

THE PEOPLE'S BANK OF ZANZIBAR LIMITED



AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

TAC Associates
Certified Public Accountants
10 Malik Road, Upanga
P.O. Box 580,
Dar es Salaam, Tanzania
Tel: +255 22 2137721/4
Fax: +255 22 2113142
E-mail: tac@cats-net.com
Website: tac-associates.co.tz

MARCH, 2017

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

Contents	Page
Table of Contents	i
List of Abbreviations	ii
Corporate Information	iii-iv
Directors' Report	1-12
Statement of Directors' Responsibilities	13
Declaration of Head of Finance Responsibilities	14
Auditors' Report	15-17
Statement of Financial Position	18
Statement of Profit or Loss and Other Comprehensive Income	19
Statement of Cash Flows	20
Statement of Changes in Equity	21-22
Notes to the financial statements (1 to 43)	23-65

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

Abbreviations

BOT	Bank of Tanzania
CBS	Core Banking System
EMV	Euromoney, MasterCard and Visa
Euro	Euro currency
FVOCI	Fair Value through Other Comprehensive Income
FVPL	Fair Value through Profit or Loss
GBP	Great Britain Pound
IAS	International Accounting Standard
IASB	International Accounting Standard Board
IFRS	International Financial Reporting Standard
PBZ	The People's Bank of Zanzibar Ltd.
RGZ	Revolutionary Government of Zanzibar
SAC	Shariah Advisory Committee
SPPI	Solely Payments of Principal and Interest
SWIFT	Society Worldwide Inter-bank Financial Telecommunication
TISS	Tanzania Interbank Settlement System
TZS	Tanzania Shillings
USD	United States Dollar
ZSSF	Zanzibar Social Security Fund

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

Corporate Information

Board of Directors

Mr. AbdulRahman M. Jumbe
(chairman)
Mr. Juma Ameir Hafidh
Mr. Abdulwakil H. Hafidh
Mr. AbdallaAbass Omar
Mr. Julian B. Raphael
Ms. Mwanahija A. Ali
Mr. Ali Khamis Juma
Mr. Yakout H. Yakout
Mr. Pereira A. Silima

Registered Office and Contact

Head office - Darajani Street,
P. O. Box 1173
Telephone: +255 24 2231118/9/20
Telephone : +255 24 2234579 (Mpirani)
Fax: +255 24 2231120
Fax: +255 24 2234572 (Mpirani office)
Email: info@pbzLtd.com
Website: www.pbzLtd.com
Zanzibar
Tanzania.

Company Secretary

Mrs. Saadiye Hamid Suleiman
Head office - Darajani Street,
P. O .Box 1173
Telephone: +255 24 2231118/9/20
Zanzibar
Tanzania
Fax: +255 24 2231120
Email: info@pbzLtd.com
Website: www.pbzLtd.com

Lawyers

AfisiyaMwanasheriaMkuu
Mazizini,
P.O.BOX 259
Telephone :024 2232502
Zanzibar
Tanzania
Fax: 024 2232502
Email: info@agc.go.tz
Website: agchambers@zanlink.com

Auditors

TAC Associates
(Certified Public Accountants)
10 Malik Road, Upanga
P. O. Box 580
Dar es Salaam
Tanzania
Tel: 255 (022) 2137721/4
Fax: 255 (022) 2113142
E-mail tac@cats-net.com
Website: tac-associates.co.tz

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

List of Bankers

1. Ubs Switzerland Ag
Postfach, 8098 Zurich
www.ubs.com
For Information:
Tel.+41-44-234 11 11
2. Bank Of Tanzania
2 Mirambo Street
11884 Dar Es Salam Tanzania
Tel +255-22-2234494/5/7
+255-22-2235433
3. Branch Director .DominaMsoka
Crdb- Azikiwe Branch Dsm
P.O.Box 72344
Tel No 022-2124556
022-2124558
Swift Code: Corutztz
4. Citideff
Reuterweg 16, 60323 Frankfurt/Main
Blatt/Page ¼
Iban: De67 502109004114264038
Bic Code: Citideff
5. Standard Chartered Bank Tanzania
Ltd
(Legal Head Office)
1st Floor, International House
Corner Shaaban Robert St/ Garden
Dar Es Salaam, Dar Es Salaam
Tanzania
Telephone: 255/22- 2221221601
6. Standard Chartered Bank
Tanzania Ltd
(Branch Office, See Legal Head
Office)
Dar Es Salaam, Tanzania
Corner Sokoine Drive& Ohio Street
Dar Es Salaam, Dar Es Salaam
Tanzania
Telephone 255/22-2113774
Swift Bic: ScbLtzTx
Chips Uis: 356728
Chips Member No(S): 0256
7. Citibank, Na
(Branch Office, See Legal Head
Office Lasvegas United State)
11 Old Jewry
London, England Wc2r 1 Hb
United Kingdom
Telephone: 44/20 -7500 5000
Swift Bic: Citigb22 Citigb 2
Chips Uid: 029715
Chips Member No(S) 0008
8. Citibank, Na
(Branch Office, See Legal Head
Office Lasvegas United State)
1 Court Sq
New York City, Ny 11120
United States
Telephone: (718) 472-3400
Swift Bic: Citius 33 Pbgb
Chips Uid: 337344
Chips Member No(S) 0008x

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER 2016

1. INTRODUCTION

The directors submit their report and the audited financial statements for the year ended 31 December 2016 which disclose the state of affairs of People's Bank of Zanzibar Limited ("the bank"). The financial statements for the year ended 31st December 2016 were authorised for issue in accordance with a resolution of the directors on March 2017.

2. INCORPORATION

The People's Bank of Zanzibar Limited (PBZ) was established on June 30, 1966 under Cap. 153 of the Zanzibar Companies Decree. The primary function was to carry on the business of commercial banking. The Bank is owned wholly (100%) by the Government of Zanzibar. PBZ offers both Islamic and Conventional Banking Services in its banking proposition.

3. MISSION AND VISION

Vision

To be a leading provider of innovating and high quality financial services to our retail and corporate customers in Tanzania and beyond.

Mission

To provide banking solutions to our retail and corporate customers by developing innovating and high quality products and services at competitive and affordable cost through its network.

4. PRINCIPAL ACTIVITIES

During the year under review PBZ offered a wide range of commercial banking services. The principal activities covered, inter alia, traditional and modern banking services. PBZ also provides lending facilities through a range of products including shariah compliant financing products. Furthermore, the Bank is engaged in foreign exchange dealings.

Islamic Banking

As at end of year 2016, PBZ has six branches of Islamic Banking located in Zanzibar (Unguja and Pemba), Dar es Salaam and Mtwara and is growing very fast in terms of deposit at an average annual growth rate of 42%. Under Islamic Banking, PBZ offers an array of products ranging from deposit to financing, service ranging from money transfer to all kinds of trade financing. In brief, Islamic Banking products are mainly deposit mobilization contracts and fund utilization (financing) products.

Under deposits mobilization, the products are current accounts and Al Mudharabah (Saving and Time deposit). Under financing products there are BaiMuajjal (sale and deferred payments) and Murabaha. Other products are:

- IKHLAS - Mortgage Financing
- IKHLAS - lease (Ijarah Financing)
- IKHLAS - Education Financing
- Salam Financing (Financing of Agricultural Products)
- Istisnaa Financing (Financing of Manufactured goods)

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

4. PRINCIPAL ACTIVITIES (Continued)

Conventional Banking Products

PBZ offers traditional banking products such as current accounts, time deposits and savings accounts. The available deposit accounts are denominated in TZS and other three major foreign currencies i.e. USD, GBP and Euro. Additionally, the Bank offers different types of credit facilities such as:

- commercial term loans
- overdrafts facilities
- personal/consumption loans
- mortgage financing
- SME loans

PBZ services have been channeled electronically where services are available through internet and mobile phones. Through these services customers have access to their accounts any time anywhere and can perform various transactions such as:

- Balance enquiry
- Account statements view
- Loading mobile airtime
- transfer of mobile airtime,
- account to account transfers
- bank to wallet money transfer and
- Wallet to bank money transfers.

The bank is well known for its expertise in import and export trade dealings through establishment trade financing such as letters of credit (LC), bills for collection etc. Other facilities are bid bonds, performance bonds, guarantees etc. Fund remittance services offered by the bank are:

- world remit (WR)
- western union (WU)
- SWIFT and TISS services

All of the services are available also at Islamic banking.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

5. COMPOSITION OF THE BOARD OF DIRECTORS

Members of the Board of Directors other than Chairman are appointed by the Minister for Finance - Zanzibar, while the later is appointed by the President of Zanzibar. Board of Directors which consist of eight (8) Directors, seven (7) of them are Non-Executive Directors (including Chairman) and one (1) is Executive Director i.e. Managing Director. The directors of the board at the date of this report and who have served during the year 2016 except where otherwise stated are as shown in the table below:

No	Name	Position	Age (years)	Discipline/Qualifications	Nationality	Appointment
1	Mr. Abdulrahman M. Jumbe	Chairman	79	Diploma in plan administration, project evaluation, foreign trade and national accounts	Tanzanian	November 2015
2	Mr. Abdulwakil H. Hafidh	Member	62	MSc. Finance Strathclyde University, UK.	Tanzanian	November 2015
3	Mr. AbdallaAbass Omar	Member	57	Diploma in Business Administration, CBE- Dar es Salaam.	Tanzanian	November 2015
4	Mr. Juma A. Hafidh	Member (Executive Director)	48	MSc. Finance Strathclyde University, UK.	Tanzanian	November 2015
5	Ms. Mwanahija A. Ali	Member	56	MSC. Business Administration – Finance and Banking.	Tanzanian	November 2015
6	Mr. Ali K. Juma	Member	51	Msc. Security and Strategic Studies, National Defence College, Dar es salaam.	Tanzanian	December 2015
7	Mr. Yakout H. Yakout	Member	67	MBA ESAMI/ SMS.	Tanzanian	November 2015
8	Mr. Pereira A. Silima	Member	57	Msc for Ho &Bsc (For Hon)	Tanzanian	March 2016

The Bank's Company Secretary was Mrs. Saadiye Hamid Suleiman.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

6. CORPORATE GOVERNANCE

The People's Bank of Zanzibar Limited is considering and accepting the best practices in Corporate Governance. The Board, management and staff of the Bank are committed to upholding the core values of transparency, integrity, honesty and accountability, which are fundamental to the performance of any organization.

The Board of The People's Bank of Zanzibar Limited is also responsible to ensure that comprehensive system of internal controls and sound corporate governance principles are applied. The Board of Directors is scheduled to meet ordinarily four times a year.

The Board delegates the day to day management of the banking activities to Managing Director who is assisted by a Management Committee. The Management Committee is responsible for the implementation of strategies and internal controls as well as monitoring the performance of the Bank.

During the year ended December 31 2016, the Board had four (4) committees (2015: four (4) committees) in place and active to ensure a high standard of corporate governance. The composition of the Committees is as shown below.

Board Credit Committee

The Credit Committee discusses credit reports on quarterly basis and provides credit approval for all applications above the Management Credit Limit. The following are the members of the committee:

S/N	Name	Position
1	Mr. Abdulwakil H. Hafidh	Chairman
2	Mr. Ali K. Juma	Member
3	Mr. Yakout H. Yakout	Member

The Board Credit Committee reports to full board.

The Board Credit Committee met four (4) times during the year (2015: four (4) times)

Board Audit and Risk Committee

The main functions of this Committee are to assist the Board of Directors in its responsibilities of monitoring of financial reporting process to ensure financial statements are prepared in accordance with the law and regulations and also to review the internal control systems as a service to management and safeguarding of bank assets as well as ensuring that a comprehensive risk management framework is in place for management of risk within PBZ. Also the Committee is vested with authority to oversee Management activities in managing operational, liquidity, market, legal and other risks. Members of the committee are composed of the following:

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

6. CORPORATE GOVERNANCE (continued)

S/N	Name	Qualifications	Position
1	Mr. Pereira A. Silima	Msc for Hon & Bsc for Hon	Chairman
2	Mr. Abdalla Abass Omar	Diploma in Business Administration, CBE	Member
3	Ms. Mwanahija A. Ali	Masters of Business Administration – Finance and Banking.	Member

The Board Audit Committee and Risk committee met five (5) times during the year (2015: four (4) times)

Board Human Resources and Investment Committee

This Committee is responsible for ensuring that necessary policies and procedures are in place to efficiently and effectively manage bank's human resources and to offer all employees fair and competitive compensation aligned with performance. Also the committee is responsible for overseeing the investment management function of the bank's investment. The committee members are listed below:

S/N	Name	Qualifications	Position
1	Mr. Yakout H. Yakout	MBAESAMI/ SMS.	Chairman
2	Mr. Ali K. Juma	MSc. Security and Strategic Studies. National Defence College, DSM.	Member
3	Mr Abdulwakil H. Hafidh	MSc. Finance Strathclyde University, UK.	Member

The Board Human Resource and Investment Committee reports to full board. Managed to meet eight (8) times during the year (2015: no meeting held)

Shariah Advisory Committee (SAC)

The Shariah Advisory Committee is responsible to advise the Board of Directors on Shariah matters in order to ensure that the Islamic Business Operations of PBZ comply with Shariah principles at all times. The Committee also ensures that the Shariah Policies and Procedures do not contain elements which are not in line with Shariah and that the Islamic deposits and financing products of the bank comply with Shariah principles in all aspects. The list of members is given below:

S/N	Name	Nationality	Discipline/Qualifications	Position
1	Dr. Issa Haji Zidy	Tanzanian	Phd in curriculum and development in teaching Arabic and Islamic	Chairman
2	Dr. Mwinyi Talib Haji	Tanzanian	Phd in Comparative on Islamic law	Member
3	Dr. Abdullah Talib Abdullah	Tanzanian	Master of conflict resolution	Member

The Shariah Advisory Committee met four (4) times during the year (2015: four (4) times)

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

7. KEY MANAGEMENT STAFF OF THE BANK

The management committee of the Bank is chaired by Managing Director who is assisted by five Directors and five Independent Managers. The following are Directors and Independent Managers as key management personnel who served the Bank during the year ended December 31, 2016:

	Name	Title
	Mr. Juma A. Hafidh	Managing Director
	Mr. Said M Said	Director Islamic Banking
	Mr. Ajay Kumar	Director of Information Communication Technology
	Mr. Mussa A. Juma*	Director of Finance
	Mr. Mohammed B. Chwaya	Director of Banking Operations
	Mrs. Saadiye H. Suleiman	Company Secretary (IM)
	Mr. Seif A. Said	Head of Risk Management and Compliance (IM)
	Mr. Suleiman A Suleiman	Manager Internal Audit (IM)
	Mr. Ahmed S. Abdukarim	Manager Credit (IM).
	Mr. Mohammed Y. Nuhu	Manager Marketing and Business Development (IM)
	Mrs. Mwanaid R Juma	Manager Procurement (IM)

* As at reporting date Mr. Mussa A. Juma (Director of Finance) was also acting as Director of Human Resources and Administration.

Key: IM = Independent Manager

8. CAPITAL STRUCTURE AND OWNERSHIP

Capital Structure

Authorized share capital

The total authorized share capital of the Bank is 600,000,000 ordinary shares of TZS 100 each.

Paid up share capital

At year end, the bank had issued and fully paid up ordinary share capital of 310,000,000 shares of TZS 100 each

Shareholding

<u>Name</u>	Number of Shares	Value of Shares TZS	% of holdings
Revolution Government of Zanzibar	310,000,000	31,000,000,000	100%
Total share capital	310,000,000	31,000,000,000	100%

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

9. RESULTS AND DIVIDENDS

During the year, the Bank reported after tax profit of TZS 11,516 billion. The directors do not recommend payment of dividends.

10. REVIEW OF BUSINESS PERFORMANCE

The bank's financial results for the year are set out on page 18 of the financial statements. During the year under review, the Bank recorded a profit before tax of TZS 18,696 million.

Key performance ratios

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

	<u>2016</u>	<u>2015</u>
Return on average assets	3.86%	3.82%
Return on average equity	22.05%	27.02%
Non-interest income to net interest income	72.54%	93.76%
Operating expenses to average assets	4.76%	4.74%
Interest Expenses to Interest Income	29.60%	33.04%
Interest Margin to Average Earning Assets	7.52%	6.80%

11. REVIEW OF OPERATING RESULTS

Operating Results

The Statement of profit or loss and other comprehensive Income shows that the bank posted a profit (before tax) in an amount of TZS 18,696 million for the year 2016 as compared to an amount of TZS 16,214 million realized in year 2015 representing a growth of about 15%. This increase arose mainly as a result of increasing in interest income during the year.

During the year under review, the bank posted a 23% growth in interest income to TZS 38,343 million (2015: TZS 31,192 million) mainly due to increase on interest on personal loan and as well as interest on treasury bills. Interest expenses increased by about 10% to TZS 11,350 million (2015: TZS 10,307 million). This increase was mainly contributed by the increase in interest on time deposits. Therefore, interest margin stood at 70% in 2016 compared to 67% in 2015.

Net Fee and Commission Income increased by 27% to TZS 11,704 million compared to TZS 9,207 million in year 2015. The increase in net fee and commission income in year 2016 arose was mainly due to the increase in bank commission and Islamic financing profit.

Foreign exchange gain (net) decreased substantially by 28% from TZS 6,482 million year 2015 to TZS 4,651 million in year 2016. The decrease was mainly due to less foreign exchange trading during the year 2016 compared preceding year. Operating expenses increased by about 15% in 2016 to TZS 23,097 million from TZS 20,093 million in 2015. The increase is a result of higher administrative expenditures, staff cost and impairment charge for loans and advances.

11. REVIEW OF OPERATING RESULTS (Continued)

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

Operating Results (Continued)

	(Amount in TZS'000)			
	2016	2015	Change	
Operating income				
Interest income	38,342,845	31,192,022	7,150,823	23%
Interest expense	(11,350,309)	(10,306,509)	(1,043,800)	10%
Net interest income	26,992,536	20,885,513	6,107,023	29%
			-	
Net Fees and commissions	11,704,248	9,207,223	2,497,025	27%
Net Foreign exchange income	4,650,502	6,482,375	(1,831,872)	(28%)
Other income	2,382,884	502,595	1,880,289	374%
	18,737,634	16,192,193	2,545,441	16%
Net operating income before impairment charge on loans and advances	45,730,170	37,077,707	8,652,464	23%
			-	
Impairment charge on loans and advances	(1,989,419)	(696,853)	(1,292,566)	185%
Provision for probable loss of other assets	(599,140)	-	(599,140)	100%
Write off	(1,349,043)	(73,393)	(1,275,650)	1738%
Net operating income	41,792,568	36,307,460	5,485,108	15%
			-	
Personnel (staff) costs	(10,142,016)	(9,019,313)	(1,122,703)	12%
General and administration costs	(10,006,771)	(8,381,706)	(1,625,065)	19%
Other operating expenses	(2,947,865)	(2,692,428)	(255,437)	9%
Total operating expenses	(23,096,652)	(20,093,446)	(3,003,206)	15%
			-	
Profit before tax	18,695,916	16,214,014	2,481,902	15%

Financial Performance

Total assets of the bank increased by about 8% to TZS 503,627 million as at December 31, 2016 from TZS 465,984 million reported in the corresponding year of 2015. This increase arose mainly from loan and advance and Islamic financing. Loan and advance increases including Islamic financing increased on net basis by TZS 21,426 million to TZS 270,434 million in 2016 from TZS 249,008 million in year 2015. Earning assets made 76% of total assets (2015: 72%) comprise of net loan and advances (45%), investments in debt securities (13%), net Islamic financing (10%), interbank placement (5%), foreign banks – NOSTRO accounts (4%), and equity investment (0.2%).

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

11. REVIEW OF OPERATING RESULTS (Continued)

Customers' deposits liabilities which represent 96% of total liabilities grew by 5% from TZS 406,826 million as at the end of 2015 to TZS 427,194 million reported as at December 31, 2016. The Bank maintained adequate liquidity as the ratio of liquid assets to total assets indicates that, at the end of December 2016, the ratio was 41% compared to ideal ratio of 40%.

Key efficiency ratios

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

	2016	2015
Total capital to total assets	11.48%	10.01%
Net non-performing loans to total advances	4.73%	2.76%
Gross loans to total deposits	63.88%	62.00%
Loans to total assets	53.70%	53.44%
Liquidity ratio	41%	37%

12. SOLVENCY AND GOING CONCERN

The bank has complied with the Bank of Tanzania liquidity and capital adequacy ratios. The Directors consider the bank to be solvent. 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 financial statement. The Directors consider the bank to be solvent within the meaning ascribed by the Cap. 153 of the Zanzibar Companies Decree and Banking and Financial Institutions Act, 2006.

13. CAPITAL ADEQUACY

The bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania (BOT). These ratios measure capital adequacy by comparing the bank's eligible capital with its financial position assets, off-statement of financial position commitments and market and operational risk positions at a weighted amount to reflect their relative risk.

The bank was in compliance with the Bank of Tanzania's liquidity and capital adequacy ratios, including the required minimum Core Capital amount of TZS 46,765million. The Board confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board has reasonable expectation that the Bank will have adequate resources to continue in operational existence and growth for the foreseeable future. The capital adequacy of the Bank is shown in note 42 to the financial statements.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

14. FUTURE PROSPECTS AND DEVELOPMENT PLANS

According to the bank's Strategic Business Plan (2017 – 2020), the Bank planned to accomplish various banking future development projects/activities. However, the management has a strategy to enhance the quality of customers' services through alternative channels of services delivering. Technological advancement plan has opted to be most priority during the year and next coming year. This will streamline the quality onto electronic service delivery. Some activities planned within year 2017 to 2020 are as following:

- Acquisition and deployment of Core banking system,
- Acquisition and deployment of Agency Banking,
- Internet banking,
- Revenue system and Social banking,
- Introduction of International cards business includes Master Card and Union Pay.
- Balanced Scorecard Strategic Management System;
- Automation of Procurement Process
- Expanding branch network to Dodoma and other location in Dar es Salaam, and
- Construction new head office building project

15. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control systems of the Bank. It is the task of management to ensure that adequate internal control and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

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

The Board assessed the internal control systems throughout the year under review and is of the opinion that they met accepted criteria.

Taking risk is an integral part of any financial institution, and the operational risks are inevitable consequence of being in business. The Bank's aim is therefore, to achieve an appropriate balance between the risk and return and minimize potential adverse affects on the Bank's financial performance. The Board is responsible for identifying the major business risk faced by the Bank and to determine the appropriate course of action to manage those risks.

Risk management is carried out by the department responsible for Risk and Compliance under policies approved by the Board of Directors. Internal Audit Department is responsible for the independent review of risk management and the control environment. The most core risks are credit risk, liquidity risk, interest risk, foreign currency risk and operational risks. The Board carries out risk and internal control assessment through Board Audit and Risk Management Committee.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

16. GENDER PARITY AND STAFF STRENGTH

The Bank 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, tribe, religion and disability which does not impair ability to discharge duties. As at 31 December 2016, out of 290 staff, 191 were males and 99 were females. Permanent staffs were 83 employees while 207 were under three year renewable contracts.

17. RELATED PARTY TRANSACTIONS

Related party transactions and balances are disclosed in note 35 to the financial statements.

18. POLITICAL AND CHARITABLE DONATIONS

The Bank did not provides donations during the year ended December 31, 2016.

19. CORPORATE SOCIAL RESPONSIBILITIES

The People's Bank of Zanzibar Limited, as corporate entity, obliged to provide proper consideration to the society in which it operates. During the year ended December 31, 2016, the bank contributed to different sectors such as health, tourism and sports. PBZ spent TZS 260 million for social responsibility for the year ended December 31, 2016.

20. EMPLOYEES WELFARE

(i) Training Facilities

Training is the learning process of imparting and sharpening skills of an employee to enable him/her to perform duties efficiently. The Bank continued to offer long and short term training facilities to employees with a view to building up their capacity.

During the period ended December 31, 2016 the Bank engaged to train its employees for the purpose of improving the following:

- customer services,
- Staff morale
- Shaping behavior and attitudes of staff towards organizational performance.

(ii) Medical Assistance

The Bank fully meets the cost of medical consultation and treatment for all employees and their immediate family members. During the year ended December 31, 2016 the Bank provided health service care through health insurance service scheme. Each staff with a maximum of four dependents is granted medical service by the Bank.

20.EMPLOYEES WELFARE (Continued)

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31ST DECEMBER, 2016

(iii) Financial Assistance to Staff

The Bank offers salary advances free of charge of up to three-months to any member of staff who faces proven financial hardship as per Staff Regulations. Also it provides loans to its staff up to TZS. 100 million depending on employee salary levels.

(iv) Persons with Disabilities

Applications for employment by persons with disability are always being considered. In the event of members of staff becoming disabled, every effort is made to ensure that his/her employment with the Bank continues.

(v) Employees Benefit Plan

The Bank pays contributions to a publicly administered pension scheme on mandatory basis which qualifies to be a defined contribution plan. The number of employees as at December 31, 2016 was 290. The Bank is contributing 10% of gross salary for each employee to Zanzibar Social Security Fund (ZSSF) every month. During the period under review, the Bank contributed TZS 599 million to the Fund for employees benefit.

(vi) Relationship Between Management and Employees

There was continued good relationship between employees and management of the PBZ for the year ended December 31, 2016. There were no unresolved complaints received by management from employees during the year under review.

21. AUDITOR

TAC Associates was the auditor of the Bank during the year ended 31 December 2016 and has expressed the willingness to continue and is eligible for re-appointment. A resolution to appoint the auditor for the year 2017 will be put up at the Annual General Meeting.

Approved by the Board of Directors on**29/03/2017**.....and signed on its behalf by:

Name: **Abdulrahman M. Jumbe** Title: Chairman



Signature: _____

Name: **Pereira A. Silima** Title: Director



Signature: _____

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2016

The Cap. 153 of the Zanzibar Companies Decree requires the directors to prepare financial statements for each financial period which present fairly, in all material respects, the state of financial affairs of the bank as at the end of each financial year and of its profit or loss. It also requires the directors to ensure that the bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the bank. The directors are also responsible for safeguarding the assets of the bank and hence for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Cap. 153 of the Zanzibar Companies Decree and the Banking and Financial Institutions Act, 2006. The directors are of the opinion that the financial statements present fairly, in all material respects, the state of the financial affairs of the Bank and of its profit.

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 adequate systems of internal financial control.

The directors have made an assessment of the bank's ability to continue as a going concern. 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.

**DECLARATION OF THE HEAD OF FINANCE'S RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2016**

The National Board of Accountants and Auditors (NBAA) according to the power conferred to it under the Auditors and Accountants (Registration) Act No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by Head of Finance/Accounting responsible for the preparation of the 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 a true and fair view of the entity's position and performance in accordance with International Financial Reporting Standards and the requirements of the Cap. 153 of the Zanzibar Companies Decree and Banking and Financial Institutions Act, 2006. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as stated under the Statement of Directors' Responsibilities on the previous page.

I, CPA Mussa Ali Juma being the Director of Finance of Peoples Bank of Zanzibar Limited hereby acknowledge my responsibility of ensuring that the financial statements for the year ended 31 December 2016 have been prepared in compliance with International Financial Reporting Standards and the requirements of the Cap. 153 of the Zanzibar Companies Decree and Banking and Financial Institutions Act, 2006.

I thus confirm that the financial statements give a true and fair view of the financial position and results of operations of Peoples Bank of Zanzibar Limited as on that date and for the period then ended, and that the financial statements have been prepared based on properly maintained financial records.



.....
Signed by: **Mussa Ali Juma**

Position: **Director of Finance**

NBAA Membership No: **ACPA 2023**

Date:**29/03/2017**.....

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF THE PEOPLE'S BANK OF ZANZIBAR LIMITED

To the Chairman,
Board of Directors,
The People's Bank of Zanzibar,
P. O. Box 1173,
Zanzibar.

Report on the Audit of the Financial Statements

We have audited the financial statements of PBZ Bank which comprise the financial position as at 31st December, 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31st December, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), the Banking and Financial Institutions Act, 2006 and the Cap. 153 of the Zanzibar Companies Decree.

Basis of 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 Financial Statements section of our report. We are independent of the PBZ Bank in accordance with the International Ethics Standards Board for Accountants (IESB Code), and we have fulfilled our other ethical responsibilities in accordance with 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

There were no key matters which require to be reported.

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

Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, the Banking and Financial Institutions Act, 2006 and the Cap. 153 of the Zanzibar Companies Decree, 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.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF THE PEOPLE'S BANK OF ZANZIBAR LIMITED (CONT'D)

In preparing the financial statements, Board is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures in the financial statements are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to date of auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

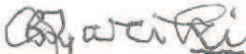
**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS
OF THE PEOPLE'S BANK OF ZANZIBAR LIMITED (CONT'D)**

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieve fair presentation.
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

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

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

TAC ASSOCIATES (*Certified Public Accountants*)


S. F. SAYORE - FCCA
MANAGING PARTNER


P. J. SHEE - FCCA
ENGAGEMENT PARTNER

DAR ES SALAAM

DATE: 30 MAR 2017


THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31ST DECEMBER, 2016

	Notes	31.12.2016 TZS'000	31.12.2015 TZS'000
ASSETS			
Cash	9	27,823,110	25,953,148
Balances with Bank Of Tanzania	10	62,897,754	73,012,073
Placement with with Other Banks	11	52,422,099	52,425,578
Cheques & Items for Clearing	40	1,998	485,332
Investment in Government Security	12	64,609,712	43,044,785
Loans and Advances	13	222,408,724	211,196,011
Islamic Financing	14	48,025,546	37,811,921
Equity Investment	15	754,942	752,228
Other Assets	16	11,003,544	10,026,219
Property and Equipment	17	12,675,983	10,826,655
Intangible Assets	18	1,003,612	449,936
TOTAL ASSETS		<u>503,627,024</u>	<u>465,983,886</u>
LIABILITIES AND EQUITY			
Liabilities			
Due to customers	19	427,193,641	406,826,277
Other Liabilities	20	10,607,939	6,517,035
Deferred Tax	21	1,158,592	327,425
Debt Securities in issue	22	5,356,500	5,351,960
Inter-Bank Borrowing	41	535,974	319,944
Corporate Tax Payable	36	949,126	0
Total liabilities		<u>445,801,772</u>	<u>419,342,641</u>
Equity			
Share Capital	23	31,000,000	21,000,000
Government Grant	24	767,153	776,989
Reserves	25	26,058,099	24,864,256
Total equity		<u>57,825,252</u>	<u>46,641,245</u>
TOTAL LIABILITIES AND EQUITY		<u>503,627,024</u>	<u>465,983,886</u>

On**29/03**...2017 the Board of Directors of the Peoples Bank of Zanzibar Limited authorised these financial statements for issue. Auditors report on pages 15 and 17.



.....
Chairman



.....
Director



.....
Managing Director

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2016

		2016	2015
	Notes	TZS'000	TZS'000
Operating income			
Interest income	26	38,342,845	31,192,022
Interest expense	27	(11,350,309)	(10,306,509)
Net interest income		26,992,536	20,885,513
Fees and commissions	28	11,704,248	9,207,223
Foreign currency exchange income	29	4,650,502	6,482,375
Other income	30	2,382,884	502,595
		18,737,634	16,192,193
Net operating income before impairment charge on loans and advances		45,730,170	37,077,706
Impairment charge on loans and advances		(1,989,419)	(696,853)
Provision for probable loss of other assets		(599,140)	-
Assets write-off	31	(1,349,043)	(73,393)
Net operating income		41,782,568	36,307,460
Personnel costs	32	(10,142,016)	(9,019,313)
General and administration costs	33	(10,006,771)	(8,381,706)
Other operating expenses	34	(2,947,865)	(2,692,427)
Total operating expenses		(23,096,652)	(20,093,446)
Profit before tax		18,695,916	16,214,014
Income tax expense	35	(7,180,293)	(5,361,863)
Profit for the year		11,515,623	10,852,151
Other comprehensive income, net of tax		2,714	19,519
Total comprehensive income for the year, net of tax		11,518,337	10,871,670

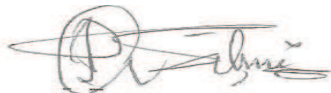
EARNING PER SHARE

Basic and diluted earnings per share in TZS 37.15 51.68


On**29/03**..... 2017 the Board of Directors of the Peoples Bank of Zanzibar Limited authorised these financial statements for issue. . Auditors report on pages 15 and 17.



.....
Chairman



.....
Director



.....
Managing Director

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31ST DECEMBER, 2016

	2016 TZS'000	2015 TZS'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit Before Taxation	18,696	16,214,014
Depreciation of Property, Plant and Equipment	1,715,553	1,206,542
Amortization of Intangible Assets	169,723	189,975
Adjustment of Fixed assets	(64,221)	4,768
Adjustment Employee terminal benefit	(366,510)	0
Adjustment of rental expenses	(35,589)	0
Adjustment of intangible assets	0	25,390
Adjustment of reporting error for the year 2014	0	(947,873)
Amortization of government grant	(9,835)	(9,835)
Operating Profit before Change in Working Capital	(20,105)	16,682,981
Statutory Minimum Reserve (SMR)	36,268,042	(5,454,467)
Treasury bills maturing over 90 days	(11,899,318)	2,243,878
Treasury bonds	417,614	1,623,450
Loans and Advances	(11,212,713)	(39,535,653)
Islamic Financing	(10,213,625)	(15,828,108)
Bill receivables	0	11,153
Other Assets	(977,326)	(4,168,557)
Customer's Deposits	20,367,363	66,031,347
Accrual interest payable (bond)	4,541	0
Other Liabilities	4,090,903	(389,777)
Cash generated from operations	46,950,519	21,216,247
Income tax paid	(5,400,000)	(3,683,932)
Net Cash Flows from Operating Activities (A)	<u>41,536,168</u>	<u>17,532,315</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and equipment	(3,482,054)	(1,729,580)
Acquisition of Intangible Assets	(76,693)	(140,076)
Investment in equity	(0)	(144,152)
Proceed from sale of property and equipment	1,884	0
Additional capital WIP (computer software)	(350,013)	(130,465)
Additional capital WIP (equipment)	(252,687)	(1,754,965)
Net Cash Flows from Investing Activities (B)	<u>(4,159,563)</u>	<u>(3,899,239)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Inter-bank borrowing	216,029	319,944
Dividend income	13,108	10,811
Exploitation of Regulatory Risk Reserve against NPL written off	-	(56,566)
Proceeds from issuance of long-term debt	-	5,000,000
Net Cash Flows from Financing Activities (C)	<u>229,137</u>	<u>5,274,189</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	37,620,094	18,907,266
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>121,413,161</u>	<u>102,505,895</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>159,033,255</u>	<u>121,413,161</u>

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2016

<i>In Tanzania shilling</i>	Share Capital	Grants	General Reserve	Foreign Exchange Translation on Security	Regulatory Risk Reserve	Fixed Assets Revaluation Reserve	Retained Earnings	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Opening balance as at January 1st, 2015	21,000,000	786,824	-	47,547	1,435,477	1,689,744	8,721,496	33,681,089
Previous year errors							(910,980)	(910,980)
(Decrease)/increase of reserve on regulatory risk	-	-	-	-	1,786,529	0	(1,786,529)	0
Appropriation of RR Reserve on writing off NPL					(56,566)	0	56,566	0
Amortization of Grants	0	(9,835)	-	-	0	0	0	(9,835)
Transfer of FA Revaluation reserve to Retained earning	0	0	0	0	0	(15,867)	15,867	0
General loan provision			2,371,167				(2,371,167)	0
Tax Exemption for 2015 year of income							5,139,241	
Provision for Terminal Benefits							(2,129,940)	(2,129,940)
Total comprehensive income for the year	0	0	0	19,519	0	0	10,852,151	10,871,670
Closing balance as at December 31 st , 2015	21,000,000	776,989	2,371,167	67,066	3,165,441	1,673,877	17,586,703	46,641,244

THE PEOPLES BANK OF ZANZIBAR LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2016 (CONTINUED)

<i>In Tanzania shilling</i>	Share Capital	Grants	General Reserve	Foreign Exchange Translation on Security	Regulatory Risk Reserve	Fixed Assets Revaluation Reserve	Retained Earnings	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Opening balance as at January 1, 2016	21,000,000	776,989	2,371,167	67,066	3,165,441	1,673,877	17,586,703	46,641,244
Amortization of Grants	0	(9,835)	0	0	0	0	0	(9,835)
Appropriation of RR Reserve on writing off NPLs							(1,662,725)	0
Transfer of FA Revaluation reserve to Retained earning	0	0	0	0	0	(167,029)	167,029	0
Rent expenses for Mtwara branch for 2015							(35,589)	(35,589)
Employee terminal benefit							(366,510)	(366,510)
Amount wrongly amortized AML 2015							77,605	77,605
Conversion retained earnings to share capital	10,000,000						(10,000,000)	0
General loan provision	0	0	116,667	0	0	0	(116,667)	0
Total comprehensive income for the year	0	0	0	2,714	0	0	11,515,623	11,518,337
Closing Balance as December, 31st 2016	31,000,000	767,154	2,487,834	69,780	4,828,166	1,506,848	17,515,623	57,825,252

On**29/03**..... 2017 the Board of Directors of the Peoples Bank of Zanzibar Limited authorised these financial statements for issue. Auditors report on pages 15 and 17.



.....
Chairman



.....
Director



.....
Managing Director

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. CORPORATE INFORMATION

The People's Bank of Zanzibar Limited was established in 1966 under the Zanzibar Companies Decree (Cap. 153). The Bank is fully owned by the Revolutionary Government of Zanzibar. The Bank is engaged in the business of banking and provision of related services. It is registered as a bank under the Banking and Financial Institutions Act, 2006.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Preparation

The financial statements have been prepared on a historical cost basis except where otherwise stated or as required by International Financial Reporting Standards (IFRSs) and Interpretations to those Standards for assets and liabilities to be stated at their fair value as disclosed in the accounting policies hereafter. The financial statements are presented in Tanzania Shillings (TZS) except where explicitly stated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with IFRSs and Interpretations to those standards, and comply with the Tanzanian Companies Act, 2002 and the Banking and Financial Institutions Act, 2006.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(i) New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. Changes from the following new or revised standards and interpretations, amendments to existing standards and interpretations and improvements to IFRSs that were effective for the current reporting period did not have material impact on the accounting policies, financial position or performance of the Bank.

- IFRS 14: Regulatory Deferral Accounts (Effective 1 January 2016)
- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (Effective 1 January 2016)
- IAS 16 and IAS 41: Accounting for bearer plants (Effective 1 January 2016)
- IFRS 11: Accounting for the acquisition of interests in a Joint Operation (Effective 1 January 2016)
- IAS 27: Equity method in separate financial statements (Effective 1 January 2016)
- IAS 1: Presentation of financial statements - Disclosure initiative (Effective 1 January 2016)
- IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28

(ii) Annual Improvements 2012-2015 Cycle - These improvements were effective for annual periods beginning on or after 1 January 2016 and:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in method of disposal

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(ii) Annual Improvements 2012-2015 Cycle - These improvements were effective for annual periods beginning on or after 1 January 2016 and:

- IFRS 7 Financial Instruments: Disclosures – Servicing Contracts and Applicability of the offsetting disclosures to condensed interim financial statements
- IAS 19 Employee Benefits – Discount Rate: regional market issue
- IAS 34 Interim Financial Reporting – Disclosure of information 'elsewhere in the interim financial report'
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

(iii) Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are described below. This description is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective. The Bank expects that adoption of these standards, amendments and interpretations will in most cases not have significant impact on the Bank's financial position or performance in the period of initial application. In cases where it will have an impact, the Bank is still assessing the possible impact as indicated below.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 was issued in May 2015 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently considering engaging a consultant to assist management in assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 9: Financial instruments

IFRS 9, as issued in July 2015, reflects the completion of all the phases of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, impairment as well as hedge accounting.

Classification and measurement of financial instruments

Financial Assets:

Financial assets are measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(iii) Standards issued but not yet effective (Continued)

IFRS 9: Financial instruments (Continued)

Financial Assets: (Continued)

Equity securities are measured at fair value through profit or loss unless the entity chooses, on initial recognition, to present fair value changes in other comprehensive income (OCI). This option is irrevocable and applies only to equity instruments, which are not held for trading. Unlike debt instruments, gains and losses in OCI are not recycled on sale and there is no impairment accounting.

Derivatives are also measured at fair value through profit or loss. In comparison to IAS 39, there is no divergence of embedded derivatives for financial assets recorded at amortised cost or FVOCI.

The de-recognition principles in terms of IAS 39 remain the same in IFRS 9.

Financial Liabilities:

For liabilities designated at fair value through profit and loss, the change in the fair value of the liability attributable to changes in credit risk is presented in OCI.

All other classification and measurement requirements in IAS 39 have been carried forward into IFRS 9.

Impairment of financial assets:

The expected credit loss model applies to debt instruments recorded at amortised cost or at fair value through other comprehensive income (such as loans, debt securities and trade receivables), lease receivables and most loan commitments and financial guarantee contracts.

Entities are required to recognise either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

The measurement of expected credit losses would reflect a probability-weighted outcome, the time value of money and reasonable and supportable information.

Effective date and transition:

The standard applies to annual periods beginning on or after 1 January 2018, although early application is permitted. Retrospective application is required, however, transition reliefs are provided (including no restatement of comparative period information). Entities will only be permitted to early apply a previous version of IFRS 9 if their date of initial application is before 1 February 2015. However, if an entity has early applied a previous version of IFRS 9 before 1 February 2015, the entity is permitted to continue to apply that version until IFRS 9 becomes mandatorily effective in 1 January 2018.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

(iii) Standards issued but not yet effective (Continued)

IFRS 9: Financial instruments (continued)

Moreover, it will be possible to apply early just the new accounting treatment of fair value gains and losses arising from own credit risk on liabilities designated at fair value through profit or loss without applying the other requirements of IFRS 9, until IFRS 9 becomes mandatorily effective.

The Bank is currently considering engaging a consultant to assist management in assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. The key features of the new standard are:

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The new standard's transition provisions permit certain reliefs.

The new standard requires lessees and lessors to make more extensive disclosures than under IAS 17. The impact of the new standard is being assessed by the Bank. It is however expected that some leases for office space may qualify to be capitalised on the statement of financial position.

Amendments to IAS 7 Statement of cash flows

The improvements to disclosures require companies to provide information about changes in their financing liabilities. The amendments will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).

The improvements are part of the Board's Disclosure Initiative—a portfolio of projects aimed at improving the effectiveness of disclosures in financial reports.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(iii) Standards issued but not yet effective (Continued)

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

Amendments to IAS 7 Statement of cash flows (Continued)

The IAS 7 amendments become mandatory for annual periods beginning on or after 1 January 2017. The impact of the amendments is being assessed by the Bank.

Other amendments issued but not yet effective which the Bank does not expect to have an impact on its financial statements are listed below:

- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (Effective date postponed indefinitely)
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (Effective 1 January 2017)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (Effective 1 January 2018)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(i) Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(ii) Interest Income and Expenses

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

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

Interest on loans and advances given is recognized in the financial statements on accrual basis. However, interest accrued on overdue loans and advances is suspended as unrealized income, which can only be recognized as income when actually received. Interest overdue on loans and advances with their corresponding account, interest in suspense - overdue are maintained outside the financial statements in memorandum records, when realized the amounts are posted in the accounts and recognized as income immediately.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) Fees and Commission Income

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

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

(iv) Government Grants

Government grants received in form of fixed assets are deferred to capital grants account and released to income over the expected useful lives of relevant fixed assets.

(v) Investment in Debt Securities

PBZ invested in Debt security representing borrowed fund by Government through BOT. the bank classifies and measured these investment in debt securities; Government bonds and Treasury bonds at amortized cost and initially recognized at fair value.

A financial asset is measured at amortized cost if both of the following criteria are met:

- The asset is held to collect its contractual cash flows; and
- The asset's contractual cash flows represent SPPI

Financial assets included within this category are initially recognized at fair value and subsequently measured at amortized cost.

(vi) Loans and Provisions for Loan Impairment

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

(vii) Impairment of Financial Assets Carried at Amortized Cost

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(viii) Property and Equipment

Property and equipment are stated at historical cost/professional valuation less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

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

Depreciation on assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Assets Particulars	Annual rate
Motor Vehicles and Motor Cycles	25%
Furniture	20%
Equipment and Office Machines	20%
Computers	25%

Buildings are depreciated over the periods of the useful lives. The estimated useful lives set forth for buildings located at Mwanakwerekwe and Kilimatinde (Chakechake) is 33 years and 85 years for Darajani, chakechake and Forodhani Buildings. Leasehold improvement properties (improvement cost of rented bank's buildings and offices) are depreciated over the periods of the leases. Lease period for the Bank's properties is 5 years for Mwanakwerekwe and Mpirani Branches, 10 years for Kariakoo and IBD Mahiwa (Lumumba).

Depreciation charge starts when fixed assets are ready for use. Depreciation charge ceases when the fixed asset is disposed off or derecognized. The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. In practice, the residual values of assets are insignificant and, therefore, immaterial in the calculation of the depreciable amount.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ix) Intangible Assets

The bank's intangible assets include value of computer software. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

future economic benefits that are attributable to it will flow to the bank. Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful life of basing of software license period. An intangible asset with an indefinite useful life should not be amortised. Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

(x) Taxation

Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity or other comprehensive income are also recognized in equity or other comprehensive income and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Expenses and assets are recognized inclusive of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is recoverable from the taxation authority, in which case the value added tax is recognized as an asset or liability in the statement of financial position.

(xi) Retirement Benefit Obligation

Staff at the Bank are members of the Zanzibar Social Security Fund (ZSSF), a state owned pension scheme. ZSSF was set up in 1998 and the Fund will bear all pension obligations for a period after July, 1998. Staffs contribute five percent of their monthly salary to the Fund. The Bank contributes ten percent of the salary for each staff to the scheme and the amount is charged to income statement when due. For the obligation before the establishment of ZSSF in year 1998, PBZ on behalf of RGZ is liable to pay as gratuity obligation to its employees.

(xii) Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xiii) Cash and Cash Equivalents

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

For the purpose of cash flow statement, cash and cash equivalents comprise of balances less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and Government securities maturing ninety (90) days or less after this reporting period.

(xiv) Provisions

Provisions are recognized when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

(xv) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices and other available fair value indicators Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss in the statement of comprehensive income.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xvi) Financial instruments - initial recognition and subsequent measurement

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial and subsequent measurement of other financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

The Bank does not have financial instruments held-for-trading, financial instruments at fair value through profit or loss and available-for-sale financial assets.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the Effective Interest Rate (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'interest income' in profit or loss. The losses arising from impairment of such investments are recognized in the profit or loss as part of "impairment loss expense". If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Loans and receivables (Placements with banks, loans and advances, and other assets)

'Placements with banks' and 'Loans and advances', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss.
- Those that the Bank, upon initial recognition, designates as available for sale.
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'Placements with banks' and 'Loans and advances' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

that are an integral part of the EIR. The amortization is included in 'Interest income' in the profit or loss. The losses arising from impairment are recognized in the profit or loss as part of "Impairment charge on loans and advances".

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

Financial instruments - initial recognition and subsequent measurement

Deposits due to customers and banks, and other financial liabilities

After initial recognition, interest bearing liabilities are subsequently measured at amortized cost using EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of profit or loss.

(xvii) Financial instruments – Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - the Bank has transferred substantially all the risks and rewards of the asset, or
 - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xviii) Offsetting financial instruments

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

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

(xix) Determination of fair value

The Bank measures financial instruments at fair value at each reporting date. Fair value related disclosures for financial instruments or where fair values are disclosed, are summarised in Note 7.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss and is shown separately.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets carried at amortized cost (Continued)

asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Cash and cash equivalents

Cash and cash equivalents referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with Bank of Tanzania, deposits held at call with banks with an original maturity of three months or less and investments with maturity periods of three months or less in money market instruments.

Foreign currency translation

The financial statements are presented in Tanzania Shillings (TZS). Items included in the financial statements are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date. All differences arising on non-trading activities are taken to the statement of profit or loss. Exchange differences arising on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

a) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

b) Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). Refer to note 20 for further disclosures on loan loss impairment.

c) Deferred income tax assets

Deferred income tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Refer to notes 21 for further information on deferred income tax.

d) Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

5 FINANCIAL INSTRUMENTS BY CATEGORY

At 31st December 2016

Financial assets	Loans and receivables	Held-to-maturity	Fair value through profit or loss – Held for Trading	Total
	TZS'000	TZS'000	TZS'000	TZS'000
Cash	27,823,110	-	-	27,823,110
Balances with Bank Of Tanzania	62,897,745	-	-	62,897,745
Balances with Other Banks	52,422,099	-	-	52,422,099
Cheques & Items for Clearing	1,998	-	-	1,998
Loans and Advances	222,408,724	-	-	222,408,724
Islamic Financing	48,025,546	-	-	48,025,546
Equity Investment	754,942	-	-	754,942
Other assets less prepayments	9,839,918	-	-	9,839,918
Total	424,174,082	-	-	424,174,082

Financial liabilities	Financial liabilities at amortised cost	Fair value through profit or loss – Held for Trading	Total
Deposits Liabilities	422,437,348	-	422,437,348
Other Liabilities	10,607,938	-	10,607,938
Inter-Bank Borrowing	535,974	-	535,974
Accrued Interest Payable	5,112,793	-	5,112,793
Total	438,694,053	-	438,694,053

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

6 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

At 31st December 2015

Financial assets	Loans and receivables	Held-to-maturity	Fair value through profit or loss – Held for Trading	Total
	TZS'000	TZS'000	TZS'000	TZS'000
Cash	25,953,148	-	-	25,953,148
Balances with Bank Of Tanzania	73,012,073	-	-	73,012,073
Balances with Other Banks	52,425,578	-	-	52,425,578
Cheques & Items for Clearing	485,332	-	-	485,332
Loans and Advances	210,981,360	-	-	210,981,360
Islamic Financing	37,811,921	-	-	37,811,921
Equity Investment	752,228	-	-	752,228
Other assets less prepayments	10,240,869	-	-	10,240,869
Total	411,662,509	-	-	411,662,509

Financial liabilities	Financial liabilities at amortised cost	Fair value through profit or loss – Held for Trading	Total
Deposits Liabilities	403,062,559	-	403,062,559
Other Liabilities	6,517,035	-	6,517,035
Inter-Bank Borrowing	319,944	-	319,944
Accrued Interest Payable	4,115,677	-	4,115,677
Total	414,015,215	-	414,015,215

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

7. FAIR VALUE

IFRS 3 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on stock exchange

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

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

The fair values of the financial instruments that are recurrently measured and presented at fair value are indicated below:

	Amounts in TZS'000			
	Level 1	Level 2	Level 3	Total
At 31 December 2016				
Property and Equipment	-	-	12,675,983	12,675,983
	-	-	12,675,983	12,675,983
At 31 December 2015				
Property and Equipment	-	-	10,826,655	10,826,655
	-	-	10,826,655	10,826,655

Description of valuation techniques used and key inputs to valuation of Level 2 financial instruments:

	Valuation technique	Significant observable inputs
Property and Equipment	Valuation & Comparative method	Market value at the reporting date

There have been no transfers between level 1 and level 2 during the period.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

8. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk, market risks, operational risk and interest rate risk. The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Bank's financial performance.

i) Credit Risk

The Bank takes on exposure to credit risk, which is the risk that the counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management, therefore, carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The Board of Directors approves limits on the level of credit risk.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

Concentration of Loans and Advances

Below are economic sector concentrations within the customer loan portfolio. The portfolio also includes products of Islamic financing.

	31.12.2016		31.12.2015	
	TZS '000	%	TZS '000	%
Central Government	13,177,985	5.86	16,788,189	7.92
Public Enterprises and other Government entities	27,476,339	12.22	6,522,633	3.08
Personal and Private Companies	184,135,386	81.92	188,737,905	89.00
Total (Gross)	224,789,710	100.00	212,048,727	100.00

The Bank accounts for a significant share of credit exposure to many sectors of the economy. However, credit risk is spread over a diversity of personal and commercial customers.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

8 FINANCIAL RISK MANAGEMENT (Continued)

Market Risk

All trading instruments are subject to market risk, i.e. the risk that future changes in market conditions may make an instrument less valuable. The instruments are evaluated on daily basis at fair value and all changes in market conditions directly affect trading income. The Bank manages its portfolios in response to changing market conditions. Exposure to market risk is managed in accordance with limits formally set for managing foreign currency assets.

Currency Risk

The Bank takes on exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposures by currency and these limits are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk as at 31st December, 2016. Included in the table are the bank's assets and liabilities at carrying amounts, categorized by currency.

	USD	GBP	EURO	NOK	AUD
Assets					
Cash	6,060,891	625,016	374,493	-	-
Balance with BOT	9,314,882	-	-	-	-
Due from other Bank	10,595,184	126,950	2,415,462	-	7,147
Cheque and items for clearing	-	-	-	-	-
Loans and advances	18,618,257	-	-	-	-
Bills receivable	-	-	-	-	-
Equity investment	107,595	-	-	-	-
Other assets	13,148,159	-	-	-	-
Total foreign currency assets	57,844,968	751,966	2,789,955	-	7,147
Liabilities					
Customers' Deposits	61,138,431	400,208	1,042,104	-	-
Other Liabilities	1,454,186	286,884	-	-	-
Interest Payable	51,503	1,851	1,903	-	-
Total Foreign Currency Liabilities	62,644,120	688,943	1,044,007	-	-
Net Balance Sheet Position	(4,799,152)	63,023	1,745,948	-	7,147

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

8 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk

The Bank is exposed to daily calls on its available resources from current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Minimum levels of inter-bank and other borrowings facilities are in place to cover withdrawals at unexpected levels of demand.

The table below analyses the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at 31st December, 2016 to the contractual maturity date. All figures are in millions of Tanzania Shillings.

	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Assets						
Cash and balances with the BoT	90,720	-	-	-	-	90,720
Balance with other banks	29,713	-	-	-	-	29,713
Interbank Placement	22,709	-	-	-	-	22,709
Investment security	2,604	13,284	26,044	13,199	5,598	60,729
Interest receivable on treasury bills and bonds	366	1,360	968	228	161	3,083
Cheques & Items for Clearing	2	-	-	-	-	2
Loans and advances	266,501	3,329	304	301	-	270,435
Equity Investments	-	-	-	-	755	755
Other assets	-	6,052	5,229	426	832	12,539
Property and equipment	-	-	-	-	12,675	12,675
Total assets	412,615	24,025	32,545	14,154	20,021	503,360
Liabilities						
Due to customers	241,511	141,935	35,239	-	-	418,685
Special deposits	3,764	-	-	-	-	3,764
Bankers cheque and draft issued	735	-	-	-	-	735
Payment orders /transfer payables	8	-	-	-	-	8
Interest and other expense payable	-	1,772	8,314	-	-	10,086
Other liabilities	-	12,524	-	-	-	12,524
Total liabilities	246,018	156,231	43,553	-	-	445,802
Total Interest Sensitivity Gap	166,597	-132,206	-11,008	14,154	20,021	57,558
Cumulative	166,597	34,391	23,383	37,537	57,558	57,558

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

8 FINANCIAL RISK MANAGEMENT (Continued)

Interest Rate Risk

The Bank is exposed to various risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position cash flows. The table below summarizes the exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate on off balance sheet items. All figures are in millions of Tanzania Shilling.

	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the BOT	-	-	-	-	-	90,720	90,720
Balance with other banks	-	-	-	-	-	29,713	29,713
Interbank Placements	22,695	-	-	-	-	-	22,695
Investment security	2,604	13,284	26,044	13,199	5,598	-	60,729
Interest Receivables on treasury bill and bonds	366	1,360	968	228	161	-	3,083
Cheques & Items for Clearing	-	-	-	-	-	2	2
Loan & advances (Gross of allowances)	266,501	3,329	304	301	-	-	270,435
Bills receivables	-	-	-	-	-	-	-
Equity investment	-	-	-	-	-	755	755
Other assets	-	-	-	-	-	12,553	12,553
Property and equipment	-	-	-	-	-	12,675	12,675
Total assets	292,166	17,973	27,316	13,728	5,759	146,418	503,360
Liabilities							
Due to customers	241,511	141,935	35,239	-	-	-	418,685
Special deposits	-	-	-	-	-	3,764	3,764
Interest and other expenses payable	-	1,772	8,314	-	-	-	10,086
Other liabilities	716	-	-	-	-	12,551	13,267
Total liabilities	242,227	143,707	43,553	-	-	16,315	445,802
Total interest sensitivity gap	49,939	(125,734)	(16,237)	13,728	5,759	130,103	57,558
Cumulative	49,939	(75,795)	(92,032)	(78,304)	(72,545)	57,558	57,558

In the opinion of the Directors, the fair values of those financial assets and liabilities not presented on the Bank's balance sheet at fair value approximate the respective carrying amounts, due to the generally short periods to contractual maturity dates as set out on maturity risk schedule.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	TZS'000	TZS'000
9. CASH		
Local currencies	12,406,091	16,949,436
Foreign Currencies	15,417,019	9,003,712
	27,823,110	25,953,148
10. BALANCES WITH BANK OF TANZANIA		
Statutory Minimum Reserve (SMR)	-	36,268,042
Current Accounts (local & foreign)	62,897,754	36,744,031
	62,897,754	73,012,073
11. PLACEMENTS WITH OTHER BANKS		
Local Banks	10,133,336	8,297,253
Foreign Banks -Nostro Accounts	19,579,426	23,861,445
Inter-bank placements	22,709,336	20,266,880
	52,422,098	52,425,578
12. INVESTMENT IN GOVERNMENT SECURITIES		
(a) Treasury bills		
Maturing within 90 days	15,888,295	5,311,961
Maturing after 90 days	20,749,785	11,106,433
Interest Receivable	2,594,981	339,015
	39,233,061	16,757,409
(b) Treasury bonds		
Maturing within 90 days	-	493,110
Interest rceivable	517,991	530,974
Maturing after 90 days	24,858,660	25,263,291
	25,376,651	26,287,375
	64,609,712	43,044,785

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	31.12.2016 TZS'000	31.12.2015 TZS'000
13. LOANS AND ADVANCES		
Personal loans	176,112,340	158,005,942
Staff Loan	2,989,609	3,001,078
Mortgage loans	2,227,026	1,480,056
Commercial loan and overdraft	43,450,216	49,553,169
Others loans and advances	10,519	8,483
Subtotal	224,789,710	212,048,727
Accrued interest on loan and advances	282,347	214,651
Gross loan	225,072,057	212,263,378
Less Allowance for impairment loss	2,380,986	852,517
Less Interest in suspense	282,347	214,851
	2,663,333	1,067,367
	222,408,724	211,196,011
Movement of allowances for impairment		
Opening balance	852,517	177,283
Increase in Provision for impairment	1,813,087	697,080
	2,665,604	874,363
Less amount written off	284,618	4
Less recovery during the year	-	21,841
	2,380,986	852,518
14. ISLAMIC FINANCING		
<u>MurabahaFinancing</u>		
Murabaha personnel financing	22,280,368	17,186,818
Murabaha staff financing	400,720	383,875
Education personal financing	282,171	164,675
Education financing Staff	6,966	-
Ijarah personnel financing	3,701	-
Motgage commercial financing	86,477	93,894
Istisna financing personal	38,590	-
Istisna financing commercial	600,000	-
Istisna financing staff	11,500	-
Murabaha commercial financing	24,228,756	19,421,243
	47,939,250	37,250,505
<u>BaiMuajjal Financing</u>		
BaiMuajjal Personal Financing	165,121	565,291
BaiMuajjal Staff Financing	4,156	14,918
	169,277	580,209
	48,108,527	37,830,714
Accrued Profit on islamic financing	112,142	-
Total gross Islamic Financing	48,220,669	37,830,714
Less provision for impairment	195,123	18,793
Net Islamic financing	48,025,546	37,811,921
Movement of provision for imparement loss		
Opening balance	18,793	1,999
Additional Provision for loan impairment	176,330	16,794

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	195,123	18,793
--	----------------	---------------

15. EQUITY INVESTMENTS

	31.12.2016	31.12.2015
	TZS'000	TZS'000
African-Export-Import Bank issued (USD 40,000) 10 shares each USD 4,000 in year 1994 plus additional 6 shares in year 2015 each USD 11,265.8	234,942	232,228
TMRC Equity investment in year 2012 (500,000 shares @ TZS 1,000) fully paid up	500,000	500,000
UMOJA SWITCH Company investment (20 shares @ TZS 1,000,000 per value and fully paid up) in 2012	20,000	20,000
	754,942	752,228

Equity investment comprises investment of USD 107,594 in African Export-Import Bank (Afrexim bank), a supranational institution, established on 27th October 1993. The principal activity of the bank is to finance and facilitate trade among African countries and between Africa and the rest of the world. PBZ's authorized equity interest in Afrexim bank is 16 Class B ordinary shares of par value of USD 10,000 each for 10 shares and USD 28,164 for 6 additional shares. The payment for the called 2 out of 5 installments. The payment for the called 2 out of 5 installments had been paid. The payment of the outstanding 3 installments will be paid in future whenever called by the Board. The shares are classified as available for sale financial instruments and they are currently reflected at cost as they are not traded in any stock exchange.

Investment in TMRC Co Ltd. (Tanzania Mortgage Refinancing Company) was made in year 2012. This company established in same year of 2012 and all investees are banks incorporated in Tanzania. The activity of the company is to refinance commercial banks in Mortgage Financing. As at 31st December, 2016 the bank invest 500,000 shares each TZS 1,000 fully paid up.

Investment UMOJA SWITCH Company was made in year 2012. This company established and incorporated in Tanzania owned by member banks in UMOJA SWITCH network. The bank invest 20 shares each TZS 1,000,000 per value and fully paid up.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	31.12.2016	31.12.2015
	TZS'000	TZS'000
16. OTHER ASSETS		
Dividend Receivable	31,772	18,463
Staff Advances	498,194	359,542
Imprest	24,388	23,168
Imprest travelling	18,235	-
Petty cash	0	-
Stationery Stock	11,238	5,771
Writing matters stock	36,399	29,443
Computers items stock	24,906	19,825
Murabaha advance payment for Asset Stock	342,056	5,022,320
Prepaid Insurance	420,660	980,068
Prepaid Service Contract	0	36,080
Prepaid expenses	69,592	18,689
Prepaid House Rent	673,375	695,809
Accounts Receivable	4,861	4,861
Non Compliance financing receivable	68,711	-
Accounts Receivable Tax	1,348,531	1,348,531
Western union receivable	1,543	(3,679)
World remit receivable	-	26,730
Selcom (mobile banking) receivable	241,491	4,089
EZYPESA e Money	666,041	61,462
EZYPESA receivable	135,516	19,830
Interbank placement interest receivable	19,555	16,660
Treasury spot deal receivable	-	1,081,250
ATM cash and fees receivables	27,491	56,467
Commision receivables	30,717	-
Entries in Transit (Foreign)	5,987,082	133,502
Cash shortage, Misappropriation & Forg.	187,428	50,825
Suspense miscelleneous (asset)	566,550	-
TRA receivables	178,584	67,338
	11,614,916	10,077,044
Allowance for Probable Loss	611,372	50,825
	11,003,544	10,026,219

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

17. PROPERTIES AND EQUIPMENT

Particulars	Land	Building	Leasehold Property	Furniture	Equipment and Other Office Machinery	Computers	Motor Vehicles & Cycles	Capital WIP	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cost / Valuation:									
As at 1/1/2016	950,000	3,673,311	3,032,977	532,620	4,147,482	870,789	1,047,563	1,767,898	16,022,640
Adjustment	-	-	(218,342)	(3,545)	(3,771)	(28,974)	-	-	(254,632)
Transfer from WIP	-	-	1,826,606	-	-	5,250	-	(1,831,856)	-
Transfer to Disposal				(19,422)	(8,321)	(13,921)			(41,664)
Additions (Cost)	-	472,000	298,260	128,408	1,826,380	83,530	673,476	252,687	3,734,741
As at 31/12/2016	950,000	4,145,311	4,939,501	638,061	5,961,770	916,674	1,721,039	188,729	19,461,085
Accumulated Depreciation:									
As at 1/1/2016	-	201,285	1,467,799	285,919	2,190,795	517,780	532,408	-	5,195,986
Adjustments	-	-	(57,374)	(20,299)	(10,417)	(38,349)	-	-	(126,439)
Charge for the year	-	137,005	431,118	80,343	697,210	126,766	243,113	-	1,715,555
As at 31/12/2016	-	338,290	1,841,543	345,963	2,877,588	606,197	775,521	-	6,785,102
Carrying amount									
As at 31.12.2016	950,000	3,807,021	3,097,957	292,098	3,094,182	310,478	945,519	188,729	12,675,983
As at 31.12.2015	950,000	3,472,025	1,565,178	246,702	1,956,687	353,009	515,155	1,767,899	10,826,655

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

18. INTANGIBLE ASSETS

Particulars	Swift software	Core banking Software(BR)	Integrate d Islamic banking	K-Printer Checker Module	AML Solution for CBS	Mobile Bank Solution	Core banking Islamic Division	Interface between BR and Swift system (SSTP)	Auto backup Software	Cheque Clearing Software	Capital work in Progress	Total
	TZS "000"	TZS "000"	TZS "000"	TZS "000"	TZS "000"	TZS "000"	TZS "000"	TZS "000"	TZS "000"	TZS "000"	TZS "000"	TZS "000"
COST/VALUATION												
Balance as at 01.01.2016	40,742	170,616	328,694	22,277	133,036	81,313	0	0	0	89,032	36,689	902,399
Additional for the Year	-	140,735	0	0	115,551	0	213,315	214,558	44,416	10,993	0	739,568
Balance as at 31.12.2016	40,742	311,351	328,694	22,277	248,588	81,313	213,315	214,558	44,416	100,026	36,689	1,641,969
AMORTIZATION												
Balance as 01.01.2016	0	164,161	304,474	0	0	-	0	0	0	0	0	468,635
Charges for the Year	0	67,933	24,220	0	0	0	77,569	0	0	0	0	169,722
Balance as 31.12.2016	0	232,094	328,694	0	0	-	77,569	0	0	0	0	638,357
NET BOOK VALUE AS AT 31.12.2016	40,742	79,257	0	22,277	248,588	81,313	135,746	214,558	44,416	100,026	36,689	1,003,612
AS AT 31.12.2015	40,742	6,455	24,220	22,277	55,432	81,313	0	0	0	89,032	130,465	449,936

Bank's intangible assets are measured using cost model for all classes and carried at cost less any amortization and impairment losses.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	31.12.2016	31.12.2015
	TZS'000	TZS'000
19. DUE TO CUSTOMERS		
(i) Conventional banking		
Current Accounts Deposits	170,269,476	164,079,293
Savings Deposits	62,024,324	58,355,940
Time Deposits	70,589,620	64,382,977
Accrued interest on time deposits	4,756,294	3,763,719
	307,639,714	290,581,929
(ii) Islamic banking		
Current Accounts Deposits		
Al wadiah	71,290,526	42,364,021
Mudharaba	9,993	28,154,031
Qard Current	10,742	0
	71,311,261	70,518,052
Savings Deposits		
Al wadiah	44,372,670	41,331,843
Mudharaba	106,255	49,940
	44,478,925	41,381,783
	115,790,186	111,899,836
Total	423,429,900	402,481,765
(b) Special Deposits		
Letter of credit & Guarantees Cash Cover	3,763,741	3,004,453
Other special Deposits	0	1,340,060
Total special deposits	3,763,741	4,344,513
Total Deposit Liabilities	427,193,641	406,826,278
20. OTHER LIABILITIES		
Payment Order Outwards & transfers payable	7,758	190,755
Accrual Expenses Payable	612,218	926,795
Provisions	731,767	631,223
Employee Retirement Benefit Provision	2,496,450	2,129,940
Employee Leave Provisions	502,534	0
Accounts Payable	1,293,969	940,831
Cheques & Drafts Issued	734,554	566,780
Treasury Spot deal payable	1,553,488	866,400
Suspense miscellaneous (liability)	7,049	7,624
Unearned profit from Islamic finance	0	0
Entries in Transit (Local)	2,668,152	256,687
	10,607,939	6,517,035
21. DEFERRED TAX PAYABLE		
As at beginning of the year	327,425	104,804
Charge for the year	831,167	222,621
	1,158,592	327,425

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	31.12.2016	31.12.2015
	TZS'000	TZS'000
22. DEBT SECURITIES IN ISSUE		
16.5307%, 7 years Corporate Bond to ZSSF	5,000,000	5,000,000
Accrued interest on bond	356,500	351,958
	5,356,500	5,351,958
23. SHARE CAPITAL		
Authorised Share Capital		
600,000,000 Ordinary Share of Tzs 100 each	60,000,000	25,000,000
Issued and Fully Paid-Up Share Capital		
310,000,000 Ordinary Shares Tzs 100 each	31,000,000	21,000,000
24. GOVERNMENT GRANT		
Value recorded of the buildings:		
ChakeChake building	685,870	685,870
Forodhani Building	155,230	155,230
	841,100	841,100
Amortization (cummulative) b/d	(64,111)	(54,276)
Amortization during the year	(9,835)	(9,835)
	(73,946)	(64,111)
Carrying amount	767,154	776,989
Government grant represents buildings donated by the Revolutionary Government of Zanzibar.		
25. RESERVES		
Reserves comprise of the following:		
Foreign exchange translation on Security	69,781	67,066
Fixed Assets Revaluation Reserve	1,506,848	1,673,877
Regulatory Risk Reserve	4,828,166	3,165,441
General Reserve	2,487,834	2,371,167
Retained Earnings	17,165,470	17,586,705
TOTAL	26,058,099	24,864,256

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

25. RESERVES (cont.)

Foreign Exchange Translation on Security

The Bank maintains a Foreign exchange translation on security to account for unrealized gains and losses arising from valuation of financial instruments fair value classified as available for sale. Gains and losses arising from change in fair value of available-for-sale financial assets are recognized directly to equity. When these financial assets are sold, collected or otherwise disposed of, the cumulative gains or losses recognized in equity are transferred to the income statement.

Fixed Assets Revaluation Reserve

The Bank maintains a Fixed Assets Revaluation Reserve to account for revaluation surpluses. If an asset carrying amount increases as a result of revaluation, the increase is credited directly to Fixed Asset Revaluation Reserve. However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in income statement. If an asset's carrying amount decreases as a result of revaluation, the decrease is recognized in income statement. However, the decrease is debited directly to Fixed Assets Revaluation Account to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The Fixed Assets Revaluation Reserve is not part of the bank's core capital

Fixed assets Revaluation Reserve movement during the half year is shown below:-

	31.12.2016	31.12.2015
	TZS'000	TZS'000
Particulars		
Balance Brought Forward	1,673,877	1,689,745
Revaluation Surplus on Derecognized Assets		
Transferred to Retained Earnings	(167,029)	(15,868)
	<u>1,506,848</u>	<u>1,673,877</u>

Regulatory Risk Reserve

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

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	31.12.2016	31.12.2015
	TZS'000	TZS'000
Opening balance	3,165,441	1,435,478
Additional reserve during the year	1,662,725	(1,786,530)
New reserve for Islamic Financing	-	-
Transfer to retained earnings	-	-
Reserve utilization on NPL written off	-	(56,566)
	4,828,166	3,165,441
Provision per BOT approach	7,404,276	4,036,751
Provision per IFRS approach	(2,576,110)	(871,310)
Excess over IAS Provision Taken toRegulatory Risk Reserve	4,828,166	3,165,441

The Regulatory Risk Reserve is not part of the bank's core capital.

	2016	2015
	TZS	TZS
26. INTEREST INCOME		
Interest on Loan and Overdrafts	3,741,616	3,456,138
Interest on Personal Loan	23,886,225	21,626,054
	27,627,841	25,082,192
Investment income	-	-
Income on Treasury Bills	4,954,873	1,553,052
Income on Treasury Bonds	4,062,961	3,739,886
Interest on Foreign placements	706	1,679
Interest on Inter-bank lending	1,696,464	815,213
	10,715,004	6,109,830
	38,342,845	31,192,022
27. INTEREST EXPENSES		
Savings Deposits	1,393,537	1,291,534
Time Deposits - local	8,919,330	7,317,122
Interest on Corporate Bond	831,076	765,226
Interest on borrowings	78,669	825,754
Time Deposits - foreign	127,697	106,873
	11,350,309	10,306,509
	11,350,309	10,306,509
28. FEES AND COMMISSION INCOME (NET)		
Fees and commission income (Note 28 A)	7,152,493	5,676,995
Income from Islamic Financing (Note 28 B)	4,960,962	3,698,461
Fees and Commission expenses	(409,208)	(168,233)
	11,704,247	9,207,223
	11,704,247	9,207,223

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	2016	2015
	TZS'000	TZS'000
28A. FEES AND COMMISSION INCOME		
Bank Commissions	4,990,094	3,543,428
Discounts (Reimbursement Income)	1,797	0
Ledger fees	259,980	250,598
Sales of Cheque Books	96,851	87,796
Loans application and authorization Fees	1,803,772	1,795,173
	7,152,493	5,676,995
 28B. INCOME FROM ISLAMIC FINANCING		
Income from personal Murabaha financing	2,614,299	1,960,507
Income from commercial Murabaha financing	2,212,469	1,582,416
Income from staff Murabaha financing	34,189	32,976
Profit received on educational (personal)	30,807	8,997
Profit received on educational (staff)	329	0
Profit received on mortgage (personal)	17,216	3,000
Income from personal BaiMuajjal financing	3,636	100,856
Income from staff BaiMuajjal financing	46,193	1,900
Old profit received on Ijara	582	0
Profit received on Istisna Financing	1,242	0
Profit received on baimuajjal account staff	0	1,009
Trading Profit from BaiMuajjal	0	6,800
	4,960,962	3,698,461
 29. FOREIGN CURRENCY EXCHANGE INCOME (NET)		
Foreign Exchange gain	5,083,039	9,704,152
Foreign Exchange loss	(172,678)	(3,028,212)
Revaluation Loss	(259,859)	(193,565)
TOTAL	4,650,502	6,482,375
 30. OTHER OPERATING INCOME		
Impairment loss recovery –other assets	0	73,419
Sundry income	2,051,474	351,796
Dividend Income (Equity investment)	13,109	10,811
Recovery from charged off debtors	308,466	56,734
Amortization of Grants	9,835	9,835
TOTAL	2,382,884	502,595

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	2016	2015
	TZS'000	TZS'000
31. ASSETS WRITEN OFF		
Loan and advance	1,302,148	73,393
Stock of stationery and printing matters	2,304	0
Cash BOT deposits shortage	57	0
Intangible Asset – Core Banking System (CiBs)	43,229	0
Fixed assets discrepancy (net of depreciation)	1,305	0
	1,349,043	73,393
 32. PERSONNEL/STAFF COSTS		
Salaries and allowances to staff	6,889,042	6,334,069
ZSSF contribution (10%)	598,744	559,264
Skills and Development levy	318,745	290,017
Training Expenses	942,419	903,593
Long-term service award	21,770	0
Employees vacation leave	519,780	457,740
Employees medical care (medical insurance)	851,516	474,630
	10,142,016	9,019,313
 33 . GENERAL AND ADMINISTRATION EXPENSES		
Administrative Expenses	3,989,301	3,212,098
Depreciation of PPE and LHP improvement	1,715,553	1,206,542
Amortization of intangible assets	169,723	189,975
Travelling Expenses and Allowance	1,201,891	975,813
Repair and Maintenance	1,004,263	978,372
Audit Fees	94,297	101,722
Board Directors Fees & Allowances	369,291	407,309
Insurance expense	424,293	431,405
Security expenses	1,038,159	878,470
	10,006,771	8,381,706

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	2016	2015
	TZS'000	TZS'000
34. OTHER OPERATING EXPENSES		
Sundry Expenses	943,399	1,253,148
Office Expenses	1,075,528	636,055
Loss on disposal of fixed asset	5,712	-
Currency Transportation Expenses	42,186	109,178
Contribution to Deposits Insurance Fund	559,597	438,181
Stationeries Expenses	321,443	255,865
	2,947,865	2,692,427

35. PROVISION FOR TAX EXPENSE

The bank has made a provision for taxation of TZS6,349,125,726 being current tax charge and TZS 831,167,335 being deferred tax for the year ended 31st December 2016.

Current tax charge for the current year	6,349,126	5,139,241
Deferred tax credit for the current year (note 20)	831,167	222,622
	7,180,293	5,361,863

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

	31.12.2016	31.12.2015
	TZS	TZS
Profit Before Income Tax	18,695,916	16,214,014
Tax Calculated on Statutory Income Tax Rate of 30%	5,608,775	4,864,204
Tax effect of:		
Expense not deductible for tax purpose	970,296	489,458
Items allowable for tax purpose	(229,946)	(214,421)
Deferred tax liability end of the year 2016	1,158,593	327,425
Deferred tax liability for prior year 2016	(327,425)	(104,803)
	7,180,293	5,361,863

36. CORPORATE TAX PAYABLE

The liability for corporate tax shown in the statement of financial position is derived as follows

Tax payable brought forward	-	2,335,401
Current tax charge for the year 2016	6,349,126	5,139,241
Provisional Tax paid for the year 2016	- 5,400,000	- 3,683,932
Tax exemption for the year 2015	-	- 5,139,241

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

Tax paid in excess 2015	-	1,348,531
	<u>949,126</u>	<u>0</u>

	<u>2016</u>	<u>2015</u>
	<u>TZS'000</u>	<u>TZS'000</u>
37. CASH AND CASH EQUIVALENTS		
For the purpose of cash flow statement, cash and cash equivalents are made up of the following:		
Local and Foreign Currencies (Note 9)	27,823,110	25,953,148
Balance with BOT (Note 10)	62,897,754	36,744,032
Placements with Other Bank (Note 11)	52,422,098	52,425,578
Cheques & Items for Clearing	1,998	485,332
Treasury Bills less than 90 days (Note 12)	15,888,295	5,805,071
	<u>159,033,255</u>	<u>121,413,161</u>

38. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank is controlled by the Revolutionary Government of Zanzibar, which owns 100% of ordinary shares. All transactions with the Government Ministries and Government Owned Institutions are considered to be transactions with related parties. A number of banking transactions were entered with related parties in the normal course of business. These included loans, deposits and foreign currency transactions. The volume of related party transactions, outstanding amounts and related expense and income for the period ended 31st December 2016 were as follows:-

Zanzibar Government and its institutions deposits, loans and other transactions

	31.12.2016	31.12.2015
	TZS	TZS
Deposits:		
Local currency Deposits	52,716,118	27,274,877
Foreign currency Deposits	51,879,068	59,924,577
	<u>104,595,186</u>	<u>87,199,454</u>
Loan and advances		
Local currency O/D	29,620,370	2,985,696
Foreign currency loan	40,436,330	56,527,452
	<u>70,056,700</u>	<u>59,513,148</u>
Interest		
Interest on loans earned by the Bank	396,920	215,302
Interest paid by the bank	4,756,293	3,763,719

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

	2016	2015
	TZS'000	TZS'000
Other Transactions		
Rent paid to MTC for Leasing Malindi branch	18,667	18,667
Rent paid to ZSSF for Leasing M/Kwerekwe branch	120,759	104,050
Zanzibar Airport Authority	9,473	
Rent paid to ZECO	-	15,553
Rent to Zanzibar Ports Corporation for Mkoani	-	12,960
Rent/Land lease paid to ZRB	89,956	41,224
Rent paid to ZIC for Mpirani Bank Building	209,477	128,902

Director's Remuneration

A list of members of the Board of Directors is shown on page 2. For the period ended 31st December 2016, the total remuneration of Directors in the form of fees and allowances was TZS. 369,291 million (2015: TZS. 407,309 million). Term loan facility approved to the directors was TZS 25 million for the period ended 31st December, 2016.

Key Management Personnel Benefits

For the period ended 31st December 2016, key management personnel as indicated in page 6 and 7 above, were advantaged for short term benefit of TZS 1,145 million (2015: TZS 931million) and they enjoyed with term loan/financing facilities of TZS 336.22 million repayable in equal 60 installments.

All related party transactions were at arms' length and in the course of business, and on terms and conditions similar to those applicable to other customers.

39. CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees, Letter of Credits and Undrawn OD facilities

	2016	2015
	TZS'000	TZS'000
Local and foreign guarantees	5,930,212	4,367,699
Usance and sight letter of credit	4,170,168	15,056,248

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

Undrawn unexpired overdraft facilities	1,970,319	1,210,898
	<u>12,070,699</u>	<u>20,634,845</u>

Uncalled Capital in Afreximbank

As at 31st December, 2016, the bank had a commitment of USD 161,392.2 in respect of uncalled and unpaid capital attached to its shareholding in the Afreximbank. The value of paid up shares is shown under Note 15 above. The previous year's figures have been regrouped wherever considered necessary to facilitate comparability with the current year's figures.

40. CHEQUES AND ITEM FOR CLEARING

Substantial decrease of cheques and item for clearing amount from TZS 485,332,139 in year 2015 to TZS 1,998,352 as at December 31, 2016 was attributed by the introduction of new system by BOT (TACH).

41. INTERBANK BORROWING (Local Banks)

	<u>2016</u>	<u>2015</u>
	TZS'000	TZS'000
ICB bank	535,974	319,944
Total	<u>535,974</u>	<u>319,944</u>

ICB bank borrowed GBP 200,000 for 7 day at the rate of 1.20% matured on January 04, 2017.

42. CAPITAL ADEQUACY

The bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania. These ratios measure capital adequacy by comparing the bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at a weighted amount to reflect their relative risk. The bank's capital adequacy ratios are shown below:-

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

42. CAPITAL ADEQUACY (Continued)

1. Balance sheet Assets (net of provisions)	Nominal Balance sheet amounts	Risk weight	Risk weighted amounts
Cash	27,823,109,508	0%	-
Balances with Bank of Tanzania	62,897,753,976	0%	-
Balances with Other Banks	29,712,762,307	20%	5,942,552,461
Cheques and Items for Clearing	1,998,352	50%	999,176
Investment in Debt Securities	61,496,739,797	0%	-
Interbank loans receivable	22,709,336,000	20%	4,538,996,800
Loans, Advances and Overdrafts			-
i. Loan and advances			-
a. Loans secured by cash	15,632,339,698	0%	-
b. Loans to local Gov't unit	0	100%	-
c. Other loan and advances	243,832,862,434	100%	243,832,862,434
ii Overdrafts			-
a. secured by cash	0	0%	-
b. Other overdrafts	10,829,437,244	100%	10,829,437,244
ii Restructured			-
a. Secured by cash			-
b. Other	139,630,667	100%	139,630,667
Bills Receivable	0	100%	-
Equity Investments	754,942,297	100%	754,942,297
Property, Plant and Equipment	12,675,983,216	100%	12,675,983,216
Inter branch float items			-
a. Outstanding for 30 days or less	5,987,082,795	50%	2,867,069,232
b. Outstanding for 31 days or more	0	100%	-
Stamp Account	0	0%	-
Interest Receivable on Treasury bills and bonds	3,112,972,502	100%	3,112,972,502
Sundry Debtors (staff advance & imprest)	540,817,351	100%	540,817,351
Prepaid Expenses (Deduction from core capital)	1,163,626,028	0%	-
Shortages, Misappropriations & Forgeries	-419,082,833	100%	(419,082,833)
Intangible Assets (software) [Deduction from core capital]	1,003,611,964	0%	-
Other Assets	3,731,100,906	100%	3,731,100,906
TOTAL RWA	503,627,024,209		288,548,281,453

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

2. Off-Balance Sheet Position					
	Credit conversion factor	O/S Balance (Net of Allow for losses)	Credit Equivalent	Risk Weight	Risk Weighted Amount
Outstanding Letter of Credit:					
Sight Import Letter of Credit:					
Secured by cash/deposits	20%	4,170,168,222	834,033,644,50	0%	-
		4,170,168,222	-		-

Outstanding Guarantees and Indemnity:					
a. Guarantees for loans, Trade & Securities					
	Credit conversion factor	O/S Balance (Net of Allow for losses)	Credit Equivalent	Risk Weight	Risk Weighted Amount
Secured by cash/deposits	100%	742,460,661	-	0%	-
Others	100%	727,588,849	-	100%	727,588,849
b. Shipping Guarantees					
Secured by cash/deposit/BoT securities	50%	50,000,000	25,000,000	0%	-
Others	50%	-	-	100%	-
c. Performance Bonds					
Secured by cash/deposits	50%	171,559,284	85,779,642	0%	-
Others	50%	3,928,648,316	1,964,324,157	100%	1,964,324,158
d. Bid Bonds					
Secured by cash/deposits	50%	165,455,538	82,727,768	0%	-
Others	50%	144,500,000	72,250,000	100%	72,250,000
		5,930,212,647			2,764,163,007
Undrawn Balance of Unexpired Overdraft					
Secured by cash/deposit/BOT Securities	100%	1,970,318,919	1,970,318,919	0%	
Secured by non cash	100%	-	-	100%	-
		1,970,318,919			-
TOTAL RWOBSSE		12,070,699,788			2,764,163,007

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

3. Market Risk (Foreign Exchange Risk)			
	Absolute value	Multiplier factor	Risk Weighted Amount
	TZS		TZS
Net Open Position (NOP)	114,096,906	8.33	950,807,548

ADJUSTED RWA & BSE (Summary)

TZS

Risk weighted assets (1)	288,677,624,019
Risk weighted off balance sheet exposure (2)	2,764,163,007
Market Risk (3)	<u>950,807,548</u>
	<u>292,392,594,574</u>

Total Risk Weighted Assets and off balance sheet exposure

COMPOSITION OF CAPITAL

Core Capital (Tier 1)

TZS

Paid up ordinary share capital	31,000,000,000
Capital grant	767,153,507
Retained earning	5,649,847,105
Qualifying year to date profits	<u>11,515,623,292</u>
Total	<u>48,932,623,904</u>

Deductions

Prepaid expenses	1,163,626,028
Intangible assets	<u>1,003,611,964</u>
Available core capital	46,765,385,912

Less: Minimum Capital Requirement (Core Capital)

36,549,074,322

Excess/(Deficiency) Core Capital

10,216,311,590

Supplementary (tier 2) capital

Securities revaluation reserve	69,780,302
Subordinate debt (Bond) (not to exceed 50% of core capital)	5,000,000,000
General reserve	<u>2,487,834,345</u>
Available Supplementary Capital	<u>7,557,614,647</u>

Allowable Supplementary Capital (Should not exceed 2% of RWA&OBE)

5,384,133,542

Minimum capital requirement

5,845,265,040

Excess/(deficiency) capital

(461,131,497)

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

Capital Adequacy ratios

Core capital (tier 1)	15.99%
Total capital (tier 2)	17.84%

Note:

Minimum core capital must at least be equal to 12.5% and the minimum total capital should at least be equal to 14.5% of Risk Weighted Assets and off Balance Sheet Exposures.

43. PERFORMANCE INDICATORS

Statement of Financial Position	2016	2015
	%	%
(i) Shareholder's fund to Total Assets	11.48	10.01
(ii) Non performing loans to Total gross Loans	4.73	2.76
(iii) Gross Loans to Total deposits	63.88	62.00
(iv) Gross Islamic financing to Islamic deposits	41.54	33.81
(v) Loans Total Assets	53.70	45.28
(vi) Earning assets to Total Assets	75.56	72.49
(vii) Total deposit growth	5.00	19.35
(viii) Islamic deposit growth	3.48	41.25
(ix) Total assets growth	8.08	21.97

Statement of Profit or Loss and Other Comprehensive Income

(i) Return on Average Total Assets	3.86	3.82
(ii) Return On Capital (core capital)	24.62	29.19
(iii) Return On Shareholder Fund	22.05	23.27
(iv) Interest Expenses to Interest Income	29.60	33.04
(v) Interest Margin to Average Earning Assets	7.52	6.80