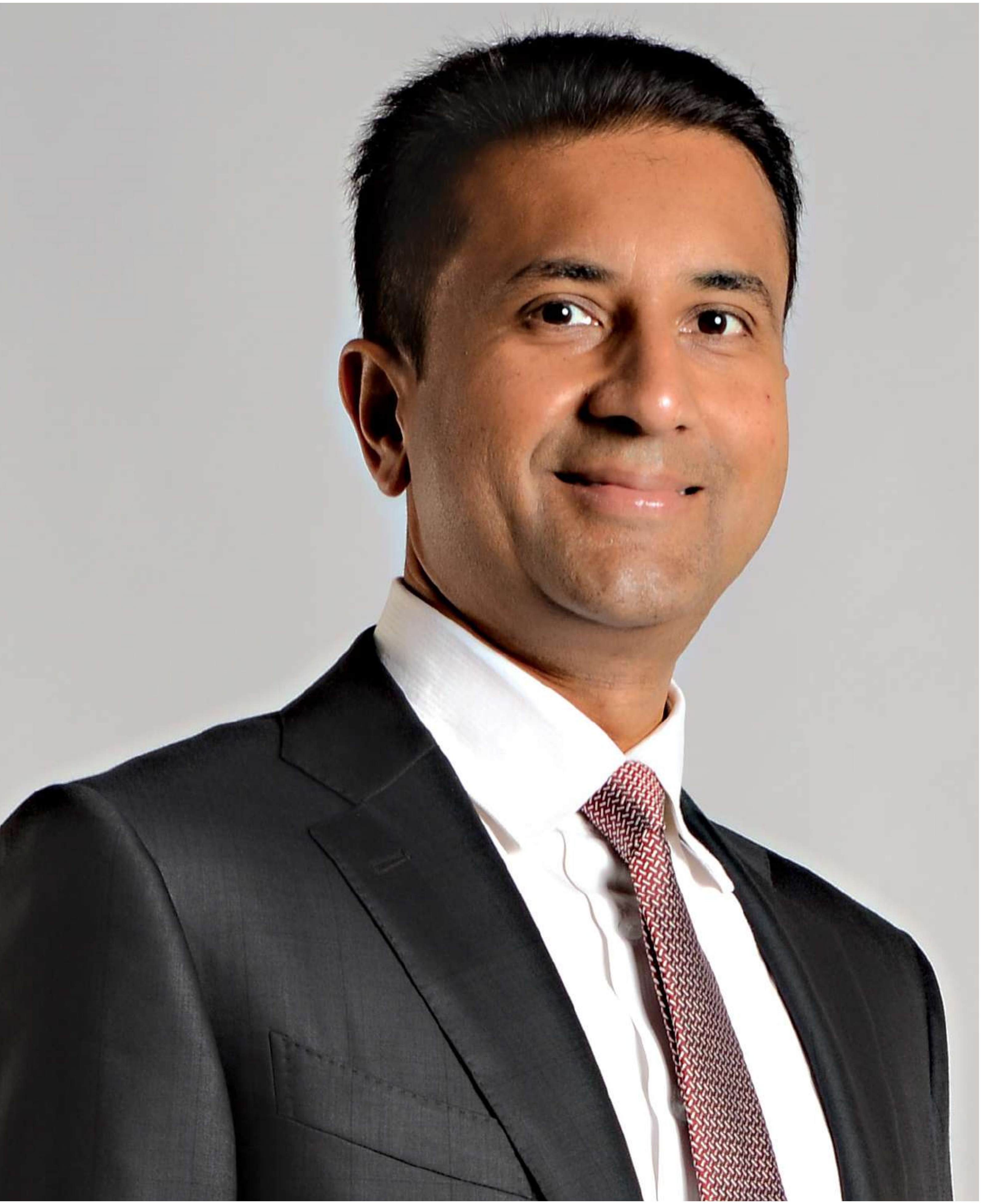


Chairman's Statement

We are pleased to report another year of stable performance for I&M Bank (T) Limited. Despite the challenging economic scenario, we continued to pursue our clear and consistent strategy and remain optimistic on the future growth and opportunities.

Economic Overview

The Year 2016 maintained a stable growth in the economy as a result of various initiatives and restructuring done by the newly elected Government. The GDP growth was steady at an average of 6.9% during the year with contribution from the key sectors like transport, manufacturing, wholesale and retail trade activities, mining and construction. The centralization of all the government accounts created tight liquidity and cash flow constraints on many segments in the industry. There was a drop in the extended broad money supply (M3) from the correspondent period which had an impact on the credit growth to the private sector. The Tanzanian Shilling was stable throughout the year 2016 and maintained average levels of TZS 2185 against the US Dollar whilst inflation remained at single digit levels averaging to 4.75% during the year.

Banking Industry

The Banking industry maintained a marginal rate of growth during the year. The total assets grew by 1.73% from TZS 26.9 trillion in 2015 to TZS 27.4 trillion in 2016; the deposits reported an overall decrease of 1.22% to TZS 20.03 trillion from TZS 20.27 trillion in 2015; the net growth in the loan book was 4.07% from TZS 14.9 trillion in 2015 to TZS 15.5 trillion in 2016. The Profit after tax grew by 28.87% from TZS 10 trillion in 2015 to TZS 13 trillion in 2016. There has been a substantial increase in the Gross Non performing loans to 9.16% from 5% in 2015.

I &M Bank (T) Limited Performance

As at the end of December 2016 the total assets of the Bank increased by 9.24% and stood at TZS 421 billion compared to TZS 385 billion in 2015; the loan portfolio recorded an increase by 11.04% from TZS 268 billion in December 2015 to TZS 298 billion as at December 2016, an increase in Customer deposits by 3.44% to TZS 285 billion from TZS 275 billion in 2015. However, the Profits before tax was flat with a marginal growth of 0.68% to stand at TZS 8,098 million against TZS 8,043 million in 2016. This has been predominantly due to significant drop in foreign exchange incomes and due to prudential loan provisions that the Bank has made during the year. The Gross Non performing loans increased from 3.04% in 2015 to 5.27% during the year.

Strategic Progress

Following the completion of PROPARCO's investment tenor in the Bank , I&M Bank Ltd, Kenya purchased majority of these shares. To ensure compliance and to be in preparedness of meeting the revised regulations on the Capital adequacy ratios, the Bank successfully raised Tier I capital of TZS 10.91 billion by way of a rights issue which was fully subscribed by the Shareholders. This has helped in improving the Tier I Capital ratio during the year to 13.90% from 11.22% in the year 2015. The shareholding of I&M Bank Ltd, Kenya has now increased from 55.03% to 70.38% in I&M Bank (T) Ltd.

The Bank continues its endeavor of introducing state of the art products and services. I am glad to inform that the Bank successfully launched Mobile Banking Product with extended features enabling seamless payments by Customers for various services. The Bank also introduced i-Tax product to ensure collection of revenues through an integrated mechanism to the Tanzania Revenue Authority. To facilitate movement of cash for large Customers Cash in Transit services was introduced whereby the cash would securely be transported from their premises to the Bank thereby reducing the risk of of cash management by the Customers.

Corporate Governance

In tune with our high standards of Corporate Governance, the Bank has strengthened the Board with the appointment of two Independent Directors from Tanzania. I am glad to welcome and introduce Mr. Alan Rodrick Mchaki and Ambassador Bertha Semu-Somi who joined the Board during the year and bring a wealth of experience from diverse fields.

Outlook for 2017

We are expecting the year 2017 to be more encouraging with the various initiatives and comprehensive plans and push from the Government in the form of implementation of several large infrastructure projects and other areas which certainly would increase the government spending and stimulate the economy. The Banking industry would need to be geared to meet the implementation of the prudential guidelines of Bank of Tanzania wherein Banks are expected to enhance their Tier I Capital adequacy ratios from the current 10% levels to 12.5% and Tier II Capital adequacy ratio from 12% levels to 14.5%. Further the Banks will be required to comply with the implementation of Basel II norms which will have the impact of capital charge on the Operational risk. The Bank will continue its efforts in innovating and providing the best solutions to the Customers. In this endeavor, the Bank will be introducing more digital products and services, focus on strengthening the technology framework by upgrading the core banking solution and introducing new technology products namely internet banking, redesigning the existing branches and introduction of new smart branches and ATMs at strategic locations in the Country.

Acknowledgements

I would like to express my gratitude to my fellow Directors for their gracious contribution and invaluable guidance provided to the Bank during the year. I would also like to place on record the efforts of all Management and staff for their dedication and commitment in ensuring that the Bank continues to achieve the desired objectives. On behalf of the Board, I would like to record my sincere acknowledgements and appreciation to Rtd General Mrisho Sarakikya, who has been an independent director of the Bank since 2010, for his invaluable contribution during his tenure. Rtd General Mrisho Sarakikya has retired from the Bank with effect from 31st December 2016.

Last but not least, on behalf of the Board and management, would like to place on record our sincere gratitude for the support from all of our valued customers and we do look forward to continue serving you in 2017.

Asante Sana!

Chairman
Sarit S Raja Shah

Board of Directors

Chairman,
Mr. Sarit S. Raja Shah

Mr. Pratul H. Shah

Mr Alan Mchaki

Ambassador Bertha Ernstine Semu-Somi

Board of Directors

Mr. Shameer Patel

Mr. Thierry Hugnin

Mr. Michael N. Shirima

Senior Management Team

Mr. Baseer Mohammed
Chief Executive Officer

Mr. Lalit Tewari
Head of Business Support

Mr. Tirunagari Srikanth
Head of Business Development

Mr. Donald Mate
Head of Operations

Mr. Amulike Kamwela
Head of Finance

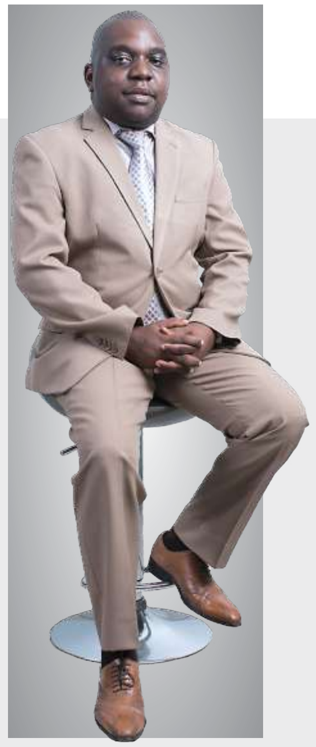
Mrs. Aimtonga Adolph
Head of Internal Audit

Senior Management Team

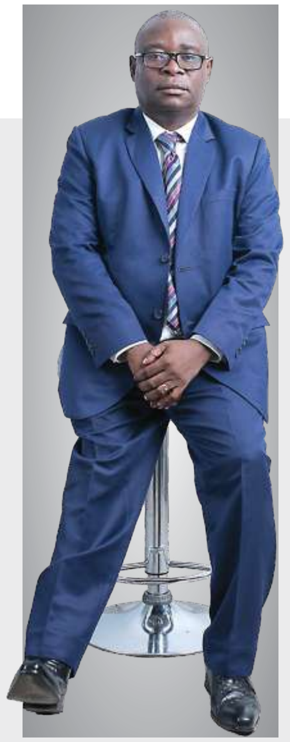
Mrs. Martha Kimweri
Head of Human Resources

Mr. Alan Mbangula
Head of ICT

Mr. Roderick Nyamajeje
Head of Risk



Mr. Patrick Kapella
Head of Treasurery



Mr. Ramadhan Chakinja
Head of Credit

Corporate Information

DIRECTORS
Mr. Sarit S Raja Shah - Chairman
Mr. Michael N Shirima
Mr. Thierry Hugnin
Gen. (Retd.) Mrisho H. Sarakikya
Mr. Pratul H Shah
Mr. Shameer Patel
Ambassador Bertha Ernstine Semu-Somi
Mr. Alan Mchaki
Mr. Arun S Mathur* - Alternate Director to Mr. Shameer Patel
Mr. Josep Oriol** - Alternate Director to Mr. Thierry Hugnin

BANK'S SECRETARY
Ms. Hamida Sheikh,
M/s Sheikh's Chambers of Advocates,
Advocates, Notaries Public & Commissioners for Oath,
PO Box 6225,
Dar es Salaam, Tanzania.

AUDITORS
KPMG,
The Luminary,
Plot No. 574, Haile Selassie Road,
Msasani Peninsula Area,
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Dar es Salaam, Tanzania.

HEAD OFFICE
Maktaba Square,
Maktaba Street,
PO Box 1509,
Dar es Salaam, Tanzania.

REGISTERED OFFICE
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Dar es Salaam, Tanzania.

LEGAL ADVISORS
M/s Rutabingwa Advocates,
PO Box 11819,
Dar es Salaam, Tanzania.

ATZ Law chambers,
Peugeot House,
36 Ali Hassan Mwinyi Road,
PO Box 79651,
Dar es Salaam, Tanzania.

M/s K&M Advocates
PO Box 71394,
Dar Es Salaam, Tanzania.

CORRESPONDENT BANKS
I&M Bank Limited,
PO Box 30238,
00100 Nairobi,
Kenya.

Standard Chartered Bank New York,
SCB New York – IBF,
One Madson Avenue,
3rd Floor,
New York, NY 10010 – 3603, USA.

ICICI Bank Limited,
ICICI Bank Towers,
Bandra – Kurla Complex,
Mumbai 400 051, India.

I&M Bank (Rwanda) Ltd,
PO Box 354,
Kigali, Rwanda.

Citibank Limited,
Citibank N.A,
Upper Hill Road,
PO Box 30711-00100, USA.

Branches

MAIN BRANCH
Jiwan Hirji Building,
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P O Box 1509,
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Fax: +255 27 2546272
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+255 28 2981020
Fax: +255 28 2981021
Email: enquiry@imbank.co.tz

OYSTERBAY BRANCH
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Fax: +255 22 2600391

MOSHI BRANCH
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+255 27 2750550
Fax +255 22 27 2750505

I&M news

CORPORATE GOVERNANCE

In tune with our high standards of Corporate Governance the Bank has strengthened the Board with the inclusion of two Independent Directors from Tanzania. Mr. Alan Rodrick Mchaki and Ambassador Bertha Semu-Somi joined the Board during the year and bring a wealth of experience from diverse fields. **Mr. Alan Mchaki** is a fellow member of Association of Chartered Certified accountants of UK and Certified Public Accountant in Tanzania. He carries over 30 years of working experience covering public practice in two major accountancy firms and exposure in various industries like oil, marketing television, health service and mutual fund management where he held the directorship roles in finance. **Ambassador Bertha Ernestine Semu-Somi** serves as an Executive Director of a Charity organization, Hassan Major Trust. She brings in vast experience, knowledge and network both in the Tanzanian Government and International organizations especially the United Nations.

Increase in Capital

I&M Bank Ltd, Kenya purchased shares as well as subscribed to the rights renounced by PROPARCO after completing their tenor with I&M Bank.

To be ahead of the new regulations on the Capital adequacy ratios, the bank raised additional capital of TZS 10.91 billion during the year towards the rights issue which was fully subscribed by the Shareholders. This has helped in improving the Tier I Capital ratio during the year to 13.90% from 11.22% in the year 2015.

PRODUCTS LAUNCHED IN 2016

I&M Mobile

I&M Bank (T) Ltd in 2016 launched its Mobile Banking product with an objective of enhancing customer's experience. The service was launched on a USSD platform (*150*32#)

I&M Bank customers can avail various services like enquiries, funds transfer, mobile money, airtime top-up, utility payments, stop cheque and offline requests. The bank also plans to roll out an I&M App in future.

I&M Bank (T) Limited partners with TATA Africa Holding (T) Limited on Asset Finance

In 2016, the bank signed an agreement with TATA Africa Holding (T) Limited to provide Asset Finance of commercial vehicles and equipment in Tanzania. This agreement was signed in the presence of Mr. Noel Tata, and Mr. Baseer Mohammed, CEO of I&M Bank (T) Limited. Commenting on the partnership, the bank's CEO said that this is first of such alliance signed between TATA Africa and any Bank in East Africa and we would work towards strengthening this relationship in this business.

I&M Bank (T) Limited launches Bulk Salary Payments on Mobile Banking

In 2016, the bank launched bulk salary payments on its mobile banking platform to better serve business customers. The Mobile banking platform enables the Customers to make bulk payments such as salaries and wages seamlessly from their bank accounts to the Mobile Wallets (MPESA) of the beneficiaries.

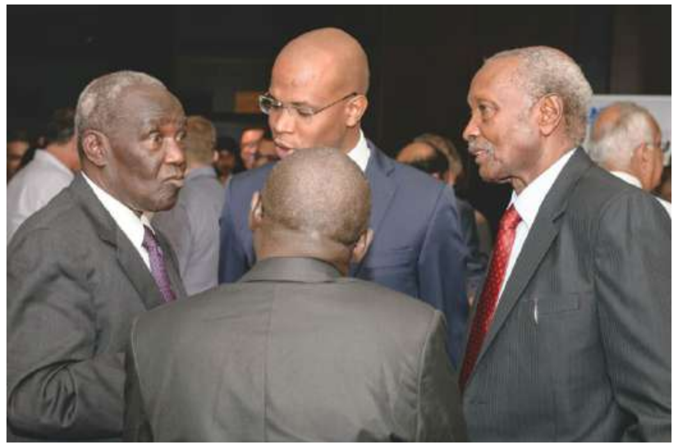
I&M Bank (T) Limited launches Cash In Transit Services for Corporate Customers

Last year, the bank launched the I&M Cash In Transit services to facilitate cash handling services for its large corporate customers. Under these services the Bank would collect Cash direct from the Customers outlet and deposit into their account thereby eliminating the risk of cash movement to the Customers.

EVENTS

Customer Meet and Greet

I&M Bank (T) Limited hosted a cocktail ***meet and greet*** with customers in the month of May last year at the Hyatt Regency Hotel. The event was a hit with participation of various Customers, Entrepreneurs and businessmen from diverse segments including the dignitaries like Mr.Yusuf Makamba, Minister of State in the Vice President's Office for Union Affairs and Environment who graced the occasion. The Chairman of the Bank Mr. Sarit S Raja Shah along with the other Directors joined this event and appreciated the Customers for their valuable support and patronage to the Bank. Mr. Baseer, CEO of the Bank, along with the Management team thanked the customers for their great support and reassured them of providing banking solutions that meet the dynamic banking needs.



Hon. Mr. January Makamba with the Director of I &M Bank(T) Limited ,Mr. Michael Shirima (right) and Former Director Mr. Gen Rtd. Sarakikya (left)

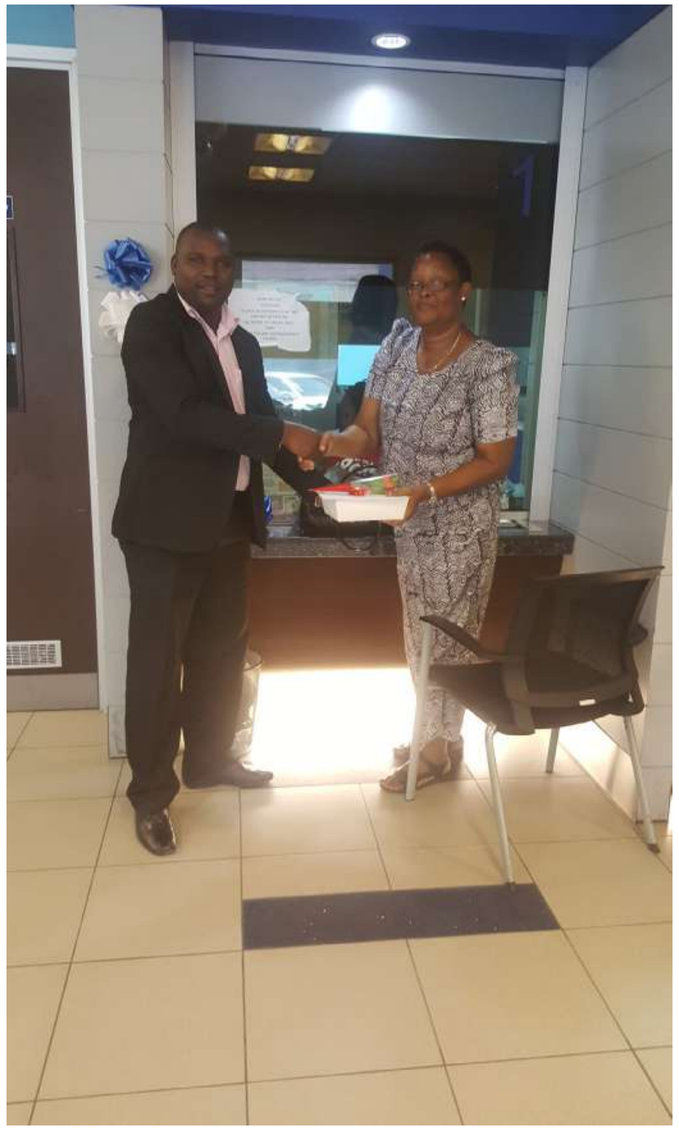
I&M news (Continued)

Chairman Sarit S. Raja interacting with I&M Corporate Clients along with Chief Executive Officer Baseer Mohammed.

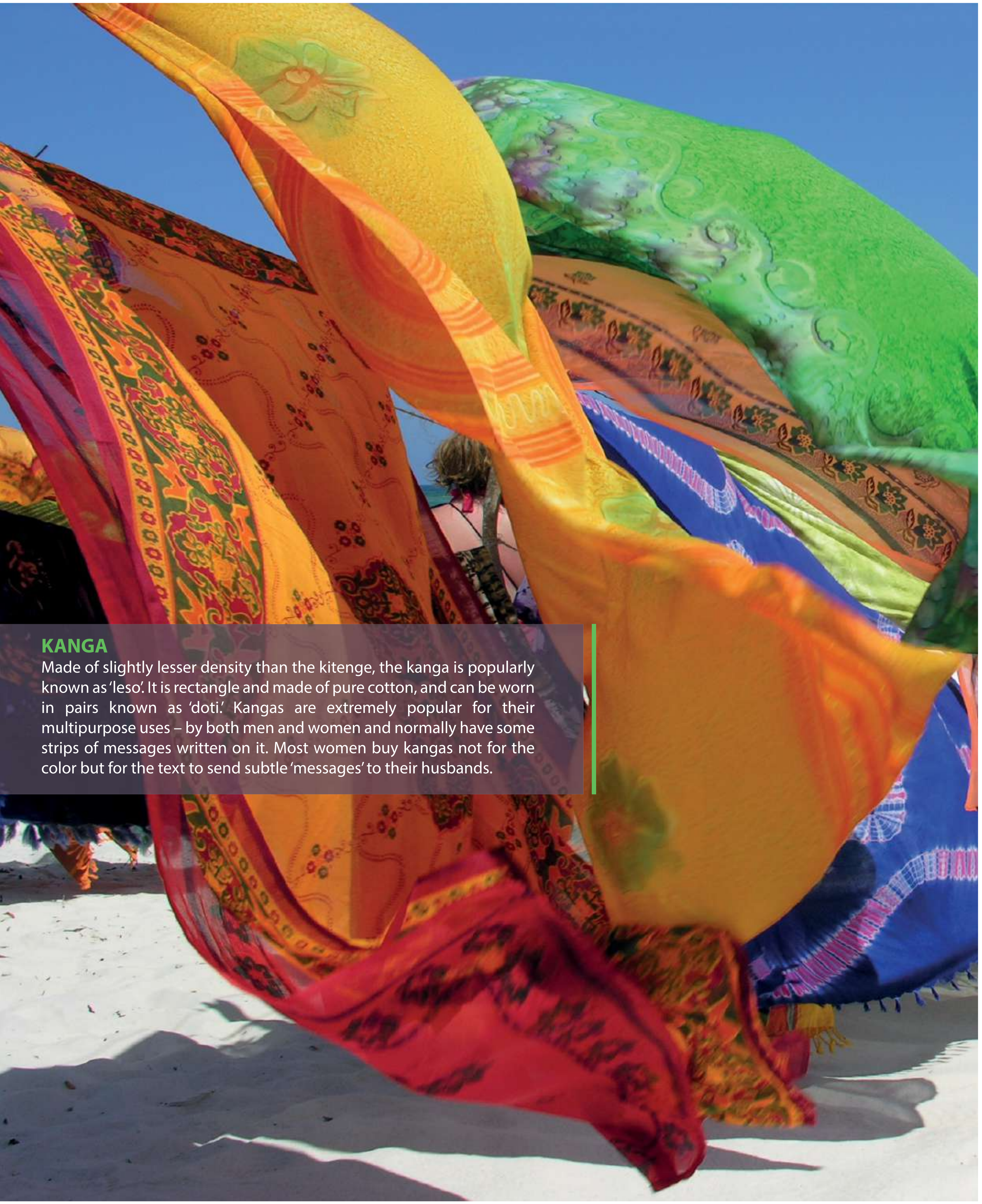
Customer Service Week – Branch Wise

In 2016, I&M Bank (T) Limited set aside various customer appreciation weeks to celebrate love for their customers. The events took place across the branches and involved various themed activities such as: customer visits, personalized thank you notes signed by the CEO, refreshments for customers at the branches, exciting décor at the branches among other activities. The bank's customers in turn displayed their gratitude and shared feedback on great customer service that they experienced at the bank.

I&M Branded Cupcakes sent out to all customers as a token of appreciation



Client receiving a rose and cakes from Relationship Manager.



KANGA
Made of slightly lesser density than the kitenge, the kanga is popularly known as 'leso'. It is rectangle and made of pure cotton, and can be worn in pairs known as 'doti.' Kangas are extremely popular for their multipurpose uses – by both men and women and normally have some strips of messages written on it. Most women buy kangas not for the color but for the text to send subtle 'messages' to their husbands.

Report of The Directors
For The Year Ended 31 December 2016

1 INTRODUCTION

The Directors submit their report and the audited financial statements for the year ended 31 December 2016 which disclose the state of affairs of I & M Bank (T) Limited (the Bank).

2 INCORPORATION

The Bank is incorporated in Tanzania under Companies Act, 2002, domiciled in Tanzania as a private limited company and whose shares are not publicly traded.

3 MISSION AND VISION

Vision Statement:

To become a company where the best people want to work, the first choice where customers want to do business, and where shareholders are happy with their investment.

Mission Statement:

To be partners of growth for all our stakeholders through:

- Meeting our Customers' expectations.
- Motivating & developing every employee.
- Enhancing shareholder value.

4 PRINCIPAL ACTIVITIES

The principal activity of I&M Bank (T) Limited is the provision of banking and related services stipulated by the Banking and Financial Institutions Act, 2006. There has been no significant change in the principal activities of the Bank during the financial year ended 31 December 2016.

5 REVIEW OF BUSINESS PERFORMANCE

The Bank's results are set out on page 31 of these financial statements. During the year under review, the Bank recorded a profit before tax of TZS 8,098 million compared to TZS 8,043 million in the previous year, representing an increase of 0.69%.

Interest Income

Interest income during the year amounted to TZS 37,480 million compared to TZS 33,910 million in the previous year, representing an increase of 10.53% (TZS 3,570 million). The Increase is due to the growth in the loan portfolio. As at year end, the net loan portfolio had increased by 11.04% from the previous year.

Interest expense

Interest expense during the year amounted to TZS 15,954 million, as compared to TZS 14,744 million in the prior year, representing an increase of 8.20% (TZS 1,210 million). The increase in interest expense is mainly attributed by new fund from FMO amounting to USD 12 million which was received in the first quarter of 2016.

Net interest income

Net interest income (interest income less interest expense) during the year amounted to TZS 21,526 million, as compared to TZS 19,165 million in prior year, representing an increase of 12.32% (TZS 2,361 million).

Report of The Directors (Continued)
For The Year Ended 31 December 2016

5 REVIEW OF BUSINESS PERFORMANCE (CONTINUED)

Non - interest Income

Non-interest income mainly includes fee and commission income, foreign exchange income and other operating income. Non-interest income amounted to TZS 6,844 million compared to TZS 7,384 million in the previous year, showing annual decrease of 7.31% mainly due to decrease in foreign exchange income on account of more stable local currency during the year.

Non-interest expenses

Non- interest expenses amounted to TZS 18,048 million as compared to TZS 15,664 million in prior year, implying an increase of 15.24% The increase is largely attributed to growth in personnel costs as a result of salary increments, other staff related benefits and other expenses. The number of employees at the end of year totalled 175 as compared to 153 at the end of 2015.

Income tax expense

Income tax expense amounted to TZS 2,647 million (2015: TZS 2,129 million).

Key performance ratios

The key performance ratios of the Bank are indicated as hereunder:

	2016	2015
Return on average assets	1.34%	1.57%
Return on average equity	12.11%	17.02%
Non- interest income to net interest income	31.80%	40.11%
Operating expenses to average assets	4.44%	4.15%
Non-interest expenses before tax to operating income	63.61%	60.70%

6 REVIEW OF FINANCIAL POSITION

The Bank's financial position is set out on page 32 of these financial statements. Major movements are as explained in the table below:

Item	2016	2015	Increase / (Decrease)	
	TZS' 000	TZS ' 000	TZS ' 000	%
Cash and balances with Bank of Tanzania	42,158,648	51,921,375	(9,762,727)	-19%
Balance with other banks	11,070,301	13,297,210	(2,226,909)	-17%
Cheques and items for clearance	(158,913)	377,945	(536,858)	-142%
Government securities	58,822,236	38,374,528	20,447,708	53%
Loans and advances	298,313,523	268,643,684	29,669,839	11%
Deferred tax asset	2,176,944	1,668,842	508,102	30%
Property and equipment	5,001,435	5,631,412	(629,977)	-11%
Intangible assets	933,662	1,170,338	(236,676)	-20%
Other assets	1,570,598	1,997,510	(426,912)	-21%
Deposits	311,757,935	316,081,679	(4,323,744)	-1%
Other liabilities	3,359,423	3,049,231	310,192	10%
Long term borrowing	53,243,917	28,573,375	24,670,542	86%

Report of The Directors (Continued)
For The Year Ended 31 December 2016

6 REVIEW OF FINANCIAL POSITION (CONTINUED)

Deposits

The total deposits have decreased by TZS 4,324 million mainly due to the reduction in the inter bank borrowings by TZS 12,644 million, however there has been an increase in Customer Deposits by TZS 7,293 million during the year.

Loans and advances

The loans and advances increased by TZS 29,670 million on account of increase in the credit portfolio due to growth in credit to both existing and new Customers.

Government securities

There has been an increase in investment in government securities by TZS 20,448 million is mainly due to deployment of surplus funds during the year.

Long term borrowing

Long term borrowing increased by TZS 24,671 million which was attributed to a new long term loan of USD 12 million received from FMO during the year.

Key efficiency ratios

The key efficiency ratios of the Bank as at year end are as indicated hereunder:

	2016	2015
Shareholder's fund to total assets	12.42%	9.70%
Non-performing loans to total advances	5.27%	3.04%
Gross loans to total deposits	98.33%	86.89%
Loans to total assets	70.87%	69.72%
Liquidity ratio	30.68%	29.70%

7 GOING CONCERN AND SOLVENCY EVALUATION

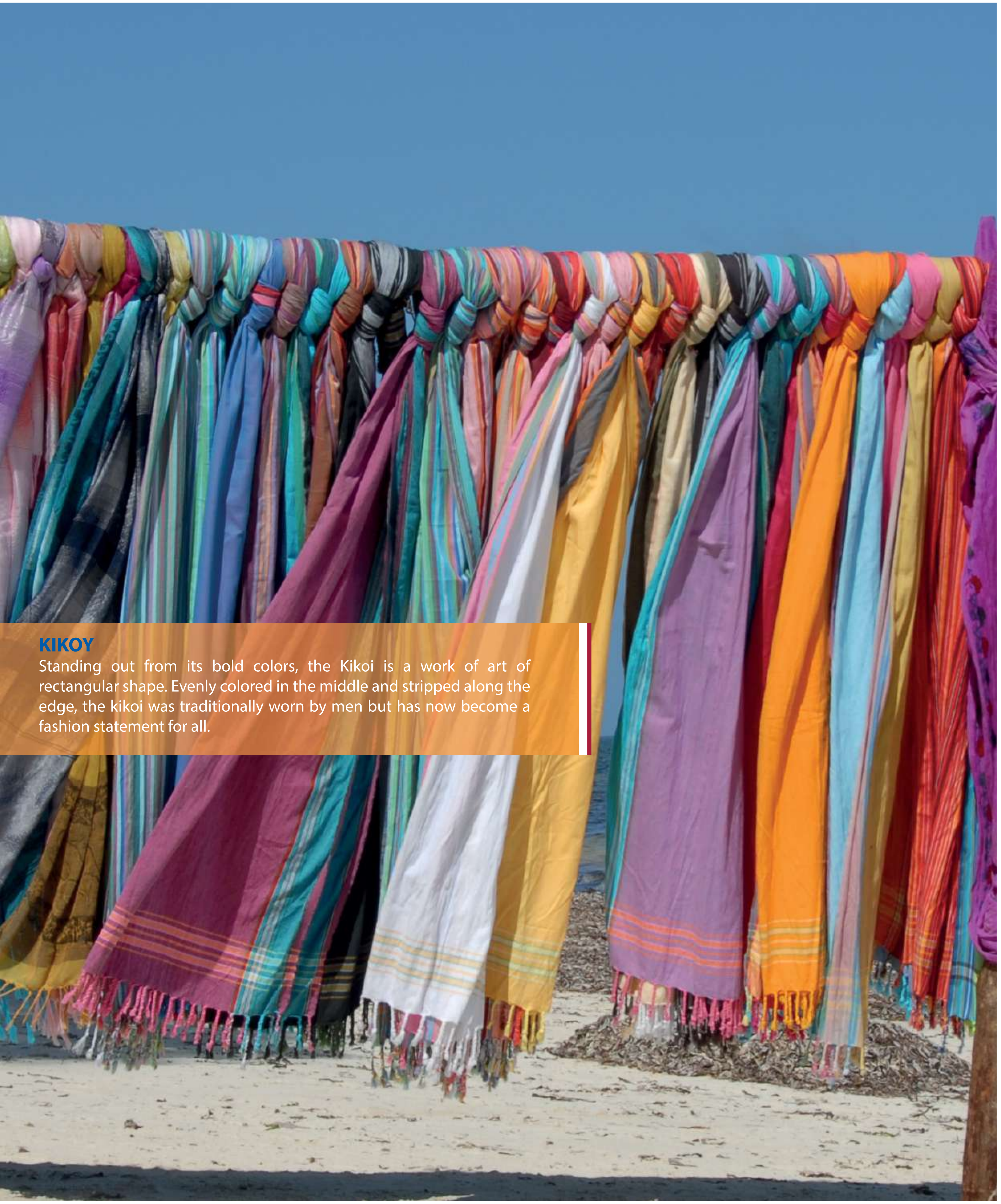
The Bank has complied with the Bank of Tanzania liquidity and capital adequacy ratios. Nothing has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement. The Directors consider the Bank to be solvent within the meaning ascribed by the Tanzanian Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

8 ACCOUNTING POLICIES

The annual financial statements are prepared on the underlying assumption of a going concern. The Bank's accounting policies, which are laid out on pages 35 to 45 are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

9 ACQUISITIONS AND DISPOSALS

There was no material disposal or acquisition of business during the year 2016 (2015: Nil).



KIKOY
Standing out from its bold colors, the Kikoi is a work of art of rectangular shape. Evenly colored in the middle and stripped along the edge, the kikoi was traditionally worn by men but has now become a fashion statement for all.

Report of The Directors (Continued)
For The Year Ended 31 December 2016

10 FUTURE DEVELOPMENTS

The Bank endeavours to be the most innovative player in the industry by providing customized banking products and solutions. The focus areas would be:-

- Introduction of new products and services to meet the unique demands of the industry
- Introduction of Internet banking services, relocation and setting up of smart branches and ATMs, and extended banking hours at key branches.

11 DIVIDEND

The Board of Directors propose a final dividend of TZS 815 million at TZS 0.29 million per share [An interim dividend of TZS 1,478 Million at TZS 0.62 million per share was paid in October 2016].

12 MANAGEMENT OF THE BANK

The Bank is under the supervision of the Board of Directors and the day to day management is entrusted to the Chief Executive Officer.

The Bank has a broad based Board of Directors comprising of Non-Executive Directors. The Chairman and all other members of the Board of Directors are appointed by the shareholders.

The organization structure of the Bank comprises the following Departments:-

- Business Development
- Operations
- Business Support
- Finance
- Human Resource
- Information Technology
- Credit
- Risk Management (Reporting directly to Board Risk Committee)
- Internal Audit (Reporting directly to Board Audit Committee)

The Chief Executive Officer reports to the Board and is supported by Head of Business Development, Head of Business Support, Head of Operations and Heads of Departments.

Report of The Directors (Continued)
For The Year Ended 31 December 2016

13 COMPOSITION OF THE BOARD OF DIRECTORS

The Directors of the Bank, who held office throughout the year and to the date of this report, were as follows:

Name	Position	Nationality	Qualifications	Date of appointment
Mr. Sarit S Raja Shah	Chairman	Kenyan	BSc Economics, MSc (Internal Audit & Management)	14th January 2010
Mr. Michael N Shirima	Member	Tanzanian	Businessman	14th January 2010
Mr. Thierry Hugnin	Member	Mauritian	Chartered Accountant, (ACA England & Wales)	14th January 2010
Mr. Pratul H Shah	Member	Kenyan	Fellow of the Association of Chartered Certified Accountants, CPA (K),CPS (K)	10th February 2010
Mr. Shameer Patel	Member	Kenyan	Bachelor of Arts – Joint Honours – in Economics & Geography	11th September 2013
Ambassador Bertha Ernestine Semu-Somi	Member	Tanzanian	Post graduate studies in Diplomacy, BA(Hons) International relations & French	6th September 2016
Mr. Alan Mchaki	Member	Tanzanian	Fellow of the Association of Chartered Certified Accountants, CPA (T),Associated member, Swaziland Institute of Accountant	26th September 2016
Mr. Arun S Mathur *	Alternate Director to Mr. Shameer Patel	Kenyan	B. Tech (Hons.) Diploma in Statistical Methods	14th January 2010
Mr. Josep Oriol **	Alternate Director to Mr. Thierry Hugnin	Spanish	BA in Political Science (International Relations), Master of Business Administration.	10th October 2012
Gen.(Retd) Mrisho Sarakikya***	Member	Tanzanian	Businessman	14th January 2010

* Alternate Member to Mr Shameer Patel
** Alternate Member to Mr Thierry Hugnin
***During the period under review, Gen. (Retd.)Mrisho Sarakikya has retired from 31st December 2016 as a director after serving the bank for the past six years.

During the period under review, Ambassador Bertha Ernestine and Mr.Alan Mchaki have joined the bank as new Independent Directors of the bank.

The Directors of the Bank are all Non-Executive. The Company secretary as at the date of this report, who served in this capacity since 1 January 2016 is Ms.Hamida Sheikh of M/S Sheikh Chambers Advocates.

14 DIRECTORS' INTEREST

Mr. Michael N. Shirima has direct interest in the share capital of the Bank as disclosed in Note 16 below. He holds 4.98% of the ordinary share capital reported as at 31 December 2016.

15 DIRECTORS' REMUNERATION

The remuneration for services rendered by the non-executive Directors of the Bank in 2016 was TZS 159 million (2015: TZS 129 million).

Report of The Directors (Continued)
For The Year Ended 31 December 2016

16 CAPITAL STRUCTURE AND SHAREHOLDING

	2016 TZS '000	2015 TZS '000
Authorised		
10,000 Ordinary Shares of TZS 1,000,000/- each	10,000,000	10,000,000
Issued & Fully Paid		
2,792 Ordinary Shares of TZS 1,000,000/- each(2015:2,395 of TZS 1,000,000)	2,792,000	2,395,000

Shareholding

As at 31 December 2016, the following shareholders held shares in I&M Bank (T) Limited:

Name of the shareholders

	2016 Number of shares held	%	2015 Number of shares held	%	Increase/(Decrease)
I&M Bank Limited	1,965	70.38	1,318	55.03	647
The Kibo Fund	559	20.02	479	20.00	80
Proparco	129	4.62	479	20.00	(350)
Mr. Michael N. Shirima	139	4.98	119	4.97	20
	2,792	**100.00**	**2,395**	**100.00**	**397**

Note: Shares of the Bank are not publicly traded. There is only one class of shares.

There has been a change in the shareholding structure due to rights issue of 397 shares to all shareholders and sale of 350 shares by Proparco which were purchased by I & M Bank Limited.

17 CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania as described in note 4(e) to the financial statements. During the period under review, the shareholders injected an additional capital of TZS 10.91 billion to support business growth and to comply with enhanced capital adequacy ratios requirement which become effective from August 2017.

Report of The Directors (Continued)
For The Year Ended 31 December 2016

18 CORPORATE GOVERNANCE

All Directors and employees adhere to the principles of the Code of Conduct in all their dealings on behalf of the Bank. The Code of Conduct ensures that all actions are in the overall best interests of the Bank and reflects the commitment to maintain the highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

The Directors are committed to the principles of good corporate governance and recognise the need to conduct the business in accordance with generally accepted best practice. In so doing, the Directors therefore, confirm that:

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the Bank and monitor executive management;
- The positions of Chairman and Chief Executive Officer are held by different individuals;
- The Chairman of the Board of Directors is non-executive; and
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance.

In addition, the Board has constituted the following Board committees:

Board Audit Committee

This Committee assists the Board in fulfilling its responsibilities by reviewing the financial condition of the Bank, its internal controls, ensuring compliance with applicable legislation and the requirements of regulatory authorities, reviewing reports and following up on matters raised by the external auditors, internal auditors and Bank of Tanzania .

The Board Audit Committee members who served the Committee during 2016 were:

Name	Position
Mr. Pratul H. Shah	Chairman
Mr. Shameer Patel	Member
Mr. Michael N. Shirima	Member
Mr. Thierry Hugnin	Member
Mr. Alan Mchaki	Member

The Committee meets at least four times in a year.

Board Credit Committee

This Committee assists the Board in fulfilling its primary responsibilities in reviewing the Bank's overall lending policy, conducting independent loan reviews, delegation and review of lending limits and is overall responsible for the management of Credit Risk.

Report of The Directors (Continued)
For The Year Ended 31 December 2016

18 CORPORATE GOVERNANCE (CONTINUED)

Board Credit Committee (continued)

The Board Credit Committee members who served the Committee during 2016 were:

Name	Position
Mr. Shameer Patel	Chairman
Mr. Michael N. Shirima	Member
Mr. Thierry Hugnin	Member
Mr. Alan Mchaki	Member

The Committee meets a minimum of four times in a year.

Board Risk Committee

This Committee assists the Board in fulfilling its primary responsibilities by establishing and implementing the Risk Management process of the Bank in line with the Central Bank Guidelines as well as risk identification, evaluation, measurement and monitoring of the Risk Management process.

The members of the Committee are:

Name	Position
Mr. Michael N Shirima	Chairman
Mr. Shameer Patel	Member
Mr. Pratul H Shah	Member

The Committee meets a minimum of four times in a year.

Board of Remuneration Committee

This committee has been delegated with the responsibility from the Board to undertake structured assessment of candidates for membership of the Executive Management, consider and review the human resources management and remuneration policies.

The members of the Committee are:

Name	Position
Mr. Michael N Shirima	Chairman
Mr. Shameer Patel	Member
Mr. Pratul H Shah	Member
Ambassador Bertha Ernestine Semu-Somi	Member

The Committee meet at least once in a year.

Report of The Directors (Continued)
For The Year Ended 31 December 2016

19 EMPLOYEE WELFARE

Relationship between management and employees

The relationship between employees and management continued to be cordial. Complaints are resolved through meetings and discussions and the Bank has set up appropriate management committee forums for this purpose. Work morale is good and there were no unresolved complaints from employees. The Bank provides training, medical assistance and concessional loans to its employees.

Training

The Bank offers sponsorship to its employees in both short and long term courses within and outside the country in various disciplines depending on the corporate needs and financial resources available as well as in – house training & development focusing on technical banking areas.

Staff loans and advances

The Bank provides housing, personal and car loans to staff as well as salary advances to enable them to meet their financial requirements and promote economic development. Staff loans and advances are based on specific terms and conditions approved by the Board of Directors.

Medical facilities

The Bank provides medical cover for both, Inpatient and Outpatient care for employees and their dependents.

Financial assistance

The Bank operates a scheme to assist in the event of death of an employee or immediate family dependant.

Retirement benefits

The Bank makes contributions in respect of staff retirement benefits to statutory National Social Security Fund and Parastatal Pension Fund. The total number of employees, at the year end, was 175 (2015:153).

20 DISABLED PERSONS

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

21 GENDER PARITY

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties. As at 31 December 2016, the Bank had 90 male and 85 female employees (2015: 74 male and 79 female employees).

22 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 29 to these financial statements.

Report of The Directors (Continued)
For The Year Ended 31 December 2016

23 POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. Donations made to charitable organizations during the year amounted to TZS 80 million (2015: TZS 0.5 million).

24 CORPORATE SOCIAL RESPONSIBILITY

The Bank participates actively in community activities and development programmes throughout the country. The areas being given priority are health, education, and support to orphaned children, victims of natural disasters, disabled persons, and security.

25 ENVIRONMENTAL & SOCIAL MANAGEMENT SYSTEM

The Bank is aware that Environmental and Social risks are critical and require systems to monitor and control in line with regulatory requirements (IFC performance standards and ILO standards); thus its commitment to the use of an Environmental and Social Management System (ESMS). The ESMS ensures that these risks are sufficiently managed as stipulated in the Bank's Environmental and Social Management policy. The ESMS is integrated within the overall credit risk management framework and is reviewed periodically to ensure it remains compliant with the regulatory and the internal risk management framework.

26 SUBSEQUENT EVENTS

There are no subsequent events that have occurred which either need to be disclosed or to be adjusted in the financial statements that could materially affect the financial statements.

27 AUDITORS

The auditors, KPMG, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing their re-appointment as auditors of the Bank for the year 2017 will be put to the Annual General Meeting.

Approved by the board of directors and signed on its behalf by;

Name: Mr. Sarit S Raja Shah **Title: Chairman** **Signature:** ____________

Name: Mr. Pratul H Shah **Title: Director** **Signature:** ____________

Statement Of Directors' Responsibilities
For The Year Ended 31 December 2016

The Companies Act, CAP 212 Act No.12 of 2002 requires directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for the year. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, CAP 212 Act No.12 of 2002 as well as Banking and Financial Institutions Act 2006. 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 Company and of its profit in accordance with International Financial Reporting Standards (IFRS). The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

The external auditors are responsible for independently reviewing and reporting on the Bank's financial statements. The financial statements have been examined by the external auditors and their report is presented on page 28 to 30.

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

Approval of financial statements

The financial statements of I&M Bank (T) Limited, as identified above, were approved by the board of Directors on 22nd February 2017 and signed by;

Name: Mr. Sarit S Raja Shah **Title: Chairman** **Signature:** ____________

Name: Mr. Pratul H Shah **Title: Director** **Signature:** ____________

Declaration of The Head of Finance of I&M Bank (T) Limited.

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

It is the duty of a professional accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view position of the entity in accordance with international accounting standards and statutory reporting requirements. Full legal responsibility for financial statements rests with the Board of Directors as under Directors Responsibility statement on an earlier page.

I Amulike Essau Kamwela being the head of Finance of I&M Bank (T) Ltd hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2016 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements comply with applicable accounting standards and statutory requirement 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.: ......012520....................

Report of The Independent Auditors To The Members of I&M Bank (T) Limited

Report on the financial statements

Opinion
We have audited the financial statements of I&M Bank (T) Limited ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 31 to 74.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in 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.

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.

Impairment of loans and advances	
The key matter	**How the matter was addressed in our audit**
Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. They are calculated on an individual basis for all significant loans. The calculation of the individual impairment allowances is inherently judgemental for any bank. For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that loan. The audit was focused on impairment due to the materiality of the balances and the subjective nature of the calculation.	We tested the controls management has established to support their specific impairment calculations. For specific impairment charges on individual loans this included controls over the compilation and review of the credit watch list, credit file review processes, approval of external collateral valuation vendors and review of controls over the approval of significant individual impairments. We also independently considered appropriateness of management's judgements in respect of calculation methodologies and segmentation, economic factors and judgemental overlays, period of historical loss rates used, loss emergence periods, interest rates for impaired loans and the valuation of recovery assets and collateral. For specific allowances we independently assessed the appropriateness of provisioning methodologies and policies for a sample of loans across the portfolio selected on the basis of risk. An independent view was formed on the levels of provisions booked based on the detailed loan and counterparty information in the credit file. Calculations within a sample of discounted cash flow models were performed.
Refer to Note 17 on page 57 and 58	

Report of The Independent Auditors To The Members of I&M Bank (T) Limited

Other Information
Management is responsible for the other information. The other information comprises the Report of the Board of Directors and Statement of Directors' responsibilities.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on ("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 scepticism 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Report of The Independent Auditors To The Members of I&M Bank (T) Limited

- 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 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 determine 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

- proper records have been kept by I&M Bank (T) Limited;
- the individual accounts are in agreement with the accounting records of the Bank; and
- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

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

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

KPMG
Certified Public Accountants (T)

………………………………
Signed by:
Dar es Salaam

22 February 2107

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016

	Note	2016 ZS '000	2015 TZS '000
Interest income	7	37,480,081	33,909,642
Interest expense	8	(15,953,985)	(14,744,308)
Net interest income		**21,526,096**	**19,165,334**
Fee and commission income	9(a)	4,501,210	4,135,967
Fee and commission expense	9(b)	(293,501)	(305,692)
Net fee and commission income		**4,207,709**	**3,830,275**
Revenue		**25,733,805**	**22,995,609**
Other operating income	10	2,343,523	3,248,223
		2,343,523	**3,248,223**
Operating Income		**28,077,328**	**26,243,832**
Staff costs	11	(7,914,630)	(6,938,914)
Premises and equipment costs	11	(1,688,225)	(1,346,897)
Other expenses	11	(6,827,759)	(5,897,833)
Depreciation and amortisation	11	(1,323,578)	(1,171,905)
Operating expenses		**(17,754,192)**	**(15,355,549)**
Operating profit before impairment, losses and tax		**10,323,136**	**10,888,283**
Net impairment losses on loans and advances	17 (c)	(2,224,967)	(2,845,186)
Profit before income tax	12	8,098,169	8,043,097
Income tax expense	13 (a)	(2,647,077)	(2,128,589)
Net profit for the year after tax		**5,451,092**	**5,914,508**
Other comprehensive income		**-**	**-**
Total comprehensive income for the period		**5,451,092**	**5,914,508**

The notes set out on pages 35 to 74 form an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2016

	Note	2016 ZS '000	2015 TZS '000
ASSETS			
Cash and balances with Bank of Tanzania	14	42,158,648	51,921,375
Items in the course of collection	15	-	377,945
Loans and advances to banks	16	11,070,301	12,992,252
Loans and advances to customers	17(a)	298,313,523	268,643,684
Investment securities	18	58,822,236	38,874,528
Property and equipment	19	5,001,435	5,631,411
Intangible assets - software	20	933,662	1,170,338
Deferred tax asset	21	2,176,944	1,668,842
Due from group companies	29	898,104	2,065,204
Other assets	22	1,570,598	1,997,511
TOTAL ASSETS		**420,945,451**	**385,343,090**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	23	24,888,728	39,713,902
Items in the course of collection	15	158,913	-
Deposits from customers	24	284,688,838	275,214,907
Due to group companies	29	2,180,369	1,152,870
Other liabilities	25	3,359,423	3,049,231
Tax payable	13(c)	152,260	250,081
Long term borrowings	26	35,743,995	11,216,570
Subordinated debt	27	17,499,922	17,356,805
		368,672,448	**347,954,366**
Shareholders' equity			
Share capital	28(b)	2,792,000	2,395,000
Share premium	28(b)	17,995,751	7,482,000
Retained earnings		28,781,302	26,755,321
General provision		2,703,950	310,525
General banking risk reserve		-	445,878
		52,273,003	**37,388,724**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**420,945,451**	**385,343,090**

The financial statements set out on pages 31 to 74 were approved by the Board of Directors on 22nd February 2017 and were signed on its behalf by:

Director____________________

Director____________________

The notes set out on pages 35 to 74 form an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2016

	Note	2016 ZS '000	2015 TZS '000
Cash flow from operating activities	**33**	**(3,929,952)**	**8,772,795**
Cash flows used in operations		(3,929,952)	8,772,795
Tax paid	13	(3,262,015)	(3,174,515)
Net cash flow (used in) / generated from operating activities		**(7,191,967)**	**5,598,280**
Cash flow from investing activities			
Purchase of property and equipment	19	(375,563)	(1,617,094)
Purchase of intangible assets	20	(91,738)	(749,470)
Proceeds from disposal of property and equipment		3,999	11,900
Net cash used in investing activities		**(463,302)**	**(2,354,664)**
Cash flow from financing activities			
Net inflows from subordinated debt	27	-	14,360,000
Dividend paid		(1,477,535)	(1,023,330)
Capital injection	28(b)	10,910,751	-
Net Cash generated from financing activities		**9,433,216**	**13,336,670**
Net increase (decrease) in cash and cash equivalents		**1,777,947**	**16,580,286**
Cash and cash equivalent at beginning of the year		**(12,503,693)**	**(29,083,979)**
Cash and cash equivalent as at the end of the year		**(10,725,746)**	**(12,503,693)**
Represented by;			
Cash and bank balances with Bank of Tanzania			
-Excluding Cash Reserve Ratio	14	12,616,821	22,372,264
Items in course of collection	15	(158,913)	377,945
Balances due from banking institutions	16	1,705,074	-
Deposits and balances due to banking institutions	23	(24,888,728)	(35,253,902)
		(10,725,746)	**(12,503,693)**

The notes set out on pages 35 to 74 form an integral part of these financial statements.

Statement of Changes in Equity
As at 31 December 2016

2016	Note	Share capital TZS '000	Share premium TZS '000	Retained earnings TZS '000	General provisions TZS '000	General banking risk reserve TZS '000	Total TZS '000
Year ended 31 December 2015							
At 1 January 2016		**2,395,000**	**7,482,000**	**26,755,321**	**310,525**	**445,878**	**37,388,724**
Total comprehensive income for the year		-	-	5,451,092	-	-	5,451,092
Transfer to statutory reserve		-	-	(1,947,547)	2,393,425	(445,878)	-
Interim dividend paid		-	-	(1,477,564)	-	-	(1,477,564)
Rights Issue	28	397,000	10,513,751	-	-	-	10,910,751
Balance as at 31 December 2016		**2,792,000**	**17,995,751**	**28,781,302**	**2,703,950**	**-**	**52,273,003**

The notes set out on pages 35 to 74 form an integral part of these financial statements.

2015	Note	Share capital TZS '000	Share premium TZS '000	Retained earnings TZS '000	General provisions TZS '000	General banking risk reserve TZS '000	Total TZS '000
Year ended 31 December 2015							
At 1 January 2016		**2,395,000**	**7,482,000**	**22,620,546**	**-**	**-**	**32,497,546**
Total comprehensive income for the year		-	-	5,914,508	-	-	5,914,508
Transfer to statutory reserve		-	-	(756,403)	310,525	445,878	-
Final dividend for 2014 paid				(1,023,330)	-	-	(1,023,330)
Balance as at 31 December 2015		**2,395,000**	**7,482,000**	**26,755,321**	**310,525**	**445,878**	**37,388,724**

The notes set out on pages 35 to 74 form an integral part of these financial statements.

Notes to the Financial Statements
For The Year Ended 31 December 2016

1. REPORTING ENTITY

I&M Bank (T) Limited ('the Bank') is a limited liability company incorporated and domiciled in Tanzania. The Bank's shares are not publicly traded. The address of its registered office and place of business is:

Maktaba Square,
Maktaba Street,
PO Box 1509,
Dar es Salaam,
Tanzania.

The financial statements of I&M Bank (T) Limited for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 22 February 2017 and were signed on their behalf as shown in the statement of financial position.

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and Tanzania Company's Act.

(b) Basis of measurement

These financial statements have been prepared under the historical cost basis of accounting except for the available-for-sale financial assets.

(c) Functional and presentation currency

These financial statements are presented in Tanzania Shillings (TZS), which also is the Bank's functional currency. All financial information presented in TZs has been rounded to the nearest thousand except where otherwise stated.

(d) Use of estimates and judgments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Foreign currencies

Foreign currency transactions are translated into the functional currency of the entities using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in the year in which they arise.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Foreign currencies *(continued)*

Translation differences on non-monetary items, 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 items, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

(b) Income recognition

Income is derived substantially, from banking business and related activities and comprises net interest income and fee and commission income.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains or losses from monetary items, are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

(i) Net interest income

Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost is recognised in profit or loss using the effective interest method.

When calculating the effective interest rate, the Bank estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received, between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts and premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations are presented in net interest income.

(ii) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Other operating income

Other operating income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences. It also includes gain on disposal of property and equipment

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Income tax expense

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- Temporary differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

A deferred tax asset is recognised for unused tax losses, 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 utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

(d) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

(ii) Classification

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

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and financial liabilities *(continued)*

(ii) Classification (continued)

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments held for trading are subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses are included in profit or loss. Interest earned whilst holding held for trading investments is reported as interest income.

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost using the effective interest method. Loans and receivables compose of loans and advances and cash and cash equivalents.

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. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest rate method.

Available-for-sale

Available-for-sale financial investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any other category of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and presented in the available-for-sale fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is re-classified to profit or loss.
Equity investments are carried as available- for – sale instruments. Where fair values cannot be ascertained, the equity investments will be carried at cost.

(iii) Identification and measurement of impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and financial liabilities *(continued)*

(ii) Identification and measurement of impairment of financial assets (continued)

a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.
The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

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

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(iv) De-recognition

The Banks derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

On de-recognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and financial liabilities *(continued)*

(iv) De-recognition (continued)

substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

(v) Offsetting of financial assets and financial liabilities

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Fair value of financial assets and financial liabilities

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

(vii) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measure at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Fair value measurement *(continued)*

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of net exposure to either market or credit risk are measure on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank measure fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows in the financial statements, the cash and cash equivalents include cash and balances with the Bank of Tanzania which are available to finance day to day operations, items in the course of collection from and transmission to other banks and net balances from banking institutions.

(g) Property and equipment

Items of property and equipment are measured at cost or valuation less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the asset.

Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Bank. On-going repairs and maintenance are expensed as incurred.

Depreciation is charged on a straight line basis to allocate the cost of each asset, to its residual value over its estimated useful life as follows:

Description	Annual Depreciation Rate
• Motor vehicles	25.00%
• Furniture and fittings	12.50%
• Office equipment	12.50%
• Computer equipment	25.00%
• Residential furniture	33.33%
• Leasehold improvement	12.50% or over the period of lease if shorter than 8 years

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property and equipment *(continued)*

Depreciation is recognised in profit or loss. The assets' residual values and useful lives are reviewed and adjusted as appropriate, at each reporting date.

Any gains or losses on disposal of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) are recognised in other income in profit or loss.

(h) Intangible assets

Computer software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software is measure at cost less accumulated amortisation and accumulated impairment. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding three years. Costs associated with maintaining software are recognised as an expense as incurred.

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

(i) Operating leases

(i) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases arrangements (whether prepaid or post-paid) are charged to the profit or loss on a straight-line basis over the period of the lease.

(ii) Finance lease receivables

Minimum lease receipts are apportioned between the interest income and the reduction of outstanding asset. The interest income is allocated to each period during the lease term so as to produce a constant period of rate of interest on the remaining balance of the liability.

(j) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and group. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

(l) Impairment of non-financial assets (Continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Derivative financial instruments

The Bank uses financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.
Derivative financial instruments are recognised initially at fair value on the date the derivative contract is entered into. Subsequent to initial recognition, derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is the amount of the mark to market adjustment at the reporting date.

(l) Employee benefits

(i) Defined contribution plan

The majority of the Bank's employees are eligible for retirement benefits under a defined contribution plan.

The assets of the defined contribution scheme are held in a separate trustee administered guaranteed scheme managed by an insurance company. Retirement plans are funded by contributions from the employees and the respective entities. The Bank's contributions are recognised in profit or loss in the year to which they relate.

The Bank also contributes to various national social security funds in the countries it operates. Contributions are determined by local statute and the Bank's contributions are charged to the income statement in the year to which they relate.

(ii) Leave accrual

The monetary value of the unutilised leave by staff as at year end is recognised within accruals and the movement in the year is debited / credited to the profit or loss.

(m) Share capital and share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from initial measurement of the equity instruments.

(n) Earnings per share

Earnings per share are calculated based on the profit attributable to owners of the company divided by the number of ordinary shares. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year.

(o) Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

(p) Provisions and accrued liabilities

Provisions are liabilities with uncertainties as to the amount or timing of payments. Provisions are recognised if there is a present obligation that probably requires an outflow of resources and a reliable estimate can be made at the reporting date and be measured on a best-estimate basis. Any expected loss is charged to profit or loss.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Contingent liabilities

Letters of credit, acceptances and guarantees are not recognised and are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to profit or loss.

(r) Comparative information

Where necessary, comparative figures have been restated to conform to changes in presentation in the current year.

(s) New standards, amendments and interpretations

i. New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2016

• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments (2014)	1 January 2018
• IFRS 16 Leases	1 January 2019

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

- *IFRS 15 Revenue from Contracts with Customers*

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

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption is permitted. Management is assessing the impact of the adoption of this standard.

- *IFRS 9: Financial Instruments (2014)*

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

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New standards, amendments and interpretations *(continued)*

- *IFRS 9: Financial Instruments (2014) (continued)*

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted. The adoption of this standard is expected to have a significant impact on the financial statements of the Bank.

- *IFRS 16: Leases*

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

(a) Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.
(b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
(c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;
(b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

Management is assessing the impact of the adoption of this Standard.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT

This section provides details of the bank's exposure to risk and describes the methods used by management to control risk. The most important types of risk to which the Bank is exposed are credit risk, market risks and operational risk. Market risk includes liquidity risk, currency risk and interest rate risk.

(a) Credit risk

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

The Board of Directors is responsible for management of credit risk and has delegated this responsibility to the Board Credit Committee.

The Bank's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an on-going basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life.

To manage the level of credit risk, the Bank deals with counter parties of good credit standing wherever possible and when appropriate, obtains collateral.

An assessment of the extent to which fair values of collaterals cover existing credit risk exposure on loans and advances to customers is highlighted below.

The Bank also monitors concentrations of credit risk that arise by industry and type of customer in relation to loans and advances to customers by carrying a balanced portfolio. The Bank has no significant exposure to any individual customer or counter-party.

To determine impairment of loans and advances, the Bank assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT

(a) Credit risk *(continued)*

Exposure to credit risk

	2016	2015
Loans and advances to customers	**TZS '000**	**TZS '000**
Individually impaired		
Grade 3: Substandard	11,627,210	5,453,376
Grade 4: Doubtful	936,375	806,724
Grade 5: Loss	3,581,211	2,084,297
	16,144,796	**8,344,397**
Allowance for impairment	(6,520,528)	(3,682,933)
Carrying amounts	**9,624,268**	**4,661,464**
Collectively impaired		
Grade 1: Normal	268,542,788	240,446,642
Grade 2: Watch	21,851,969	25,853,707
	290,394,757	**266,300,349**
Portfolio impairment provision	(1,705,502)	(2,318,130)
Carrying amounts	**288,689,255**	**263,982,219**
Total carrying amounts	**298,313,523**	**268,643,684**

Impaired loans and securities

Impaired loans and securities are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 3 (substandard) to 5 (loss) in internal credit risk and grading system.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to the deterioration in the borrower's financial position and where the Bank has made concession that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually impaired exposures, and a collective loan loss allowance established for homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT

(a) Credit risk *(continued)*

Write off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when Board Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

Loans and advances - Company

	Gross	Net
	TZS'000	TZS'000
Individually impaired:		
31 December 2016		
Grade 3: Substandard	11,627,210	8,125,392
Grade 4: Doubtful	936,375	607,147
Grade 5: Loss	3,581,211	891,729
	16,144,796	**9,624,268**
31 December 2015		
Grade 3: Substandard	5,453,376	3,337,302
Grade 4: Doubtful	806,724	470,437
Grade 5: Loss	2,084,297	853,726
	8,344,397	**4,661,464**

	Gross	Net
Collectively impaired:	TZS'000	TZS'000
31 December 2016		
Grade 1: Normal	268,542,788	266,964,810
Grade 2: Watch	21,851,969	21,724,445
	290,394,757	**288,689,255**
31 December 2015		
Grade 1: Normal	240,446,642	238,353,647
Grade 2: Watch	25,853,707	25,628,572
	266,300,349	**263,982,219**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT

(a) Credit risk *(continued)*

Write off policy (continued)

The Bank holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2016 or 2015.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances to Customers	2016	2015
	TZS'000	TZS'000
Company		
Fair Value of collateral held – Against impaired loans	**9,624,269**	**8,687,450**

(b) Liquidity risk

Liquidity risk includes the risk of being unable to meet financial obligations as they fall due because of inability to liquidate assets at a reasonable price and in an appropriate timeframe.

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows:

	2016	2015
At 31 December	31%	30%
Average for the period	31%	33%
Highest for the period	34%	40%
Lowest for the period	25%	23%

Deposits from customers represent transactional accounts, savings accounts, call and fixed deposit balances, which past experience has shown to be stable. The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2016 and 2015 to the contractual maturity date:

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT

(b) Liquidity risk *(continued)*

31 December 2016	Within 1 month TZS'000	Due within 1-3 months TZS'000	Due between 3-12 months TZS'000	Due between 1-5 years TZS'000	Due after 5 years TZS'000	Total TZS'000
LIABILITIES						
Deposits from banks	22,708,728	2,180,000	-	-	-	24,888,728
Items in the course of collection	158,913	-	-	-	-	158,913
Deposits from customers	107,437,784	69,036,075	107,773,183	441,796	-	284,688,838
Other liabilities	545,061	2,814,362	-	-	-	3,359,423
Long term borrowings	1,661,999	-	6,167,601	27,914,395	-	35,743,995
Subordinated debt	-	-	59,922	17,440,000	-	17,499,922
At 31 December 2016	**132,512,485**	**74,030,437**	**114,000,706**	**45,796,191**	**-**	**366,339,819**

31 December 2015	Within 1 month TZS'000	Due within 1-3 months TZS'000	Due between 3-12 months TZS'000	Due between 1-5 years TZS'000	Due after 5 years TZS'000	Total TZS'000
LIABILITIES						
Deposits from banks	35,366,742	1,114,207	3,232,953	-	-	39,713,902
Deposits from customers	151,078,466	37,433,959	85,380,356	1,322,126	-	275,214,907
Other liabilities	39,251	3,009,980	-	-	-	3,049,231
Long term borrowings	-	296,945	2,560,194	8,359,431	-	11,216,570
Subordinated debt	-	-	984,005	7,495,200	8,877,600	17,356,805
At 31 December 2015	186,484,459	41,855,091	92,157,508	17,176,757	8,877,600	346,551,415

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spread (not relating to changes in the obligator's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments.

The Bank is primarily exposed to interest rate and foreign exchange risk. All trading instruments are subject to market risk, the risk that the future changes in market conditions may make an instrument less valuable or more onerous. The Bank manages its use of trading instruments in response to changing market conditions.

The Board of Directors has delegated responsibility for management of market risk to the Board Risk Committee. Exposure to market risk is formally managed within risk limits and policy guidelines issued by the Board, on recommendation of the Board Risk Committee. ALCO, a management committee is charged with the responsibility of ensuring implementation and monitoring of the risk management framework in line with policy guidelines. The policy guidelines and procedures in place are adequate to effectively manage these risks.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT (Continued)

Exposure to interest rate risk - continued

This is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Bank's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates is shown below:

31 December 2016	Effective interest rate %	Within 1 month TZS'000	Due within 1-3 months TZS'000	Due between 3-12 months TZS'000	Due between 1-5 years TZS'000	Due after 5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
ASSETS								
Cash and balances with Bank of Tanzania		-	-	-	-	-	42,158,648	42,158,648
Loans and advances to banks	13.62	905,777	850,849	853,523	-	-	8,460,152	11,070,301
Loans and advances to customers	10.09	295,545,802	-	-	1,568,066	1,199,655	-	298,313,523
Investment securities	15.79	-	21,739,860	28,505,341	8,077,035	-	500,000	58,822,236
Due from group companies		-	-	-	-	-	898,104	898,104
Other assets		-	-	-	-	-	1,570,598	1,570,598
		296,451,579	22,590,709	29,358,864	9,645,101	1,199,655	53,587,502	412,833,410
LIABILITIES								
Deposits from banks	13.62	-	24,888,728	-	-	-	-	24,888,728
Items in the course of collection		-	-	-	-	-	158,913	158,913
Deposits from customers	6.73	7,729,175	68,651,314	107,773,183	441,795	-	100,093,371	284,688,838
Other liabilities		-	-	-	-	-	3,359,423	3,359,423
Long-term borrowings	7.2	1,661,999	-	6,167,601	27,914,395	-	-	35,743,995
Subordinated debt	7.3	-	-	59,922	17,440,000	-	-	17,499,922
		9,391,174	93,540,042	114,000,706	45,796,190	-	103,611,707	366,339,819
Interest rate gap		287,060,405	(70,949,333)	(84,641,842)	(36,151,089)	1,199,655	(50,024,205)	44,493,591

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT (Continued)

Exposure to interest rate risk - continued

31 December 2015	Effective interest rate %	Within 1 month TZS'000	Due within 1-3 months TZS'000	Due between 3-12 months TZS'000	Due between 1-5 years TZS'000	Due after 5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
ASSETS								
Cash and balances with Bank of Tanzania		-	-	-	-	-	51,921,375	51,921,375
Items in the course of collection		-	-	-	-	-	377,945	377,945
Loans and advances to banks	13.47	1,760,246	-	-	-	-	11,232,006	12,992,252
Loans and advances to customers	10.13	260,512,326	7,124	-	5,272,824	2,851,410	-	268,643,684
Investment securities	18.25	5,941,975	5,604,455	15,480,978	11,847,120	-	-	38,874,528
Due from group companies		-	-	-	-	-	2,065,204	2,065,204
Other assets		-	-	-	-	-	1,570,598	1,570,598
		268,214,547	5,611,579	15,480,978	17,119,944	2,851,410	67,167,128	376,445,586
LIABILITIES								
Deposits from banks	8.09	35,366,742	1,114,207	3,232,953	-	-	-	39,713,902
Deposits from customers	5.7	70,217,551	37,433,959	85,380,356	1,322,126	-	80,860,915	275,214,907
Due to group companies		-	-	-	-	-	1,152,870	1,152,870
Other liabilities		-	-	-	-	-	3,049,231	3,049,231
Long-term borrowings	6.54	-	373,750	2,483,389	8,359,431	-	-	11,216,570
Subordinated debt	6.2	-	-	984,005	7,495,200	8,877,600	-	17,356,805
		105,584,293	38,921,916	92,080,703	17,176,757	8,877,600	85,063,016	347,704,285
Interest rate gap		162,630,254	(33,310,337)	(76,599,725)	(56,813)	(6,026,190)	(69,817,263)	(23,180,074)

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT

(c) Market risk (continued)

Exposure to interest rate risk - continued

Sensitivity Analysis

A change of 100 basis points in interest rates at the reporting date would have increased/decreased equity and profit or loss by the amounts shown below. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

31 December 2016 100 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	3,592,459	2,514,721
Liabilities	(2,627,281)	(1,839,097)
Net position	**965,178**	**675,624**

31 December 2015 100 basis points	Profit or loss Increase/decrease in basis points ('000)	Equity net of tax Increase/decrease in basis points ('000)
Assets	3,092,785	2,164,949
Liabilities	(2,626,413)	(1,838,489)
Net position	**466,372**	**326,460**

Currency rate risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Bank is exposed to as at 31 December 2016 and 31 December 2015.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Currency rate risk - continued

At 31 December 2016	USD TZS'000	GBP TZS'000	Euro TZS'000	Other TZS'000	Total TZS'000
ASSETS					
Cash and balances with Bank of Tanzania	11,381,265	971,901	411,195	23,818	12,788,179
Items in the course of collection	109,888	-	-	-	109,888
Loans and advances to customers	243,996,614	-	-	-	243,996,614
Other assets	1,514,531	-	-	-	1,514,531
At 31 December 2016	**257,002,298**	**971,901**	**411,195**	**23,818**	**258,409,212**
LIABILITIES					
Deposits from banks	27,053,800	-	-	-	27,053,800
Deposits from customers	175,243,776	885,852	235,655	-	176,365,283
Other liabilities	5,647,623	90,846	169,647	9,618	5,917,734
Due to group companies	32,105,442	-	-	-	32,105,442
Long-term borrowings	17,440,000	-	-	-	17,440,000
			-		
At 31 December 2016	**257,490,641**	**976,698**	**405,302**	**9,618**	**258,882,259**
Net on statement of financial position	**(488,343)**	**(4,797)**	**5,893**	**14,200**	**(473,047)**
Overall net position – 2016	**(488,343)**	**(4,797)**	**5,893**	**14,200**	**(473,047)**

At 31 December 2015	USD TZS'000	GBP TZS'000	Euro TZS'000	Other TZS'000	Total TZS'000
ASSETS					
Cash and balances with Bank of Tanzania	13,522,008	417,267	127,766	89,308	14,156,349
Loans and advances to customers	221,265,167	-	-	-	221,265,167
Other assets	2,139,561	8,002	282	-	2,147,845
At 31 December 2015	**236,926,736**	**425,269**	**128,048**	**89,308**	**237,569,361**
LIABILITIES					
Deposits from banks	37,594,770	-	-	-	37,594,770
Deposits from customers	171,542,694	387,945	200,444	-	172,131,083
Other liabilities	178,303	-	-	97	178,400
Long term borrowings	11,293,375	-	-	-	11,293,375
Subordinated Debt	17,280,000	-	-	-	17,280,000
At 31 December 2015	**237,889,142**	**387,945**	**200,444**	**97**	**238,477,628**
Net on statement of financial position	**(962,406)**	**37,324**	**(72,396)**	**89,211**	**(908,267)**
Net notional off balance sheet position	1,296,000	-	-	-	1,296,000
Overall net position – 2015	**333,594**	**37,324**	**(72,396)**	**89,211**	**387,733**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT (Continued)

(c) Market risk (continued)

Currency rate risk - continued

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/decreased equity and profit or loss by the amounts shown below. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant

At 31 December 2016	Profit or loss Strengthening/weakening of currency TZS'000	Equity net of tax Strengthening/weakening of currency TZS'000
USD (± 1% movement)	(4,883)	(3,418)
GBP (± 1% movement)	(48)	(34)
EUR (± 1% movement)	59	41

At 31 December 2015	Profit or loss Strengthening/weakening of currency TZS'000	Equity net of tax Strengthening/weakening of currency TZS'000
USD (± 1% movement)	3,336	2,335
GBP (± 1% movement)	373	261
EUR (± 1% movement)	(724)	(507)

(d) Operational risk

The overall responsibility of managing operational risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board through the Board Risk Committee, issues policies that guide management on appropriate practices of operational risk mitigation. An independent Risk Manager assures the Board Risk Committee of the implementation of the said policies.

The following are key measures that the Bank undertakes in managing operational risk:

- Documentation of procedures and controls, including regular review and updates to reflect changes in the dynamic business environment.
- Appropriate segregation of duties, including the independent authorisation of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Reporting of operational losses and ensuring appropriate remedial action to avoid recurrence.
- Development and implementation of Business Continuity and Disaster Recovery Plans
- Training and professional development of employees to ensure they are well equipped to identify and mitigate operational risks in a timely manner.
- Establishment of ethical practices at business and individual employee's level.
- Implementation of Risk mitigation parameters, including insurance where this is considered effective.

The entire operational risk management framework is subjected to periodic independent audits (internal) in order for the bank to obtain an independent opinion on the effectiveness and efficiency of the framework. Further, the findings of the Internal Audit department are reviewed by the Board Audit Committee and recommendations made implemented in line with the agreed timeframe.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT (Continued)

(e) Capital management

The Bank of Tanzania sets and monitors capital requirements for the Tanzania banking industry. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a bank's capital. In implementing current capital requirements, The Bank of Tanzania requires Banks to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank's regulatory is analysed in two tiers:

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

Various limits are applied to elements of the capital base such as qualifying Tier 2 capital cannot exceed Tier 1 capital and qualifying subordinated debt may not exceed 50 percent of Tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Tier 1 capital is also subjected to various limits such as Tier 1 capital should not be less than 10 percent of the risk weighted assets and premises investments should not exceed 50 percent of the core capital and movable assets should not exceed 20% of core capital.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT (Continued)

i. Capital management (continued)

The Bank's regulatory capital position at 31 December was as follows

	2016	2015
	TZS'000	TZS'000
Core capital (Tier 1)		
Share capital	2,792,000	2,395,000
Share premium	17,995,751	7,482,000
Retained earnings	28,781,302	26,755,321
	49,569,053	**36,632,321**
Less: Prepaid expenses	(1,486,052)	(1,605,975)
Deferred tax asset	(2,176,943)	(1,668,842)
Intangible assets	(933,662)	(1,170,338)
Total Core capital	**44,972,396**	**32,187,166**
Supplementary capital (Tier 2)		
Term subordinated debt	15,696,000	16,093,583
General provision	2,703,950	310,525
Other general provisions	-	2,092,995
	18,399,950	**18,497,103**
Total capital	**63,372,346**	**50,684,269**

	2016	2015
	TZS'000	TZS'000
Risk weighted assets		
On balance sheet	292,372,229	260,869,231
Off balance sheet	30,759,731	25,083,869
Capital charge for market risk	497,997	1,034,802
Total risk weighted assets	**323,629,957**	**286,987,902**
Capital ratios		
Core capital /Total risk weighted assets (BOT min 10%)	**13.90%**	**11.22%**
Total capital /Total risk weighted assets (BOT min 12%)	**19.58%**	**17.66%**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

4. RISK MANAGEMENT (Continued)

(f) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of bearing the consequences of non-compliance with regulatory requirements. The compliance function is responsible for establishing and maintaining an appropriate framework of Bank compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

(g) Environmental and social risks

Environmental and social risks are the risks that the Bank could bear the consequences of socio-environmental fall-out of transactions. Such risks could arise from failure of the bank to assess the impacts of activities (of both the bank and its clients) which could harm the environment or have negative social impact.

The Bank is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its environmental and social management policy and by adopting the country's labour and environmental laws. The Bank also adheres to international best practice (IFC performance standards and ILO standards as ratified by the Tanzanian government). An environmental and social management system is being put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

The Directors are responsible for selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates.

5. USE OF ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty - Allowance for credit losses

Assets accounted for at amortised costs are evaluated for impairment on a basis described in accounting policy 3(f) (vii). The specific component of total allowances for impairment applies to loans and advances evaluated individually for impairment and are based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Estimate of cash flows considered recoverable are independently approved by the Credit Risk committee.

Collectively assessed impaired allowances cover credit losses inherent in portfolios of loans and advances with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In considering the collective loan loss allowances, management considers the historical loan loss rate and the emergence period. The accuracy of the allowance depends on how well these estimate future cash flows for specific debtor's allowances and the model assumptions and parameters used in determining collective allowances.

Income taxes

Significant estimates are required in determining the liability 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 balances and deferred tax liability in the period in which such determination is made.

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

5. USE OF ESTIMATES AND JUDGEMENT (Continued)

Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out on accounting policy 3(i).

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include financial asset and liability classification. The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets as held to maturity, the Bank has determined that it has both positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(f) (ii).

6. FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

The carrying amounts are an approximate of fair values since the financial assets and liabilities are short term or reprice in the short run.

	Carrying amounts					
At 31 December 2016	**Held to maturity TZS'000**	**Loans and receivables TZS'000**	**Available - for-sale TZS'000**	**Other amortized cost TZS'000**	**Other financial liabilities TZS'000**	**Total TZS'000**
Financial assets						
Cash and balances with Bank of Tanzania	-	42,158,647	-	-	-	42,158,647
Items in the course of collection	-	-	-	-	-	-
Investment securities	58,322,236	-	500,000	-	-	58,822,236
Loans and advances to banks	-	11,968,405	-	-	-	11,968,405
Loans and advances to customers	-	298,313,523	-	-	-	298,313,523
Other assets	-	-	-	1,566,597	-	1,566,597
	58,322,236	**352,440,575**	**500,000**	**1,566,597**	**-**	**412,829,408**
Financial liabilities						
Deposits from banks	-	-	-	-	27,069,097	27,069,097
Items in the course of collection	-	-	-	-	158,913	158,913
Deposits from customers	-	-	-	-	284,688,838	284,688,838
Long term borrowings	-	-	-	-	35,803,917	35,803,917
Subordinated debt	-	-	-	-	17,440,000	17,440,000
Other liabilities	-	-	-	-	3,518,306	3,518,306
	-	**-**	**-**	**-**	**368,679,071**	**368,679,071**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

6. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting classifications at carrying amounts and fair values - continued

At 31 December 2015	Held to maturity TZS'000	Loans and receivables TZS'000	Available - for-sale TZS'000	Other amortized cost TZS'000	Other financial liabilities TZS'000	Total TZS'000
	Carrying amounts					
Financial assets						
Cash and balances with central banks	-	51,921,375	-	-	-	51,921,375
Items in the course of collection	-	-	-	377,945	-	377,945
Investment securities	38,374,529	-	500,000	-	-	38,874,529
Loans and advances to banks	-	12,992,251	-	-	-	12,992,251
Loans and advances to customers	-	268,643,684	-	-	-	268,643,684
Other assets	-	-	-	-	1,997,512	1,997,512
	38,374,529	**333,557,310**	**500,000**	**377,945**	**1,997,512**	**374,807,296**
Financial liabilities						
Deposits from banks	-	-	-	-	39,713,902	39,713,902
Deposits from customers	-	-	-	-	275,214,907	275,214,907
Long term borrowings	-	-	-	-	11,293,375	11,293,375
Subordinated debt	-	-	-	-	17,280,000	17,280,000
Other liabilities	-	-	-	-	3,049,233	3,049,233
	-	**-**	**-**	**-**	**346,551,418**	**346,551,417**

7. INTEREST INCOME

	2016 TZS '000	2015 TZS '000
Loans and advances to customers	29,426,231	28,027,578
Loans and advances to banks	1,046,357	566,874
Investment securities:-		
- Held-to-maturity	7,007,493	5,315,190
	37,480,081	**33,909,642**

8. INTEREST EXPENSE

Deposits from customers	12,441,545	12,236,139
Deposits from banks	632,506	761,675
Long term borrowings	1,694,514	899,971
Subordinated debt	1,185,420	846,523
	15,953,985	**14,744,308**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

9. NET FEE AND COMMISSION INCOME

	2016 TZS '000	2015 TZS '000
(a) Fee and commission income		
Commissions	2,895,635	2,472,976
Fees and charges	1,605,575	1,662,991
	4,501,210	**4,135,967**
(b) Fees and commission expense		
Fees and commission expenses	(293,501)	(305,692)
	(293,501)	**(305,692)**
Net fee and commission income	**4,207,709**	**3,830,275**

10. OTHER OPERATING INCOME

Income from foreign exchange dealings	2,310,135	3,082,270
Other income	33,388	165,953
	2,343,523	**3,248,223**

11. OPERATING EXPENSES

	2016 TZS '000	2015 TZS '000
Staff costs		
Salaries and wages	5,455,501	4,731,749
Statutory contribution	503,550	442,953
Skills Development Levy	307,851	282,117
Other staff costs	1,647,728	1,482,095
	7,914,630	**6,938,914**
Premises and equipment costs		
Rental of premises	1,357,504	1,195,507
Electricity	216,226	139,688
Other premises and equipment costs	114,495	11,702
	1,688,225	**1,346,897**
General administrative expenses		
Deposit protection insurance contribution	451,750	412,359
Other expenses	6,376,009	5,485,474
	6,827,759	**5,897,833**
Depreciation and amortisation		
Depreciation on property and equipment (note 19)	870,757	686,712
Amortisation of intangible assets (note 20(b))	452,821	485,193
	1,323,578	**1,171,905**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

12. PROFIT BEFORE INCOME TAX

	2016 TZS '000	2015 TZS '000
Profit before income tax is arrived at after charging/(crediting):		
Depreciation	870,757	686,713
Amortisation of intangible assets	452,821	485,193
Directors' emoluments:- fees	159,000	129,353
-expenses	67,897	89,160
Auditors' remuneration	82,800	88,866
Profit on sale of property and equipment	-	(2,432)

13. INCOME TAX EXPENSE AND TAX PAYABLE

a) Income tax expense

	2016 TZS '000	2015 TZS '000
Current year's tax	3,155,179	3,347,283
	3,155,179	**3,347,283**
Provision in current year - deferred tax	(673,864)	(542,431)
Under/(over) provision in prior year - deferred tax	165,762	(676,263)
	2,647,077	**2,128,589**

The tax on the company's profit differs from the theoretical amount using the basic tax rate as follows:

	2016	2015
(b) Accounting profit before tax	**8,098,199**	**8,043,097**
Computed tax using the applicable corporation tax rate at 30%	2,429,460	2,412,929
Effect on non-deductible costs /income	51,855	391,923
Under/(over) provision in prior year - deferred tax	165,762	(676,263)
	2,647,077	**2,128,589**

c) Tax payable

	2016	2015
At 1 January	250,081	77,313
Income tax expense (note 13(a)(i))	3,155,179	3,347,283
Tax paid (note 33 (c))	(3,262,015)	(3,174,515)
Tax payable	**152,260**	**250,081**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

14. CASH AND BALANCES WITH CENTRAL BANKS

	2016 TZS '000	2015 TZS '000
Cash on hand	5,242,220	8,078,575
Balances with Bank of Tanzania:		
- Restricted balances (Cash reserve ratio)	29,541,827	29,549,111
- Unrestricted balances	7,374,601	14,293,689
	42,158,648	**51,921,375**

15. ITEMS IN THE COURSE OF COLLECTION

	2016	2015
Items in the course of collection (liabilities)/asset	**(158,913)**	**377,945**

Items in the course of collection represent net settlement balances through the inter-banking clearing process

16. LOANS AND ADVANCES TO BANK

	2016 TZS '000	2015 TZS '000
Due within 90 Days	9,365,227	-
Due after 90 days	1,705,074	12,992,252
	11,070,301	**12,992,252**

17. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2016	2015
Overdrafts	131,626,905	123,272,093
Loans	174,912,648	150,843,021
Hire purchase	-	529,633
Gross loans and advances	**306,539,553**	**274,644,747**
Less: Impairment losses on loans and advances	(8,226,030)	(6,001,063)
Net loans and advances	**298,313,523**	**268,643,684**
	-	-
Repayable on demand	-	133,140
Less than 3 months	73,605,663	1,446,596
3 months to 1 year	66,199,993	19,633,127
1 to 5 years	103,436,249	212,527,160
5 to 10 years	63,297,648	40,904,724
Gross loans and advances	**306,539,553**	**274,644,747**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

17. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Impairment losses reserve

2016	Specific impairment allowance TZS '000	Portfolio impairment allowance TZS '000	Total TZS '000
At I January 2016	4,138,239	1,862,824	6,001,063
Net impairment made in the year	2,382,289	-	2,382,289
Net recoveries	-	(157,322)	(157,322)
At 31 December 2016	**6,520,528**	**1,705,502**	**8,226,030**

2015	Specific impairment allowance TZS '000	Portfolio impairment allowance TZS '000	Total TZS '000
At I January 2015	1,643,469	1,512,408	3,155,877
Net impairment made in the year	2,494,770	350,416	2,845,186
At 31 December 2015	**4,138,239**	**1,862,824**	**6,001,063**

c) Impairment losses on loans and advances

	2016 TZS '000	2015 TZS '000
Impairment made in the year	2,382,289	2,845,186
Recoveries of loans and advances	(157,322)	-
	2,224,967	**2,845,186**

(d) Non-performing loans and advances

Non -performing loans and advances net of impairment losses and estimated value of securities are disclosed in note 4(a)

Interest on impaired loans and advances which has not yet been received in cash	**1,987,253**	**1,094,804**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

17. LOANS AND ADVANCES TO CUSTOMERS (Continued)

e) Loans and advances concentration by sector

	2016 TZS '000	2016 %	2015 TZS '000	2015 %
Manufacturing	71,143,501	23%	61,971,470	23%
Wholesale and retail trade	56,268,307	18%	58,414,990	21%
Building and construction	21,037,970	7%	12,697,410	5%
Agriculture	10,230,760	3%	7,526,510	3%
Real estate	76,710,819	25%	56,991,630	21%
Transport and communication	28,756,390	9%	25,035,400	9%
Business services	13,852,231	5%	14,315,930	5%
Mining and quarrying	7,324,279	3%	8,379,900	3%
Others	21,215,296	7%	29,311,507	11%
	306,539,553	**100%**	**274,644,747**	**100%**

f) Finance leases

Loans and advances to customers include finance leases receivable as follows:

	2016 TZS '000	2015 TZS '000
Receivable no later than 1 year	-	529,633
	-	**529,633**

18. INVESTMENT SECURITIES

	2016 TZS'000	2015 TZS'000
Available-for sale		
Equity investment in TMRC/ equity investments	500,000	500,000
Held-to-maturity		
Treasury bonds (Non Liquid)	11,171,388	13,968,764
Treasury bills (Non-Liquid)	47,150,848	24,405,764
Total held to maturity	58,322,236	38,374,528
Total investment securities	**58,822,236**	**38,874,528**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

18. INVESTMENT SECURITIES (Continued)

The change in the carrying amount of investment securities held by the company is as shown below:

	Treasury bills and bonds	Equity investment	Total
	TZS'000	TZS'000	TZS'000
At 1 January 2016	38,374,529	500,000	38,874,529
Additions	60,217,483	-	60,217,483
Disposals and maturities	(40,269,776)	-	(40,269,776)
At 31 December 2016	**58,322,236**	**500,000**	**58,822,236**

	Treasury bills and bonds	Equity investment	Total
	TZS'000	TZS'000	TZS'000
At 1 January 2015	50,864,788	500,000	51,364,788
Additions	23,444,707	-	23,444,707
Disposals and maturities	(35,934,966)	-	(35,934,966)
At 31 December 2015	**38,374,529**	**500,000**	**38,874,529**

19. PROPERTY AND EQUIPMENT

2016	Leasehold improve-ments	Furniture, fittings, fixtures &office equipment	Motor Computers	Capital work Vehicles	in progress	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cost/ Valuation						
At 1 January 2016	2,883,982	1,697,257	2,419,399	318,527	497,375	7,816,540
Additions	30,608	341,920	3,035	-	-	375,563
Disposals	-	(21,480)	(24,426)	(5,301)	-	(51,207)
Reclassification/internal transfers	-	372,968	-	-	(372,968)	-
Transfers to Intangible assets	-	-	-	-	(124,407)	(124,407)
At 31 December 2016	**2,914,590**	**2,390,665**	**2,398,008**	**313,226**	**-**	**8,016,489**
Depreciation						
At 1 January 2016	(847,291)	(532,022)	(720,987)	(84,829)	-	(2,185,129)
Charge for the year	(291,693)	(389,219)	(126,615)	(63,230)	-	(870,757)
Disposals	-	13,008	22,672	5,152		40,832
At 31 December 2016	**(1,138,984)**	**(908,233)**	**(824,930)**	**(142,907)**	**-**	**(3,015,054)**
Net book value at 31 December 2016	**1,775,606**	**1,482,432**	**1,573,078**	**170,319**	**-**	**5,001,435**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

19. PROPERTY AND EQUIPMENT (CONTINUED)

2015	Leasehold improvements	Furniture, fittings, fixtures &office equipment	Motor Computers	Capital work Vehicles	in progress	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cost/ Valuation						
At 1 January 2015	2,749,115	943,845	1,629,569	185,175	841,086	6,348,790
Additions	91,158	720,366	621,420	184,150	-	1,617,094
Disposals	-	-	-	(50,798)	-	(50,798)
Reclassification/internal transfers	43,709	33,046	168,410	-	(245,165)	-
Write offs/back	-	-	-	-	(76,278)	(76,278)
Transfers to intangible assets	-	-	-	-	(22,268)	(22,268)
At 31 December 2015	**2,883,982**	**1,697,257**	**2,419,399**	**318,527**	**497,375**	**7,816,540**
Depreciation						
At 1 January 2015	(563,901)	(362,137)	(509,148)	(104,561)		(1,539,747)
Charge for the year	(283,390)	(169,885)	(211,839)	(21,598)	-	(686,712)
Disposals	-	-	-	41,330	-	41,330
At 31 December 2015	**(847,291)**	**(532,022)**	**(720,987)**	**(84,829)**	**-**	**(2,185,129)**
Net book value at 31 December 2015	**2,036,691**	**1,165,235**	**1,698,412**	**233,698**	**497,375**	**5,631,411**

Assets that are fully depreciated amounted to TZS 3,481,000 (2015 - NIL). If depreciation had been charged during the year on the cost of these assets at a nominal rate, it would have amounted to TZS 435,125 (2015 – NIL).

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

20. INTANGIBLE ASSETS

2016	Computer Software	Capital work in progress	Total
Cost	**TZS'000**	**TZS'000**	**TZS'000**
At 1 January	2,322,802	-	2,322,802
Transfer from property and equipment		124,407	124,407
Additions	91,738		91,738
Transfer from work in progress	124,407	(124,407)	-
At 31 December 2016	**2,538,947**	**-**	**2,538,947**
Amortisation			
At 1 January	(1,152,464)	-	(1,152,464)
Amortisation for the year	(452,821)	-	(452,821)
At 31 December 2016	**(1,605,285)**	**-**	**(1,605,285)**
At 31 December 2016	**933,662**	**-**	**933,662**

2015	Computer Software	Capital work in progress	Total
Cost	**TZS'000**	**TZS'000**	**TZS'000**
At 1 January	1,551,064	-	1,551,064
Additions	749,470	-	749,470
Transfer from work in progress	5,890	-	5,890
Disposals	16,378	-	16,378
At 31 December 2015	**2,306,424**	**-**	**2,322,802**
Amortisation			
At 1 January	(667,271)		(667,271)
Amortisation for the year	(485,193)		(485,193)
At 31 December 2015	**(1,152,464)**	**-**	**(1,152,464)**
At 31 December 2015	**1,153,960**	**-**	**1,170,338**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

21. DEFERRED TAX (ASSET/LIABILITIES)

Deferred tax assets at 31 December 2016 and 31 December 2015 are attributable to the following:

(a) Deferred tax asset

2016	Balance at 1 January TZS'000	Prior year under/over provision TZS'000	Recognized in profit or loss TZS'000	Balance at 31 December TZS'000
Plant and Equipment	(251,059)	(165,762)	(45)	(416,866)
General provisions	1,919,901	-	667,490	2,587,391
Other provisions	-	-	6,419	6,419
	1,668,842	**(165,762)**	**673,864**	**2,176,944**

2015	Balance at 1 January TZS'000	Prior year under/over provision TZS'000	Recognized in profit or loss TZS'000	Balance at 31 December TZS'000
Plant and Equipment	(496,616)		245,557	(251,059)
General provisions	946,764	676,263	296,874	1,919,901
	450,148	**676,263**	**542,431**	**1,668,842**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

22. OTHER ASSETS

	2016 TZS'000	2015 TZS'000
Prepayments	1,486,052	1,605,975
Other receivables	84,546	391,536
	1,570,598	**1,997,511**

23. DEPOSITS FROM BANKS

Due within 90 Days	24,888,728	35,253,902
Due after 90 days	-	4,460,000
	24,888,728	**39,713,902**

24. DEPOSITS FROM CUSTOMERS

Government and Parastatal	11,396,962	7,724,578
Private sector and individuals	273,291,876	267,490,329
	284,688,838	**275,214,907**

25. OTHER LIABILITIES

Accruals	1,081,144	1,120,322
Other accounts payables	1,906,433	1,529,939
Bankers cheques payable	371,846	398,970
	3,359,423	**3,049,231**

26. LONG TERM BORROWINGS

Less than one year	7,829,601	2,857,139
One to five years	27,914,395	8,359,431
	35,743,995	**11,216,570**

LOAN MOVEMENT

At 1 January	11,216,570	12,420,774
Funds received	26,208,000	-
Payments on principal and interest	(4,407,103)	(3,819,014)
Interest payable	335,789	112,037
Translation differences	2,390,739	2,502,773
At 31 December	**35,743,995**	**11,216,570**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

26. LONG TERM BORROWINGS (Continued)

PROPARCO

The long term borrowing of USD 5 million was granted on 3 July 2012 by PROPARCO. The facility is repayable in semi - annual instalments with a final repayment date of 31 October 2019. The loan bears a floating interest rate. The effective interest rate on the long term borrowing is 5.03%.

TMRC (Tanzania Mortgage Refinance Company Limited)
The long term borrowing of TZS 3,250 million was granted on 14 July 2014 by Tanzania Mortgage Refinance Company Limited (TMRC) for tenor of 3 years. The interest on the facility is repayable on a quarterly basis and the principal at maturity. The effective interest rate on the long term borrowing is 11.50% p.a

FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.)
The long term borrowing of USD 12 million granted on March 2016 by FMO as a senior debts for tenor of 6 years. The interest and principal on the facility is repayable on a quarterly basis. The effective interest rate on the long term borrowing is 4.98% p.a

27. SUBORDINATED DEBTS

	2016 TZS '000	2015 TZS '000
Less than one year	59,922	76,805
One to five years	17,440,000	4,320,000
Over five years	-	12,960,000
	17,499,922	**17,356,805**

DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH)

The long term borrowing of USD 10 million was granted on January 2015 by DEG as subordinated debt qualifying as Tier II Capital of which an amount of USD 8 Million had already been received during the month of January 2015.The effective interest rate on the long term borrowing is 7.27%.

28. SHARE CAPITAL AND RESERVES

(a) Authorized share capital

2016	Number of Shares	TZS'000
1 January 2016 (par value TZs 1000 each)	10,000	10,000,000
At 31 December 2016	**10,000**	**10,000,000**

2015	Number of Shares	TZS'000
1 January 2015 (par value TZs 1000 each)	10,000	10,000,000
At 31 December 2015	**10,000**	**10,000,000**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

28. SHARE CAPITAL AND RESERVES (Continued)

(b) Issued and fully Paid up share capital

2016	Shares No.	Share Capital TZS'000	Share Premium TZS'000
1 Jan 2016 - par value TZS 1000 each	2,395	2,395,000	7,482,000
Rights issue	397	397,000	10,513,751
At 31 December 2016	**2,792**	**2,792,000**	**17,995,751**
2015			
1 January 2015 - par value TZS 1,000 each	2,395	2,395,000	7,482,000
At 31 December 2015	**2,395**	**2,395,000**	**7,482,000**

(c) Statutory loan loss reserve

Where impairment losses required by legislation or regulations exceeds those computed under international Financial reporting standards (IFRS), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained earnings and the reverse fir reductions. These reserves are not distributable.

29. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company enters into transactions with related parties. The related party transactions are at arm's length. All the loans and advances and deposits are issued or received from the related parties are market interest rates. There were no provisions held towards impairment of any of the advances to related parties

Transactions with related companies	2016 TZS '000	2015 TZS '000
i) Amounts due from group companies subsidiaries	**898,104**	**2,065,204**
ii)Amount due to group companies	**2,180,369**	**1,152,870**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

30. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

(a) Lessee

The Bank leases 10 bank premises under operating leases. The leases typically run for an initial period of six years with an option to renew the lease after that date. None of the leases include contingent rentals. During the year, TZS 1,688,225 (2015 – TZS 1,346,897) was charged to the Profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

(a) Lessee	2016 TZS '000	2015 TZS '000
Less than one year	682,854	1,311,561
One to five years	2,933,235	4,571,413
Over five years	796,330	787,579
	4,412,419	**6,670,553**

31. CAPITAL COMMITMENTS

	2016	2015
	3,616,606	**4,205,000**

32. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

	2016	2015
Contingencies related to:		
Letters of credit	7,457,376	5,239,405
Guarantees :	7,384,206	4,581,363
Undrawn balance	39,197,157	29,416,294
	54,038,739	**39,237,062**
Commitments related to:		
Outstanding spot/forward contracts	-	1,760,246
	54,038,739	**40,997,308**

Notes to the Financial Statements (Continued)
For The Year Ended 31 December 2016

33. NOTES TO THE STATEMENT OF CASHFLOWS

Reconciliation of profit before tax to cash flows generated from operating activities.

	Note	2016 TZS'000	2015 TZS '000
Cash flow from operating activities			
Profit before income tax		**8,098,169**	**8,043,097**
Adjustments			
Depreciation	19	870,757	686,712
Amortisation of intangible asset	20	452,821	485,193
Profit on sale of property and equipment		6,376	(2,432)
Written off assets	19	-	76,277
Exchange loss on borrowing		2,533,856	4,790,630
		11,961,979	**14,079,477**
Changes in operating assets			
Movement in loans and advances to customers		(29,669,868)	(44,383,099)
Cash and balances with Central Banks:			
– Cash Reserve Ratio		7,284	1,400,000
Net Investment securities		(19,947,708)	12,490,260
Loans and advances to banks		3,627,025	(11,288,252)
Other assets		426,913	(886,848)
		(45,556,354)	**(42,667,939)**
Changes in operating liabilities			
Customer deposits		9,473,931	34,791,107
Deposits from banks		(4,460,000)	4,460,000
Net inflow (outflow) from long term borrowings		22,136,686	(1,824,235)
Due to Group companies		2,194,599	(912,334)
Other liabilities		319,207	846,719
		29,664,423	**37,361,257**
Net Cash flows from operating activities		**(3,929,952)**	**8,772,795**

Corporate Social Responsibility

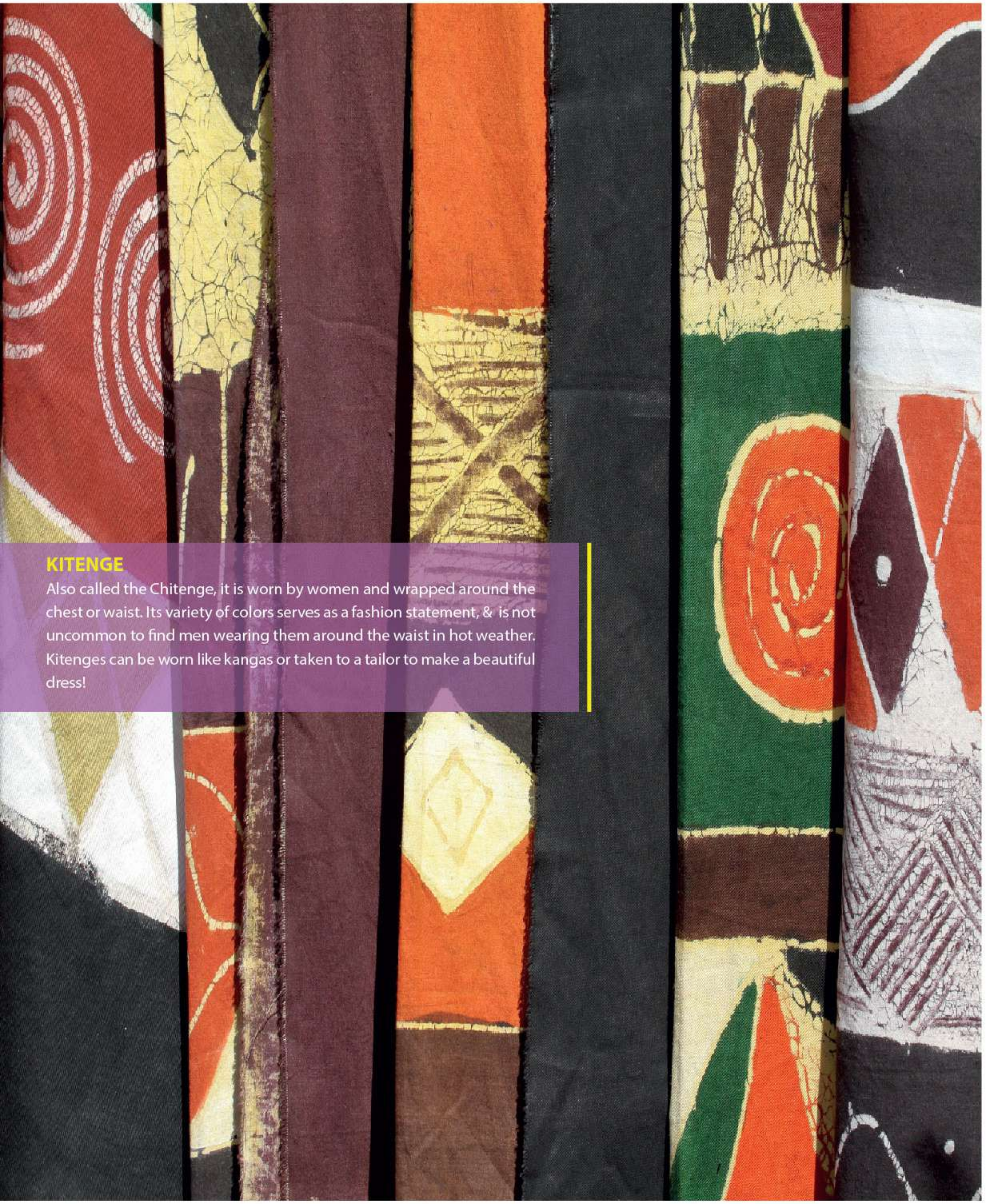
DONATION TO JAKAYA KIKWETE CARDIAC INSTITUTE

The bank contributed TZS 33,000,000 towards surgeries for children suffering from heart ailments in coordination with BAPS Charities. It was identified that about 500 children are suffering from heart problems and are in dire need of surgery at different levels whose parents can't afford such expensive treatments. I&M managed to make a difference to 15 children's lives and donate towards their wellness.

DONATION TO KAGERA EARTHQUAKE VICTIMS

The bank contributed 390 blankets to victims endeavored the earthquake that took place on 10th September 2016. It is usually cold in that area hence the bank decided to donate blankets to ensure wellbeing of families.

Our Moshi Branch handed over the blankets to the Ministry who then sent it to Kagera.



KITENGE

Also called the Chitenge, it is worn by women and wrapped around the chest or waist. Its variety of colors serves as a fashion statement, & is not uncommon to find men wearing them around the waist in hot weather. Kitenges can be worn like kangas or taken to a tailor to make a beautiful dress!

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Notes

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