BEHIND EVERY TRANSACTION, THERE'S A SIMPLE TRUTH

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2017 ANNUAL REPORT AND FINANCIAL STATEMENT

CONTENTS

Chairman's Statement

It is indeed my pleasure to present you the Bank's Annual Report and Financial Statements for the year ending 31st December, 2017.

Sarit S. Raja Shah
Chairman

Economy Overview

In 2017, the GDP growth forecast dropped to 6.9% from 7.2%, although the country recorded the highest growth rate in the region. The rate of inflation averaged at 5.4% in 2017, which was one of the lowest in the region. The fastest growth rate was seen in mining and quarrying, information and communication, transport and manufacturing. The low rate was supported by improved food supply, general stability of the exchange rates for Tanzanian Shilling against major currencies, improvement in domestic power supply and sustained prudence in monetary and fiscal policies. The Tanzanian Shilling was at the average level of TZS 2,240 against US Dollar throughout the year 2017 compared to TZS 2,185 in the year 2016.

Banking Industry

In 2017, the Tanzanian banking sector exhibited phenomenal resilience amidst tough economic headwinds, which culminated in revocation of licenses of five community banks during the year. The total assets grew by 6.66% from TZS 27.9 trillion in the year 2016 to TZS 29.9 trillion in the year 2017. Overall deposits reported an increase of 5.18% from TZS 20.1 trillion to TZS 21.1 trillion. However, there was a net decrease in the loan book by 0.83% from TZS 15.4 trillion in 2016 to TZS 15.3 trillion in 2017. The Profit after tax decreased by TZS 13.35% from TZS 357 billion in the year 2016 to TZS 310 billion in the year 2017. The average core capital and liquidity ratios in the industry remained above the minimum regulatory requirements of 18.9% and 40.3% against the requirement of 10% and 20% respectively. In view of the significant stress on the economy and due to protracted period of credit contraction, the average non-performing loan (NPL) ratio in the Industry increased markedly to 11.70% as at December 2017.

There has been a deterioration seen in asset quality in almost all sectors, particularly in agriculture, construction, real estate, trade, transport and communication. The increased cost of the impairments due to NPLs weighed down on the net earnings of banks. I&M Bank (T) Ltd Performance in 2017. The Bank ensured compliance to the various regulatory changes that were implemented during the year, particularly the increase in the Capital adequacy ratios by 2.5%, as well as the introduction of Basel II capital charge on operational risk. Total assets of the Bank increased by TZS 22.5 billion, from TZS 420.9 billion in the year 2016 to TZS 443.4 billion indicating a growth of 5.35%. The Bank's loan portfolio increased by TZS 13.9 billion, from TZS 298.3 billion in December 2016 to TZS 312.2 billion as at December 2017 indicating a 4.67% growth during the year. Customer deposits grew by TZS 34.9 billion, from TZS 284.6 billion to reach TZS 319.6 billion indicating a growth of 12.26%. The Profit before credit impairment was TZS 11.3 billion in the year 2017 compared to TZS 10.3 billion in the year 2016 indicating 10.11% growth. This contributed to a lower profit before tax by TZS 1.1 billion which stood at TZS 6.9 billion during the year compared to TZS 8.0 billion last year. Loan provisions to the tune of TZS 2.1 billion were made by the Bank during the year thereby Gross Non-performing loans increasing from 5.27% in 2016 to 8.47%, a reflection of the economy.

Strategic Progress

While continuing to leverage on the strengths of the Group and with the focus towards providing technology solutions, the Bank developed a comprehensive strategy aligning the same with the changing dynamics of the market during the year. The key focus areas would be designing the customer experience by reshaping the interactions through the digitisation of various systems and processes with an objective of improving the end to end customer journey.

The Bank also recognizes Human resources as one of the key pillars for the growth of the Bank and is committed to ensuring it remains the Bank where the best people want to work. In an effort to develop a scientific compensation system which is internally equitable and externally competitive, the Bank conducted a detailed Job evaluation and market survey of compensation structures to ensure the Bank remains competitive. These efforts will facilitate in Human resources development by designing a competitive compensation structure, recruiting and retaining the best talent in the industry. The job evaluation exercise is an important milestone in our people management platform and it lays a strong foundation for human resource management as the Bank continues to pursue its growth agenda. The Bank remained committed in introducing new products and services targeting different segments. A new account branded “Recurring Deposits” was introduced to encourage a consistent savings culture in the community. To cater to the growing needs the Bank also introduced an internationally accepted VISA debit card issued for USD savings accounts which can be used across the global VISA network of ATMs and POS machines. The Bank also introduced an Insurance Premium financing product to facilitate payment of premiums by Customers over a convenient tenor. With an objective of enhancing Customer convenience and improving visibility, Quality branch was relocated to a more spacious and strategic location on Nyerere road, Dar Es Salaam.

Corporate Governance

In tune with the philosophy of maintaining high standards of Corporate Governance, the Bank further strengthened the Board with the appointment of Mr. Bharat Karsandas Ruparelia, as an independent director. Mr Bharat Ruperalia brings with him a wealth of wisdom in view of his strong background in entrepreneurship and setting up various businesses. In addition the membership of various Board Committees was also realigned to enhance the level of membership of ‘independent’ directors in the various committees.

Outlook for 2018

The macroeconomic indicators of the country continue to be promising with the focus of the Government on the ambitious investments in the large infrastructure projects. For 2018 the Bank will focus on implementation of its strategy with the introduction of innovative products and technology solutions. With a view to bring in a strategic shift and enhance the customer value propositions the Bank has also introduced two separate business verticals of Corporate and Retail Banking to achieve the well-defined objectives in each of these areas of the Bank. The Retail banking division would focus on enhancing our value proposition by introducing new services and product offerings for our retail customers through the various channels including branches and digital delivery. The Corporate Banking division would work closely with the Customers in identifying and providing customized solutions by understanding the financial needs of the Customers. Our consumers can expect a paradigm shift in the function of our services which will enhance our personalized services and tailor made offerings based on the customer requirements. With the challenging economic environment the Bank will also focus on strengthening the credit monitoring and recovery mechanism with a view to manage the levels of non performing advances within the portfolio.

The Bank recognizes that the Organizational Health of the Bank is one of the key enablers to drive performance and therefore recently undertook a health survey to assess its current status and define specific practices to improve the overall Organizational health in the future. Further in order to drive an effective execution of the strategy, the Bank, has also introduced the Balance Score Card framework with its supporting tools to help management team drive the transformation of the Bank in line with the strategy.

With the new strategy and reorganization in place supported by introduction of effective management tools we do look forward to a much improved 2018.

Acknowledgements

On Behalf of the Board, I would like to take this opportunity to thank each and every Customer of the Bank for giving us the opportunity to meet their various banking needs and for their continued patronage and contribution for the growth of the Bank. We vow to do our best to make their banking experience even more special and exceed their expectations. I would like to express my gratitude to my colleagues on the Board for their gracious contribution, wisdom and stewardship in providing strategic direction to the Bank during the year. I would like to thank the Management and staff for responding to the challenging market conditions and their sincere efforts in building a strong institution in the Country. Our Bank has certainly stood through some of the toughest times that our economy has recently witnessed mainly because we have remained firmly rooted in the principles around which the Bank was founded on. Last but not the least; on behalf of the Board and Management, I would like to acknowledge the support provided by the various Officials of the Bank of Tanzania to the Bank from time to time during the year. Thank You!

Board of Directors

Mr. Sarit R. Shah **(Chairman)** • Mr. Alan Mchaki **(Director)** • Mr. Michael N. Shirima **(Director)** • Mr. Pratul H. Shah **(Director)**

Board of Directors

Mr. Thierry Hugnin
(Director)

Mr. Shameer Patel
(Director)

Mr. Bharat K. Ruparelia
(Director)

Ambassador Bertha E. Semu-Somi
(Director)

Senior Management

Mr. Alan Mbangula
(Head of Information and Communication Technology)

Mr. Emmanuel Wilson
(Head of Risk)

Mr. Amulike Kamwela
(Head of Finance)

Mr. Baseer Mohammed
(Chief Executive Officer)

Mr. Donald Mate
(Head of Operations)

Senior Management

Mrs. Martha Kimweri
(Head of Human Resources)

Mrs. Aimtonga Adolph
(Head Internal Audit)

Ms Ndabu Swere
(Head of Retail Banking)

Mr. Patrick Kapella
(Head of Treasury)

Corporate Information

Principal place of Business and Registered Office

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

REGISTERED OFFICE
Maktaba Square,
Maktaba Street,
PO Box 1509,
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.

BHF Bank Aktiengesellschaft,
60323 frankfurt am main,
Frankfurt Germany.

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.

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.

AUDITORS
KPMG,
The Luminary,
Plot No.574, Haile Selassie Road,
Msasani Peninsula Area,
PO Box 1160,
Dar es Salaam, Tanzania.

I&M News

Changes in the Board

Board of Directors continued to provide overall strategic direction and support the Bank to ensure that business strategies are implemented as planned. Our Board was strengthened with the experience and knowledge brought by Mr. Bharat Ruparelia who joined as a member of the Credit Committee effective from 7th September 2017. Mr. Ruparelia is an entrepreneur with interests in varied commercial and agricultural ventures in Tanzania. He holds Directorship in the Board of many companies.

Strategic Human Resources Initiatives

In the effort to develop a proper compensation system that is internally equitable and external competitive, the Bank contracted Deloitte Consulting Limited to carry out Job Evaluation and Salary Survey project. It is our belief that the outcomes of this project will aid the Bank live on its vision of being a company where the best people want to work.

On the other hand, the new HR system (PERPAY) was introduced in order to ease human resources processes and related activities. Organization Health Index was also executed which has led to introduction of mentorship program as well as graduate management trainees.

In 2017, the Bank continued to strengthen the management team and restructuring in order to improve productivity. The new department (Retail Banking) was introduced and Ms Ndabu Lillian Swere was appointed to lead the department. She is an experienced banker with 15 years in the banking industry.

New Products Introduced in 2017

- *Recurring Deposit Scheme*

In order to remain competitive in the market through provision of financial products and services that suits the needs of different segments, the Bank introduced a new account branded “Recurring Deposits (RD)”. The account is designed for individuals and businesses looking to build on savings on regular basis and earn higher return on them.

- *USD ATM Card*

To cater for the growing needs of USD debit card, the Bank introduced internationally acceptable VISA debit cards issued for USD savings accounts which can be used on ATM/ POS machines.

Branch Reallocation

In August, Quality Centre branch was reallocated from Quality Centre Mall to a more spacious and convenient location at PSPF (Quality Plaza) along Nyerere Road. New services were introduced to the new branch including Safe Deposit Lockers and Bulk Cash Deposit Counter.

I&M Riches Campaign

I&M Riches Campaign came back again in 2017 and the gist of the campaign remained to attract cheap deposits from the retail segment. The campaign lasted for three months from September to November whereby every month one lucky winner got a cash prize of TZS 20M.

Marketing Sponsorships

Golf Tournament - Arusha

In collaboration with GA Insurance the bank sponsored Golf Tournament - ‘Northern Province Open Golf Tournament 2017’ organized in Gymkhan Grounds, Arusha. Tournament was conducted for two days involving various Golf clubs located all over Tanzania.

GOLF TOURNAMENT

Golfer striking the ball during the tournament which was sponsored by I&M Bank (T) Ltd

QUALITY BRANCH

I&M (T) Ltd Board Chairman, Mr. Sarit S. Raja Shah and Board Director, Mr. Michael N. Shirima cutting the ribbon to mark the official opening of Quality branch.

Report of the Directors for the year ended 31 December 2017

1. Introduction
The Directors submit their report and the audited financial statements for the year ended 31 December 2017 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 2017.

5. Review of business performance
The Bank’s results are set out on page 33 of these financial statements. During the year under review, the Bank recorded a profit before tax of TZS 6,968 million compared to TZS 8,098 million in the previous year, representing decrease of 13.96%.

Interest Income
Interest income during the year amounted to TZS 41,740 million compared to TZS 37,480 million in the previous year, representing an increase of 11.37%% (TZS 4,260 million). The Increase is mainly due to the growth in the Investment securities and partly from loans and advances. As at year end, the investment securities portfolio had increased by 39.23% from the previous year.

Interest expense
Interest expense during the year amounted to TZS 17,876 million, as compared to TZS 15,954 million in the prior year, representing an increase of 12.05% (TZS 1,922 million). The increase in interest expense is mainly attributed by growth in high cost deposits of 13.25% (TZS 23,356 million).

Net interest income
Net interest income (interest income less interest expense) during the year amounted to TZS 23,865 million, as compared to TZS 21,526 million in prior year, representing an increase of 10.86% (TZS 2,339 million).

Non - interest Income

Report of the Directors for the year ended 31 December 2017

Non-interest income mainly includes fee and commission income, foreign exchange income and other operating income. Non-interest income amounted to TZS 7,238 million compared to TZS 6,845 million in the previous year, showing annual increase of 5.74% mainly due to increase in commission from LC & BG of 78.01% (TZS 324 million).

Non-interest expenses

Non- interest expenses amounted to TZS 19,736 million as compared to TZS 18,048 million in prior year, implying an increase of 9.35%. 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 172 as compared to 175 at the end of 2016.

Income tax expense

Income tax expense amounted to TZS 2,092 million (2016: TZS 2,647 million).

Key performance ratios

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

Key performance ratios

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

Return on average assets	1.13%	1.34%
Return on average equity	8.96%	12.11%
Non-interest income to net interest income	30.33%	31.80%
Operating expenses to average assets	4.49%	4.44%
Non-interest expenses before tax to operating income	63.07%	63.61%

Report of the Directors
for the year ended 31 December 2017

6. Review of financial position

The Bank's financial position is set out on page 34 of these financial statements. Major movements are as explained in the table below:

Item	2017	2016	Increase / (Decrease)	
	TZS' 000	TZS ' 000	TZS ' 000	%
Cash and balances with Bank of Tanzania	36,612,816	42,158,648	(5,545,832)	-13%
Balance with other banks	1,467,105	11,070,301	(9,603,196)	-87%
Cheques and items for clearance	96,349	(158,913)	255,262	-161%
Investment securities	81,895,838	58,822,236	23,073,602	39%
Loans and advances	312,257,036	298,313,523	13,943,513	5%
Deferred tax asset	3,550,713	2,176,944	1,373,769	63%
Property and equipment	4,950,261	5,001,435	(51,174)	-1%
Intangible assets	639,227	933,662	(294,435)	-32%
Other assets	1,610,608	1,570,598	40,010	3%
Deposits	334,609,543	311,757,935	22,851,608	7%
Other liabilities	4,998,469	3,359,423	1,639,046	49%
Long term borrowing	47,160,393	53,243,917	(6,083,524)	-11%

Deposits
The deposits from customers have increased by TZS 34,913 million mainly on account of growth in high cost deposits by TZS 23,356 million and increase in low cost deposit by TZS 11,557 million.

Loans and advances
There has been a net increase in loans and advances by TZS 13,944 million on account of increase in the credit portfolio to both existing and new Customers.

Government securities
There has been an increase in investment in government securities by TZS 22,763 million during the year.

Long term borrowing
Long term borrowing decreased by TZS 6,084 million which was attributed by repayment of instalments due for long term borrowings from FMO and Proparco.


When your business needs quick solutions
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Report of the Directors for the year ended 31 December 2017

Key performance ratios

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

	2017	2016
Shareholders fund to total assets	12.76%	12.42%
Non-performing loans to total advances	8.47%	5.27%
Gross loans to total deposits	97.23%	98.33%
Loans to total assets	73.26%	70.87%
Liquidity ratio	28.00%	30.68%

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 37 to 55 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 2017 (2016: Nil).

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
- Digitisation of the Bank focusing on solutions to enhance customer service delivery
- Introduction of Internet banking services, setting up of smart branches and ATMs, and extended banking hours at key branches.

11 Dividend

No dividend payment has been declared for the year 2017 [2016: TZS 801 million at TZS 287,000 per share].

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 supported by the Executive management team.

Report of the Directors
for the year ended 31 December 2017

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
- Treasury
- 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 Operations and various other Heads of Departments.

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 * Alt. Director to Mr. Shameer Patel	Member	Kenyan	B. Tech (Hons.) Diploma in Statistical Methods	14th January 2010
Mr. Josep Oriol ** Alt. Director to Mr. Thierry Hugnin	Member	Spanish	BA in Political Science (International Relations), Master of Business Administration.	10th October 2012
Mr. Bharat K Ruparelia***	Member	British	Businessman	16th August 2017

* Alt. Member to Mr Shameer Patel
** Alt. Member to Mr Thierry Hugnin

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 2017 is Ms. Hamida Sheikh of M/S Sheikh Chambers Advocates.

**During the year under review Mr. Josep Oriol resigned from directorship with effect from 01st March 2017.

***During the year under review Mr. Bharat K Ruparelia was appointed as an Independent director to the bank with effect from 16th August 2017.

Report of the Directors for the year ended 31 December 2017

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 2017.

15 Directors' remuneration

The remuneration for services rendered by the non-executive Directors of the Bank in 2017 was TZS 149 million (2016: TZS 159 million).

16 Capital structure and shareholding

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

	2017 TZS '000	2016 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 (2016:2,792 of TZS 1,000,000)	2,792,000	2,792,000

Shareholding

As at 31 December 2017, the following shareholders held shares in I&M Bank (T) Limited:

Name of shareholders	2017		2016	
	Number of shares held	%	Number of shares held	%
I&M Bank Limited	1,965	70.38	1,965	70.38
The Kibo Fund	559	20.02	559	20.02
Proparco	129	4.62	129	4.62
Mr. Michael N. Shirima	139	4.98	139	4.98
	2,792	**100.00**	**2,792**	**100.00**

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

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.

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.

Report of the Directors for the year ended 31 December 2017

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 Committee meets at least four times in a year. The Board Audit Committee members who served the Committee during 2017 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

**Mr. Thierry Hugnin resigned from BAC membership with effect from last quarter of 2017.*
***Mr. Alan Mchaki was appointed as member of BAC with effect from 15th February 2017.*

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

The Board Credit Committee members who served the Committee during 2017 were:

Name	Position
Mr. Shameer Patel	Chairman
Mr. Michael N. Shirima	Member
Mr. Thierry Hugnin*	Member
Mr. Alan Mchaki**	Member
Mr. Bharat K Ruparelia***	Member

*Mr. Thierry Hugnin resigned from BCC membership with effect from last quarter of 2017.

**Mr. Alan Mchaki was appointed as member of BCC with effect from 15th February 2017 and resigned from BCC membership with effect from 25th August 2017.

***Mr. Bharat K Ruparelia was appointed as member of BCC with effect from 16th August 2017.

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 Committee meets a minimum of four times in a year. The members of the Committee are:

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

*Mr. Alan Mchaki was appointed as member of BRC with effect from 2nd December 2017 and will be chairing BRC from next year replacing Mr. Michael N Shirima who has resigned from the committee with effect from 2nd December 2017.

Report of the Directors for the year ended 31 December 2017

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 Committee meet at least once in a year. 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

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 PPF Pensions Fund. The total number of employees, at the year end, was 172 (2016:175).

• 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.

• 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 2017, the Bank had 89 male and 83 female employees (2016: 90 male and 85 female employees).

• Related party transactions

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

Report of the Directors for the year ended 31 December 2017

• 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 21 million (2016: TZS 80 million).

• 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.

• 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.

• 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.

• 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 2018 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 Director's Responsibilies

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 30 to 32.

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 28th February 2018 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

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) Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2017 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.: GA 012520

Date: 28th February 2018


When you have
goals to meet
We are on your side

Report of the independent auditors to the members to the members of I&M Bank (T) Limited

Report on the audit of 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 2017, 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 33 to 84.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, 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.	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.
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 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 75 and 76	

Report of the independent auditors to the members to the members of I&M Bank (T) Limited (Continued)

Report on the audit of the financial statements (Continued)

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act, 2002, Statement of directors' responsibilities and Declaration of Head of Finance. The other information does not include the financial statements and our auditors' report thereon.

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 Directors for the Financial Statements

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

In preparing the financial statements, directors are 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 directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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 directors.

- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether

Report of the independent auditors to the members to the members of I&M Bank (T) Limited (Continued)

Report on the audit of the financial statements (Continued)

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.

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)

KPMG

....
Signed by: CPA Vincent Onjala (TACPA 2722)
Dar es Salaam

28th February 2018

Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December 2017

	Note	2017 TZS '000	2016 TZS '000
Interest income	7	41,740,249	37,480,081
Interest expense	8	(17,875,553)	(15,953,985)
Net interest income		**23,864,696**	**21,526,096**
Fee and commission income	9(a)	4,964,347	4,501,210
Fee and commission expense	9(b)	(320,007)	(293,501)
Net fee and commission income		4,644,340	4,207,709
Revenue		**28,509,036**	**25,733,805**
Other operating income	10	2,273,159	2,343,523
		2,273,159	**2,343,523**
Operating income		**30,782,195**	**28,077,328**
Staff costs	11	(9,098,016)	(7,914,630)
Premises and equipment costs	11	(1,614,540)	(1,688,225)
Other expenses	11	(7,278,619)	(6,827,759)
Depreciation and amortization	11	(1,424,326)	(1,323,578)
Operating expenses		**(19,415,501)**	**(17,754,192)**
Operating profit before impairment, losses and tax		**11,366,694**	**10,323,136**
Net impairment losses on loans and advances	17(c)	(4,399,027)	(2,224,967)
Profit before income tax	**12**	**6,967,667**	**8,098,169**
Income tax expense	13(b)	(2,091,961)	(2,647,077)
Net profit for the year after tax		**4,875,706**	**5,451,092**
Other comprehensive income			
Items that are or may be classified to profit or loss:			
Net change in fair value of available-for-sale financial assets	18	311,000	-
Deferred tax on fair value of available-for-sale financial assets	21	(93,300)	-
Total other comprehensive income for the year		**217,700**	**-**
Total comprehensive income for the year		**5,093,406**	**5,451,092**

The notes set out on pages 37 to 84 form an integral part of these financial statements.

Statement of Financial Position for the year ended 31 December 2017

	Note	2017 TZS '000	2016 TZS '000
ASSETS			
Cash and balances with Bank of Tanzania	14	36,612,816	42,158,648
Items in the course of collection	15	96,349	-
Loans and advances to banks	16	1,467,105	11,070,301
Loans and advances to customers	17(a)	312,257,036	298,313,523
Investment securities	18	81,895,838	58,822,236
Property and equipment	19	4,950,261	5,001,435
Intangible assets - Computer software	20	639,227	933,662
Deferred tax asset	21	3,550,713	2,176,944
Due from group companies	29	375,400	898,104
Other assets	22	1,610,608	1,570,598
TOTAL ASSETS		**443,455,353**	**420,945,451**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	23	14,525,748	24,888,728
Items in the course of collection	15	-	158,913
Deposits from customers	24	319,602,129	284,688,838
Due to group companies	29	481,666	2,180,369
Other liabilities	25	4,998,469	3,359,423
Tax payable	13(c)	121,842	152,260
Long term borrowings	26	29,178,397	35,743,995
Subordinated debt	27	17,981,996	17,499,922
		386,890,247	**368,672,448**
Shareholders' equity			
Share capital	28(b)	2,792,000	2,792,000
Share premium	28(b)	17,995,751	17,995,751
Retained earnings		33,038,798	28,781,302
General provisions		2,520,857	2,703,950
Available-for-sale reserve		217,700	-
		56,565,106	**52,273,003**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**443,455,353**	**420,945,451**

The financial statements set out on pages 33 to 84 were approved by the Board of Directors on 28th February 2018 and were signed on its behalf by:

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

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

The notes set out on pages 37 to 84 form an integral part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2017

	Note	2017 TZS'000	2016 TZS '000
Net cash flows generated from/(used in) operating activities	**33**	**17,244,274**	**(3,929,952)**
Cash flows generated from (used in) operations		17,244,274	(3,929,952)
Tax paid	13(c)	(3,589,448)	(3,262,015)
Net cash flow generated from/(used in) operating activities		**13,654,826**	**(7,191,967)**
Cash flows from investing activities			
Purchase of property and equipment	19	(892,766)	(375,563)
Dividend income		6,754	-
Purchase of intangible assets	20	(193,407)	(91,738)
Proceeds from disposal of property and equipment		511	3,999
Net cash used in investing activities		**(1,078,908)**	**(463,302)**
Cash flows from financing activities			
Dividend paid		(801,303)	(1,477,535)
Capital injection	29	-	10,910,751
Net cash (used in)/generated from financing activities		**(801,303)**	**9,433,216**
Net increase in cash and cash equivalents		**11,774,615**	**1,777,947**
Cash and cash equivalent at start of the year		**(10,725,746)**	**(12,503,693)**
Cash and cash equivalent at end of the year		**1,048,869**	**(10,725,746)**
Represented by:			
Cash and bank balances with Bank of Tanzania			
-(Excluding Cash Reserve Ratio)	14	14,011,163	12,616,821
Items in the course of collection	15	96,349	(158,913)
Loan and advance to banks	16	1,467,105	1,705,074
Deposits from banks	23	(14,525,748)	(24,888,728)
		1,048,869	**(10,725,746)**

The notes set out on pages 37 to 84 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2017

		Share Capital TZS '000	Share Premium TZS '000	Retained earnings TZS '000	General Provisions TZS '000	Regulatory Reserve TZS '000	Available for Sale Reserve TZS '000	TOTAL TZS '000
At 1 January 2017		2,792,000	17,995,751	28,781,302	2,703,950	-	-	**52,273,003**
Comprehensive income for the year						-		
Net profit after tax		-	-	4,875,706	-		-	**4,875,706**
Total comprehensive income for the year		-	-	**4,875,706**	**-**	**-**	**-**	**4,875,706**
Other comprehensive income								
Tax charge -Available for sale reserve		-	-	-	-	-	311,000	**311,000**
Transfer to general banking reserve		-	-	-	-	-	(93,300)	**(93,300)**
Total other comprehensive income for the year		-	-	183,093	(183,093)	-	-	**-**
Total comprehensive income for the year		-	-	**183,093**	**(183,093)**	-	**217,700**	**217,700**
		-	-	**5,058,799**	**(183,093)**	-	**217,700**	**5,093,406**
Transactions with owners, recorded directly in equity								
Interim dividend paid		-	-	(801,303)	-	-	-	**(801,303)**
Rights Issue		-	-	-	-	-		**-**
Total transactions with owners for the year		**-**	**-**	**(801,303)**	**-**	**-**	**-**	**(801,303)**
Balance as at 31 December 2017		**2,792,000**	**17,995,751**	**33,038,798**	**2,520,857**	**-**	**217,700**	**56,565,106**
At 1 January 2016		**2,395,000**	**7,482,000**	**26,755,321**	**310,525**	**445,878**	**-**	**37,388,724**
Comprehensive income for the year								
Net profit after tax		-	-	5,451,092	-	-	-	**5,451,092**
Total comprehensive income for the year		-	-	**5,451,092**	-	-	**-**	**5,451,092**
Other comprehensive income								
Tax charge -Available for sale reserve		-	-	(1,947,547)	2,393,425	(445,878)	-	**-**
Transfer to general banking reserve		-	-	(1,947,547)	2,393,425	(445,878)	-	**-**
Total other comprehensive income for the year		**-**	-	**3,503,545**	**2,393,425**	**(445,878)**	**-**	**-**
Total comprehensive income for the year		-		**-**			**-**	**5,451,092**
Transactions with owners, recorded directly in equity	28	28						
Interim dividend paid		-	-	(1,477,564)	-	-	-	**(1,477,564)**
Rights Issue		397,000	10,513,751	-	-	-	-	**10,910,751**
Total transactions with owners for the year		**397,000**	**10,513,751**	**(1,477,564)**	-	-	**-**	**9,433,187**
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 37 to 84 form an integral part of these financial statements.

Notes to the Financial Statements for the year ended 31 December 2017

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 2017 were authorised for issue in accordance with a resolution of the Directors on 28 February 2018 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, 2002.

(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.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part

Notes to the Financial Statements for the year ended 31 December 2017

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.

(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.

Notes to the Financial Statements for the year ended 31 December 2017

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.

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.

Notes to the Financial Statements for the year ended 31 December 2017

Financial assets and liabilities (continued)

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 hel 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 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

Notes to the Financial Statements for the year ended 31 December 2017

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.

(d) Financial assets and liabilities (continued)

(iii) Identification and measurement of impairment of financial assets - continued

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 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

Notes to the Financial Statements for the year ended 31 December 2017

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.

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.

Notes to the Financial Statements for the year ended 31 December 2017

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

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

Notes to the Financial Statements for the year ended 31 December 2017

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

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.

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.

(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.

Notes to the Financial Statements
for the year ended 31 December 2017

(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) 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.

(o) 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.

(p) 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.

(q) Comparative information

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

(r) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

Notes to the Financial Statements for the year ended 31 December 2017

New standards, amendments and interpretations in issue but not yet effective

The Company has adopted the following new standards and amendments during the year ended 31 December 2017, including consequential amendments to other standards with the date of initial application by the Bank being 1 January 2017. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
—Disclosure Initiative (Amendments to IAS 7)	1 January 2017
—Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows;

(ii) changes arising from obtaining or losing control of subsidiaries or other businesses;
(iii) the effect of changes in foreign exchange rates;
(iv) changes in fair values; and
(v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities." It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

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

The adoption of these changes did not have a significant impact on the financial statements of the Bank.

Notes to the Financial Statements for the year ended 31 December 2017

New standards, amendments and interpretations in issue but not yet effective

(s) New standards, amendments and interpretations

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

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

— Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

— The carrying amount of an asset does not limit the estimation of probable future taxable profits.

— Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

— An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The standard was effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters.

The adoption of these changes did not have a significant impact on the financial statements of the Bank.

Annual improvements cycle (2014-2016)

Standard	Amendments
IFRS 12	Disclosure of Interests in Other Entities
Employee Benefits	Clarifies that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

The adoption of these changes did not have a significant impact on the financial statements of the Bank.

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements.

Notes to the Financial Statements for the year ended 31 December 2017

New standards, amendments and interpretations in issue but not yet effective

The Bank does not plan to adopt these standards early. These are summarised below;

The following are not expected to have a significant impact on the financial statements of the bank:

— Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
— Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
— IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
— IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
— IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
— IFRS 17 Insurance contracts	1 January 2021
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

The following are expected to have a significant impact on the financial statements of the Bank:

—	IFRS 15 Revenue from Contracts with Customers	1 January 2018
—	IFRS 9 Financial Instruments (2014)	1 January 2018
—	IAS 40 Transfers of Investment Property	1 January 2018
—	IFRS 16 Leases	1 January 2019
—	IFRIC 23 Income tax exposures	1 January 2019

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 2018, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

Notes to the Financial Statements for the year ended 31 December 2017

New standards, amendments and interpretations in issue but not yet effective

IFRS 9: Financial Instruments (2014)

On 29 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. 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.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application permitted if, and only if, it is possible without the use of hindsight. The bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

The new classification and measurement and impairment requirements will be applied by adjusting the Bank's statement of financial position on 1 January 2018, the date of initial application, with no restatement of comparative period financial information.

Based on current estimates, the adoption of IFRS 9 is expected to result in a charge to retained earnings as at 1 January 2018 of approximately TZS 600 million, before taxes. The impact is primarily attributable to:

— Increase in the allowance for credit losses under the new impairment requirements of approximately TZS 600 million.
— Changes in classification and measurement for some assets

Additionally, the adoption of IFRS 9 is expected to reduce the Bank's Capital Adequacy Ratios from 12.92% to 12.76%. Management will continue to monitor and refine certain elements of the Bank's impairment process in advance of Q1 2018 reporting.

Classification and Measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9.

The combined application of the contractual cash flow characteristics and business model tests as at 1 January 2018 is expected to result in certain differences in the classification of financial assets when compared to the Bank's classification under IAS 39". The most significant change involves classification of certain loans and advances from amortised cost to fair value.


When you need to take care of your wealth
We are on your side

Notes to the Financial Statements for the year ended 31 December 2017

New standards, amendments and interpretations in issue but not yet effective

Impairment

Overall Comparison of the New Impairment Model and the Current Model

IFRS 9 introduces a new, single impairment model for financial assets that requires the recognition of expected credit losses (ECL) rather than incurred losses as applied under the current standard. Currently, impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event has a detrimental impact on the estimated future cash flows of the asset that can be reliably estimated. If there is no objective evidence of impairment for an individual financial asset, that financial asset is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified. Under IFRS9, ECLs will be recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model.

Under the current standard, incurred losses are measured by incorporating reasonable and supportable information about past events and current conditions. Under IFRS 9, the ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses. Forward-looking macroeconomic factors such as unemployment rates, inflation rates, interest rates, exchange rates, domestic borrowing, credit to private sector and gross domestic product will be incorporated into the risk parameters. Estimating forward-looking information will require significant judgment and must be consistent with the forward-looking information used by the Bank for other purposes, such as forecasting and budgeting.

Scope

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at fair value through profit or loss (FVTPL) and equity instruments designated as at fair value through other comprehensive income (FVOCI), which are not subject to impairment assessment. The scope of the IFRS9 expected credit loss (ECL) impairment model includes financial assets classified as amortized cost, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS37). The above-mentioned reclassifications into or out of these categories under IFRS 9 and items that previously fell under the IAS 37 framework were considered in determining the scope of the Bank's application of the new expected credit loss impairment model.

Measurement of Expected Credit Losses

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

— Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

— Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in

Notes to the Financial Statements for the year ended 31 December 2017

New standards, amendments and interpretations in issue but not yet effective

Measurement of Expected Credit Losses (Continued)

credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Bank of Tanzania and Banks' policy on curing of loans.

— When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 and on the net carrying amount of the financial assets in Stage 3.

Assessment of Significant Increase in Credit Risk

The determination of a significant increase in credit risk (SICR) takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. The Bank has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of over 30 days past due. All financial instruments that are over 30 days past due are migrated to Stage 2.

Definition of Default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Under IFRS 9, the Bank will consider a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due. The Bank's write-off policy under IAS 39 is not expected to be materially different under IFRS 9.

Transfers of Investment property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when an entity should transfer a property asset to, or from, investment property.

The adoption of these standard will not have an impact on the financial statements of the Bank.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 40.

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 Bank 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.

Notes to the Financial Statements for the year ended 31 December 2017

New standards, amendments and interpretations in issue but not yet effective

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.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

Notes to the Financial Statements for the year ended 31 December 2017

New standards, amendments and interpretations in issue but not yet effective

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

Notes to the Financial Statements for the year ended 31 December 2017

Risk Management

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.

Exposure to credit risk	**2017 TZS '000**	**2016 TZS '000**
Loans and advances to customers		
Individually impaired		
Grade 3: Substandard	15,375,449	11,627,210
Grade 4: Doubtful	8,506,062	936,375
Grade 5: Loss	3,625,714	3,581,211
	27,507,225	**16,144,796**
Allowance for impairment	(9,836,795)	(6,520,528)
Carrying amounts	17,670,430	9,624,268
Collectively impaired		
Grade 1: Normal	252,161,780	268,542,788
Grade 2: Watch	45,213,088	21,851,969
	297,374,868	290,394,757
Portfolio impairment provision	(2,788,262)	(1,705,502)
Carrying amounts	294,586,606	288,689,255
Total carrying amounts	**312,257,036**	**298,313,523**

Notes to the Financial Statements for the year ended 31 December 2017

Risk Management

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.

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.

Notes to the Financial Statements for the year ended 31 December 2017

Risk Management

	Gross TZS'000	Net TZS'000
Individually impaired:		
31 December 2017		
Grade 3: Substandard	15,375,449	12,755,538
Grade 4: Doubtful	8,506,062	3,869,051
Grade 5: Loss	3,625,714	1,045,841
	27,507,225	**17,670,430**
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**
Collectively impaired:		
31 December 2017		
Grade 1: Normal	252,161,780	249,666,458
Grade 2: Watch	45,213,088	44,920,148
	297,374,868	**294,586,606**
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**

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 2017 or 2016.

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

	2017 TZS'000	2016 TZS'000
Company		
Fair Value of collateral held – Against impaired loans	18,784,982	9,624,269

Notes to the Financial Statements for the year ended 31 December 2017

Risk Management

(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:

	2017	2016
At 31 December	28%	31%
Average for the period	31%	31%
Highest for the period	34%	34%
Lowest for the period	28%	25%

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 2017 and 2016 to the contractual maturity date:

31 December 2017	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	Total TZS'000
LIABILITIES					
Deposits from banks	14,525,748	-	-	-	14,525,748
Deposits from customers	137,260,146	48,584,086	130,768,382	2,989,514	319,602,128
Due to group companies	481,666	-	-	-	481,666
Other liabilities	736,398	4,262,071	-	-	4,998,469
Long term borrowings	1,384,680	478,303	6,325,823	20,989,591	29,178,397
Subordinated debt	-	61,997	-	17,919,999	17,981,996
At 31 December 2017	**154,388,638**	**53,386,457**	**137,094,205**	**41,899,104**	**386,768,404**
31 December 2016					
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
Due to group companies	2,180,369	-	-	-	2,180,369
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	**134,692,854**	**74,030,437**	**114,000,706**	**45,796,191**	**368,520,188**

Notes to the Financial Statements for the year ended 31 December 2017

Risk Management

(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
for the year ended 31 December 2017
Risk Management

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 2017	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-bearing interest TZS'000	Total TZS'000
ASSETS								
Cash and balances with Bank of Tanzania		-	-	-	-	-	36,612,816	36,612,816
Items in the course of collection		-	-	-	-	-	96,349	96,349
Loans and advances to banks	3.00%	1,467,105	-	-	-	-	-	1,467,105
Loans and advances to customers	9.98%	309,471,545	377	60,126	1,545,271	1,179,717	-	312,257,036
Investment securities	13.03%	12,031,630	7,481,910	44,424,923	9,406,527	7,739,848	811,000	81,895,838
Due from group companies		-	-	-	-	-	375,400	375,400
Other assets		-	-	-	-	-	1,610,608	1,610,608
		322,970,280	**7,482,287**	**44,485,049**	**10,951,798**	**8,919,565**	**39,506,173**	**434,315,152**
LIABILITIES								
Deposits from banks	3.00%	-	14,525,748	-	-	-	-	14,525,748
Deposits from customers	4.58%	10,591,347	48,584,086	130,768,382	2,989,514	-	126,668,800	319,602,129
Other liabilities		-	-	-	-	-	4,998,469	4,998,469
Long-term borrowings	7.66%	26,438,673	2,739,724	-	-	-	-	29,178,397
Subordinated debt	7.87%	-	17,981,996	-	-	-	-	17,981,996
		37,030,020	**83,831,554**	**130,768,382**	**2,989,514**	**-**	**131,667,269**	**386,286,739**
Interest rate gap		**285,940,260**	**(76,349,267)**	**(86,283,333)**	**7,962,284**	**8,919,565**	**(92,161,096)**	**48,028,413**

Notes to the Financial Statements
for the year ended 31 December 2017
Risk Management

(c) Market risk (continued)

Exposure to interest rate risk - continued

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-bearing interest 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
Due to group companies		-	-	-	-	-	2,180,369	2,180,369
Other liabilities		-	-	-	-	-	3,359,423	3,359,423
Long-term borrowings	7.20%	-	7,829,600	27,914,395	-	-	-	35,743,995
Subordinated debt	7.30%	-	59,922	17,440,000	-	-	-	17,499,922
		7,729,175	**101,429,564**	**153,127,578**	**441,795**	**-**	**105,792,076**	**368,520,188**
Interest rate gap		**288,722,404**	**(78,838,855)**	**(123,768,714)**	**9,203,306**	**1,199,655**	**(52,204,574)**	**44,313,222**

Customer deposits up to three months represent transactional accounts, savings accounts and call deposit account balances, which past experience has shown to be stable in a dynamic scenario.

Notes to the Financial Statements
for the year ended 31 December 2017

Risk Management

Sensitivity Analysis

31 December 2017	Profit or loss	Equity (net of tax)
100 basis points	Increase/decrease in basis points ('000)	Increase/decrease in basis points ('000)
Assets	3,948,090	2,763,663
Liabilities	(2,546,195)	(1,782,336)
Net position	1,401,895	981,327

An increase of 100 basis points in interest rates at the reporting date would have increased equity (net of tax) by TZS 981 million and the inverse is the case for decrease in interest rates of 100 basis points. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

31 December 2016	Profit or loss	Equity (net of tax)
100 basis points	Increase/decrease in basis points ('000)	Increase/decrease in basis points ('000)
Assets	3,592,459	2,514,721
Liabilities	(2,627,281)	(1,839,097)
Net position	965,178	675,626

An increase of 100 basis points in interest rates at the reporting date would have increased equity (net of tax) by TZS 675 million and the inverse is the case for decrease in interest rates of 100 basis points. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

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 2017 and 31 December 2016.

At 31 December 2017	USD TZS'000	GBP TZS'000	Euro TZS'000	Other TZS'000	Total TZS'000
ASSETS					
Cash and balances with Bank of Tanzania	8,177,675	2,111,775	438,347	155,406	10,883,203
Items in the course of collection	310,400	-	-	-	310,400
Loans and advances to customers	245,589,112	-	-	-	245,589,112
Other assets	34,916	-	-	-	34,916
At 31 December 2017	**254,112,103**	**2,111,775**	**438,347**	**155,406**	**256,817,631**
LIABILITIES					
Deposits from banks	8,960,000	-	-	-	8,960,000
Deposits from customers	190,657,500	2,113,624	437,828	-	193,208,952
Other liabilities	9,508,962	8,788	648	193,613	9,712,011
Long-term borrowings	25,514,717	-	-	-	25,514,717
Subordinated debt	17,981,996	-	-	-	17,981,996
At 31 December 2017	**252,623,175**	**2,122,412**	**438,476**	**193,613**	**255,377,676**
Overall net position – 2017	**1,488,927**	**(10,637)**	**(130)**	**(38,207)**	**1,439,954**

Notes to the Financial Statements
for the year ended 31 December 2017

Risk Management

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
Long-term borrowings	32,105,442	-	-	-	32,105,442
Subordinated debt	17,440,000	-	-	-	17,440,000
At 31 December 2016	**257,490,641**	**976,698**	**405,302**	**9,618**	**258,882,259**
Overall net position – 2016	**(488,343)**	**(4,797)**	**5,893**	**14,200**	**(473,047)**

Sensitivity analysis

At 31 December 2017	Profit or loss Strengthening/ weakening of currency TZS'000	Equity (net of tax) Strengthening/ weakening of currency TZS'000
USD (± 1% movement)	14,889	10,422
GBP (± 1% movement)	(106)	(74)
EUR (± 1% movement)	(1)	(1)
Net position	**14,782**	**10,347**

A depreciation of TZS by 100 basis points in the currency rates at the reporting date would have increased equity (net of tax) by TZS 10 million and an inversely would have been the case for an appreciation of TZS. 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
Net position	**(4,872)**	**(3,411)**

A depreciation of TZS by 100 basis points in the currency rates at the reporting date would have decreased equity (net of tax) by TZS 3 million and an inversely would have been the case for an appreciation of TZS by 100. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

Notes to the Financial Statements
for the year ended 31 December 2017

Risk Management

(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.

(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. In addition to the above requirements, the Bank of Tanzania require banks to maintain a capital conservation buffer of 2.5% over and above the regulatory capital ratios to enable the Bank to withstand stressful economic conditions. In situations where the buffer is less than 2.5%, the Bank is restricted from distributing any dividends to shareholders as well as paying bonus to senior management and other staff members. Further the Bank is required to submit a capital restoration plan to the Bank of Tanzania (BoT) within a specified period of time as determined by BoT. In the event the capital restoration plan is not approved by BoT, the Bank may be directed to raise additional capital in order to restore the capital conservation buffer.

Notes to the Financial Statements
for the year ended 31 December 2017
Risk Management

(e) Capital management (continued)

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

	2017 TZS'000	2016 TZS'000
Core capital (Tier 1)		
Share capital	2,792,000	2,792,000
Share premium	17,995,751	17,995,751
Retained earnings	33,038,798	28,781,303
Available-for-sale reserve	217,700	-
	54,044,249	**49,569,054**
Less: Prepaid expenses	(1,379,744)	(1,486,052)
Deferred tax asset	(3,550,713)	(2,176,943)
Intangible assets	(639,227)	(933,662)
Total Core capital	**48,474,565**	**44,972,397**
Supplementary capital (Tier 2)		
Term subordinated debt	14,336,000	15,696,000
General provisions	2,520,857	2,703,950
General banking risk reserve	-	-
	16,856,857	**18,399,950**
Total capital	**65,331,422**	**63,372,347**

	2017 TZS'000	2016 TZS'000
Risk weighted assets		
On balance sheet	303,547,002	292,372,229
Off balance sheet	38,592,243	30,759,731
Capital charge on operational risk	32,382,065	-
Capital charge for market risk	572,730	497,997
Total risk weighted assets	**375,094,040**	**323,629,957**

Capital ratios	Minimum*		
Core capital /Total risk weighted assets	12.50%	12.92%	13.90%
Total capital /Total risk weighted assets	14.50%	17.42%	19.58%

* The minimum as defined by Bank of Tanzania.

As at 31 December, 2017, the Bank had a capital conservation buffer of 2.92% and 5.42% for Tier 1 and Tier 2 Capital respectively.

Notes to the Financial Statements
for the year ended 31 December 2017

Risk Management

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.

(f) 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 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.


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Notes to the Financial Statements
for the year ended 31 December 2017

5. Use of Estimates and Judgements

(a) 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.

(b) 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.

(c) 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).

(d) 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 re-price in the short run.

	Carrying amounts						Fair value		
At 31 December 2017	**Held to maturity TZS'000**	**Loans and receivables TZS'000**	**Available -for-sale TZS'000**	**Other amortized TZS'000**	**Other financial cost TZS'000**	**Total liabilities TZS'000**	**Level II TZS'000**	**Level III TZS'000**	**Total TZS'000**
Financial assets									
Cash and balances with Bank of Tanzania -	-	36,612,816	-	-	-	36,612,816	-	-	-
Items in the course of collection	-	-	-	96,349	-	96,349	-	-	-
Investment Government securities	81,895,838	-	-	-	-	81,895,838	81,556,858	-	81,556,858
Investment in Shares	-	-	811,000			811,000	-	811,000	811,000
Loans and advances to banks	-	1,467,105	-	-	-	1,467,105	-	-	-
Loans and advance to customers	-	312,257,036	-	-	-	312,257,036	-	-	-
Other assets	-	-	-	1,610,608	-	1,610,608	-	-	-
	81,895,838	**350,336,957**	**811,000**	**1,706,957**	**-**	**434,750,752**	**81,566,858**	**811,000**	**82,367,585**
Financial liabilities									
Deposits from banks	-	-	-	-	14,525,748	14,525,748	-	-	-
Deposits from customers	-	-	-	-	319,602,129	319,602,129	-	-	-
Long term borrowings	-	-	-	-	29,178,397	29,178,397	-	-	-
Subordinated debt	-	-	-	-	17,981,996	17,981,996	-	-	-
Other liabilities -	-	-	-	-	4,998,469	4,998,469	-	-	-
	-	**-**	**-**	**-**	**386,286,739**	**386,286,739**	**-**	**-**	**-**

Notes to the Financial Statements
for the year ended 31 December 2017

Financial Assets and Liabilities (Continued)

Accounting classifications at carrying amounts and fair values – continued

	Carrying amounts						Fair value		
At 31 December 2016	**Held to maturity**	**Loans and receivables**	**Available -for-sale**	**Other amortized cost**	**Other financial liabilities**	**Total**	**Level II**	**Level III**	**Total**
	TZS'000	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
Financial assets									
Cash and balances with central banks -	-	42,158,647	-	-	-	42,158,647	-	-	-
Investment Government securities	58,322,236	-	-	-	-	58,322,236	57,376,087	-	57,376,087
Investment in Shares			500,000			500,000	-	500,000	500,000
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**	**57,376,087**	**500,000**	**57,376,087**
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
for the year ended 31 December 2017

	2017 TZS '000	2016 TZS '000
7. Interest Income		
Loans and advances to customers	31,829,689	29,426,231
Loans and advances to banks	428,100	1,046,357
Investment securities:-		
- Held-to-maturity	9,482,460	7,007,493
	41,740,249	**37,480,081**
8. Interest Expense		
Deposits from customers	14,120,997	12,441,545
Deposits from banks	495,673	632,506
Long term borrowings	1,895,171	1,694,514
Subordinated debt	1,363,712	1,185,420
	17,875,553	**15,953,985**
9. Net Fee And Commission Income		
(a) Fee and commission income		
Commissions	3,250,955	2,895,635
Service fees	1,713,392	1,605,575
	4,964,347	4,501,210
(b) Fees and commission expense		
Interbank transaction fees	(320,007)	(293,501)
	(320,007)	**(293,501)**
Net fee and commission income	**4,644,340**	**4,207,709**
10. Other Operating Income		
Income from foreign exchange dealings	2,032,960	2,310,135
Dividend income	6,754	-
Other income	233,445	33,388
	2,273,159	**2,343,523**

Notes to the Financial Statements
for the year ended 31 December 2017

11. Operating Expenses

Staff costs	2017 TZS '000	2016 TZS '000
Salaries and wages	6,192,120	5,455,501
Statutory contribution	566,016	503,550
Skills Development Levy	328,248	307,851
Other staff costs	2,011,632	1,647,728
	9,098,016	7,914,630
Premises and equipment costs		
Rental of premises	1,321,689	1,357,504
Electricity	173,875	216,226
Other premises and equipment costs	118,976	114,495
	1,614,540	**1,688,225**
Other expenses		
Deposit protection insurance contribution	453,610	451,750
Loss on disposal of property and equipment	1,321	-
Other expenses	6,823,688	6,376,009
	7,278,619	6,827,759
Depreciation and amortisation		
Depreciation on property and equipment (note 19)	936,483	870,757
Amortisation of intangible assets (note 20)	487,843	452,821
	1,424,326	1,323,578

12. Profit Before Income Tax

Profit before income tax is arrived at after charging/(crediting):

	2017 TZS '000	2016 TZS '000
Depreciation on property and equipment (note 19)	936,483	870,757
Amortisation of intangible assets (note 20)	487,843	452,821
Directors' emoluments:- fees	149,471	159,000
-expenses	57,839	67,897
Auditors' remuneration	94,752	82,800
Loss on sale of property and equipment	(1,321)	-

13. Income Tax Expense And Tax Payable

	2017 TZS '000	2016 TZS '000
a) Income tax expense		
Current year's tax	3,559,030	3,155,179
	3,559,030	3,155,179
Provision in current year - deferred tax	(1,431,001)	(673,864)
(Under)/Over Provision in prior year - deferred tax	(36,068)	165,762
Income tax expense	**2,091,961**	**2,647,077**

Notes to the Financial Statements
for the year ended 31 December 2017

13. Income Tax Expense and Tax Payable (Continued)

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

	2017 TZS '000	2016 TZS '000
b) Accounting profit before tax	**6,967,667**	**8,098,169**
Computed tax using the applicable corporation tax rate at 30%	2,090,300	2,429,460
Effect on non-deductible costs /income	37,729	51,855
Over/Under provision in prior year - deferred tax	(36,068)	165,762
	2,091,961	**2,647,077**
c)Tax payable		
At 1 January	152,260	250,081
Income tax expense (note 13(a))	3,559,030	3,155,179
Tax paid	(3,589,448)	(3,253,000)
Tax payable	**121,842**	**152,260**

14. Cash and Balances with Bank of Tanzania

	2017 TZS '000	2016 TZS '000
Cash on hand	5,377,903	5,242,220
Balances with Bank of Tanzania:		
-Restricted balances (cash reserve ratio)	22,601,653	29,541,827
-Unrestricted balances	8,633,260	7,374,601
	36,612,816	42,158,648

15. Items in the course of collection

	2017 TZS '000	2016 TZS '000
Items in the course of collection assets/(liabilities)	**96,349**	**(158,913)**

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

16. Loans and Advances to Bank

	2017 TZS '000	2016 TZS '000
Due within 90 Days	1,467,105	1,705,074
Due after 90 days	-	9,365,227
	1,467,105	**11,070,301**

Notes to the Financial Statements
for the year ended 31 December 2017

17. Loans and Advances to Customers

a) Classification	2017 TZS '000	2016 TZS '000
Finance leases	12,301	-
Overdrafts	128,720,577	131,626,905
Loans	196,149,215	174,912,648
Gross loans and advances	**324,882,093**	**306,539,553**
Less: Impairment losses on loans and advances	(12,625,057)	(8,226,030)
Net loans and advances	**312,257,036**	**298,313,523**
	-	-
Less than 3 months	104,063,874	73,605,663
3 months to 1 year	85,540,412	66,199,993
1 to 5 years	103,663,318	103,436,249
5 to 10 years	31,614,489	63,297,648
Gross loans and advances	**324,882,093**	**306,539,553**

b) Impairment losses reserve	Specific impairment allowance TZS '000	Portfolio impairment allowance TZS '000	Total TZS '000
2017			
At I January 2017	6,520,528	1,705,502	8,226,030
Net impairment made in the year	3,316,267	1,082,760	4,399,027
At 31 December 2017	9,836,795	2,788,262	12,625,057
2016			
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**

c) Impairment losses on loans and advances	2017 TZS '000	2016 TZS '000
Impairment made in the year	4,399,027	2,382,289
Recoveries of loans and advances previously written off	-	(157,322)
	4,399,027	**2,224,967**

Notes to the Financial Statements
for the year ended 31 December 2017

17. Loans and Advances to Customers (Continued)

(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)

	2017 TZS '000	2016 TZS '000
Interest on impaired loans and advances which has not yet been received in cash	4,119,998	1,987,253

(e) Loans and advances concentration by sector

	2017 TZS '000	%	2016 TZS '000	%
Manufacturing	71,887,280	22%	71,143,501	23%
Wholesale and retail trade	61,586,009	19%	56,268,307	18%
Building and construction	8,449,970	3%	21,037,970	7%
Agriculture	10,552,050	3%	10,230,760	3%
Real estate	76,998,460	24%	76,710,819	25%
Transport and communication	26,572,940	8%	28,756,390	9%
Business services	32,664,833	10%	13,852,231	5%
Mining and quarrying	8,065,390	2%	7,324,279	3%
Others	28,105,161	9%	21,215,296	7%
	324,882,093	100%	306,539,553	100%

f) Finance leases

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

	2017 TZS '000	2016 TZS '000
Receivable later than 1 year and no later than 5 years	**12,301**	**-**

18. Investment Securities

Available-for sale		
Equity investment in TMRC/ equity investments	**811,000**	**500,000**
Held-to-maturity		
Treasury bonds (Non Liquid)	24,209,076	11,171,388
Treasury bills (Non Liquid)	56,875,762	47,150,848
Total held to maturity	**81,084,838**	**58,322,236**
Total investment securities	**81,895,838**	**58,822,236**

Notes to the Financial Statements
for the year ended 31 December 2017

18. Investment Securities (Continued)

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

31 December 2017	Treasury bills and bonds TZS'000	Equity investment TZS'000	Total TZS'000
At 1 January 2017	58,322,236	500,000	58,822,236
Additions	86,440,438	-	86,440,438
Revaluation gain	-	311,000	311,000
Disposals and maturities	(63,677,836)	-	(63,677,836)
At 31 December 2017	81,084,838	811,000	81,895,838

31 December 2016	Treasury bills and bonds TZS'000	Equity investment TZS'000	Total TZS'000
At 1 January 2016	38,374,528	500,000	38,874,528
Additions	60,217,483	-	60,217,483
Disposals and maturities	(40,269,775)	-	(40,269,775)
At 31 December 2016	58,322,236	500,000	58,822,236

19. Property and Equipment

2017	Leasehold improvements TZS'000	Furniture, fittings, fixtures & office equipment TZS'000	Computers TZS'000	Motor Vehicles TZS'000	Capital work in progress TZS'000	Total TZS'000
Cost/ Valuation						
At 1 January 2017	2,914,590	2,390,665	2,398,008	313,226	-	**8,016,489**
Additions	616,236	79,070	13,084	61,425	122,951	**892,766**
Disposals	-	-	(12,822)	(14,350)	-	**(27,172)**
Reclassification/internal transfers	-	1,729,613	(1,729,613)	-	-	**-**
Write-offs/back	-	(25,893)	(6,205)	-	-	**(32,098)**
At 31 December 2017	**3,530,826**	**4,173,455**	**662,452**	**360,301**	**122,951**	**8,849,985**
Depreciation						
At 1 January 2017	(1,138,984)	(908,233)	(824,931)	(142,907)	-	**(3,015,055)**
Reclassification	-	(465,675)	465,675	-	-	**-**
Charge for the year	(308,182)	(434,880)	(126,588)	(66,833)	-	**(936,483)**
Write-offs	-	20,934	5,540	-	-	**26,474**
Disposals	-	-	11,986	13,354	-	**25,340**
At 31 December 2017	**(1,447,166)**	**(1,787,854)**	**(468,318)**	**(196,386)**	**-**	**(3,899,724)**
Net book value at 31 December 2017	**2,083,660**	**2,385,601**	**194,134**	**163,915**	**122,951**	**4,950,261**

Notes to the Financial Statements
for the year ended 31 December 2017

19. Property and Equipment (Continued)

2016	Leasehold improvements TZS'000	Furniture, fittings, fixtures & office equipment TZS'000	Computers TZS'000	Motor Vehicles TZS'000	Capital work in progress TZS'000	Total 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 from 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)
Write-offs	-	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**

20. Intangible Assets

2017	Cost	Computer Software TZS'000	Capital work in progress TZS'000	Total TZS'000
	At 1 January 2017	2,538,948	-	2,538,948
	Additions	193,407	-	193,407
	At 31 December 2017	2,732,355	-	2,732,355
	Amortization			
	At 1 January 2017	(1,605,285)	-	(1,605,285)
	Amortization for the year	(487,843)	-	(487,843)
	At 31 December 2017	**(2,093,128)**	**-**	**(2,093,128)**
	At 31 December 2017	**639,227**	**-**	**639,227**
2016	**At 1 January**	**2,322,802**	**-**	**2,322,802**
	Transfer from Property and equipment	124,407	(124,407)	-
	Additions	91,738	124,407	216,145
	At 31 December 2016	2,538,947	-	2,538,947
	Amortisation			
	At 1 January	(1,152,464)	-	(1,152,464)
	Amortization 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**

Notes to the Financial Statements
for the year ended 31 December 2017

21. Deferred Tax (Asset/Liabilities)
Deferred tax assets at 31 December 2017 and 31 December 2016 are attributable to the following:

2017	Balance at 1 January TZS'000	Prior year under /over provision TZS'000	Recognised in equity TZS'000	Recognized in profit or loss TZS'000	Balance at 31 December TZS'000
Plant	(416,866)	36,068	-	-	(380,798)
General provisions	2,587,391	-	-	1,431,001	4,018,392
Other provisions	6,419	-	-	-	6,419
Available-for-sale reserves	**-**	**-**	**(93,300)**	**-**	**(93,300)**
	2,176,944	**36,068**	**(93,300)**	**1,431,001**	**3,550,713**
2016					
Plant	(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**

22. Other Assets

	2017 TZS'000	2016 TZS'000
Prepayments	1,379,744	1,486,052
Other receivables	230,864	84,546
	1,610,608	**1,570,598**

23. Deposits from Banks

	2017 TZS'000	2016 TZS'000
Due within 90 Days	**14,525,748**	**24,888,728**

24. Deposits from Customers

	2017 TZS'000	2016 TZS'000
Government and Parastatals	19,188,394	11,396,962
Private sector and individuals	300,413,735	273,291,876
	319,602,129	**284,688,838**

25. Other Liabilities

	2017 TZS'000	2016 TZS'000
Accruals	1,582,630	1,081,144
Other accounts payables	3,055,709	1,906,433
Bankers cheques payable	360,130	371,846
	4,998,469	**3,359,423**

26. Long Term Borrowings

	2017 TZS'000	2016 TZS'000
Less than one year	3,601,683	7,829,601
One to five years	25,576,714	27,914,394
	29,178,397	**35,743,995**

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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 5.64%.

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.The long term borrowing has extended in the year 2017 for one year.

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 debt 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 5.83% p.a.

Loan movement schedule	2017 TZS '000	2016 TZS '000
At 1 January	35,743,995	11,216,570
Funds received	-	26,208,000
Payments on principal and interest	(7,632,708)	(4,407,103)
Interest payable	351,683	335,789
Translation differences	715,427	2,390,739
At 31 December	**29,178,397**	**35,743,995**

27. Subordinated Debt

	2017 TZS '000	2016 TZS '000
Less than one year	61,996	59,922
One to five years	17,920,000	17,440,000
	17,981,996	**17,499,922**

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 was received during the month of January 2015. The effective interest rate of the long term borrowing is 7.87%.

Notes to the Financial Statements
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28. Share Capital and Reserves

(a) Authorized share capital

2017	Number of Shares		TZS '000
1 January 2017 (par value TZS 1000 each)	10,000		10,000,000
At 31 December 2017	**10,000**		**10,000,000**
2016			
1 January 2016 (par value TZS 1000 each)	10,000		10,000,000
At 31 December 2016	**10,000**		**10,000,000**

(b) Issued and fully Paid up share capital

2017	Shares No.	Share Capital TZS '000	Share Premium TZS '000
1 Jan 2017 - par value TZS 1000 each	2,792	2,792,000	17,995,751
At 31 December 2017	**2,792**	**2,792,000**	**17,995,751**
2016			
1 January 2016 - par value TZS 1,000 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**

(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 for reductions. These reserves are not distributable

Notes to the Financial Statements
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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 at market interest rates. There were no provisions held towards impairment of any of the advances to related parties

(a) Directors and key management personnel: Loans

	2017 TZS '000'	2016 TZS '000'
Loans outstanding at the beginning of the year	1,714,252	2,022,757
Loans issued during the year	20,000	95,599
Loan repayments during the year	(269,000)	(404,104)
Loans outstanding at the end of the year	**1,465,252**	**1,714,252**
Interest income earned	**196,688**	**193,337**
(b) Directors and key management personnel: Deposits		
Deposits at the beginning of the year	4,971,664	6,318,591
Deposits received during the year	4,740,885	3,686,360
Deposits repaid during the year	(2,870,397)	(4,486,529)
Deposits at the end of the year	6,842,152	5,518,422
Interest expense	**154,757**	**125,353**
(c) Amount due to/from related company (I&M Bank Limited-Holding company)		
Amounts due from group company	**375,400**	**898,104**
Amount due to group companies	**481,666**	**2,180,369**
(d) Key management compensation		
Salaries and other short-term benefits	1,968,635	1,744,976
Post-employment benefits	155,054	167,385
	2,123,689	**1,912,361**
Key management comprise of CEO and all heads of department.		
Directors' remuneration-made up of short-term benefits	149,471	159,000
(e) Management fees		
Management fees paid to I&M Bank Ltd	934,207	939,767

(f) Long term borrowing

On 3rd July 2012, the Bank obtained an unsecured long term borrowing of USD 5 million from PROPARCO, a 4.62% shareholder of the Bank. For more details refer to note 26. As at 31st December 2017, the outstanding was USD 1.8 million (Equivalent to TZS 4,072 million).

Notes to the Financial Statements
for the year ended 31 December 2017

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 1,320 Million (2016 – TZS 1,688 Million) was charged to the Profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2017 TZS '000	2016 TZS '000
Less than one year	47,272	682,854
One to five years	3,941,939	2,933,235
Over five years	-	796,330
	3,989,211	**4,412,419**

31. Capital Commitments

	2017 TZS '000	2016 TZS '000
Capital commitments	7,152,188	3,616,606

32. Off Balance Sheet Contingencies and Commitments

	2017 TZS '000	2016 TZS '000
Contingencies related to:		
Letters of credit	21,943,934	7,457,376
Guarantees :	11,935,408	7,384,206
Acceptances /undrawn balance	**25,797,588**	**39,197,157**
	59,676,930	**54,038,739**

Notes to the Financial Statements
for the year ended 31 December 2017

33. Notes to the Statement of Cashflows

Reconciliation of profit before tax to cash flows generated from operating expenses

	Note	2017 TZS'000	2016 TZS '000
Cashflow generated from operating activities			
Profit before income tax		6,967,667	8,098,169
Adjustments			
Depreciation	19	936,483	870,757
Amortisation of intangible asset	20	487,843	452,821
Loss on sale of property and equipment		1,321	6,376
Dividend income		(6,754)	-
Written off assets	19	5,624	-
Exchange loss on borrowing		1,197,501	2,533,856
		9,589,685	**11,961,979**
Changes in operating assets			
Movement in loans and advances to customers		(13,943,513)	(29,669,868)
Cash and balances with Bank of Tanzania;			
– Cash Reserve Ratio		6,940,174	7,284
Net Investment securities		(22,762,602)	(19,947,708)
Loans and advances to banks		9,365,227	3,627,025
Other assets		(40,010)	426,913
		(20,440,724)	**(45,556,354)**
Changes in operating liabilities			
Customer deposits		34,913,291	9,473,931
Deposits from banks		-	(4,460,000)
Net (outflow)/inflow from long term borrowings		(7,281,025)	22,136,686
Due to Group companies		(1,175,999)	2,194,599
Other liabilities		1,639,046	319,207
		28,095,313	**29,664,423**
Net Cash flows generated from/(used in) operating activities		**17,244,274**	**(3,929,952)**

Corporate Social Responsibility Initiatives

• Luck Vincent Memorial Tower

The Bank developed a memorial tower for 24 students of Luck Vincent Primary School who lost their lives in a car accident whilst they were on their way to sit for their final exams. It was good gesture of corporate citizenship from the Bank considering that the school situated right opposite to our Arusha branch.

• Usafi Day

In support of President's initiative of dedicating a special day in a month for general cleanness, the Bank's staff participated in cleaning Coco Beach area in Dar es Salaam on 28th October 2017. The Bank's CEO, Mr. Baseer Mohammed led the team which included staff from head office and Dar es Salaam branches.

• Cornel Ngaleku Children's Centre – Donation Boxes

As part of our CSR initiatives, the Bank kept donation boxes for Cornel Ngaleku Children's Centre at the teller counters in all branches for customers to donate. In three month time customers donated TZS 535,076 which was credited to the Centre's account. The donation boxes will continue to be kept in braches for further donations

LUCKY VINCENT MEMORIAL TOWER

The tower built by the Bank in memory of 24 students who lost their lives in a tragic car accident

I&M Bank (T) Ltd Staff posed for group photo after the job well done

Staff from Operations and Audit Departments taking their parts in cleaning exercises

I&M Bank (T) Ltd CEO, Mr. Baseer Mohammed (first from the right) leading the team by example

I&M Bank LIMITED

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