

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2017



TAC ASSOCIATES

**P.O. BOX 580
DAR ES SALAAM
TANZANIA**

THE PEOPLE'S BANK OF ZANZIBAR LIMITED



AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2017

TAC Associates
Certified Public Accountants
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Dar es Salaam, Tanzania
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APRIL, 2018

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
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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

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Corporate Information

Board of Directors

Ms. Kidawa H. Saleh (Chairperson)
Mr. Juma A. Hafidh (Executive
Director)
Ms. Mwanahija A. Ali
Mr. Yakout H. Yakout
Mr. Pereira A. Silima
Mr. Iddi H. Makame
Ms. Sabra I. Machano
Mr. Abdulaziz H. Mahmoud

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@pbzbank.co.tz
Website: www.pbzbank.co.tz
Zanzibar, Tanzania.

Company Secretary

Mrs. Saadiye Hamid Suleiman,
ZIC Building, Mpirani Street,
P. O .Box 1173,
Telephone: +255 24 2231118/9/20,
Zanzibar, Tanzania,
Email: saadiye@pbzbank.co.tz

Lawyers

Ofisi ya Mwanasheria Mkuu,
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.

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List of Bankers

- | | |
|---|--|
| <p>1. Ubs Switzerland Ag
Postfach, 8098 Zurich
www.ubs.com
For Information:
Tel.+41-44-234 11 11</p> | <p>2. Bank Of Tanzania

2 Mirambo Street
11884 Dar Es Salam Tanzania
Tel +255-22-2234494/5/7
+255-22-2235433</p> |
| <p>3. Branch Director .DominaMsoka

Crdb- Azikiwe Branch Dsm
P.O.Box 72344
Tel No 022-2124556
022-2124558
Swift Code: Corutztz</p> | <p>4. Citideff

Reuterweg 16, 60323 Frankfurt/Main
Blatt/Page ¼
Iban: De67 502109004114264038
Bic Code: Citideff</p> |
| <p>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</p> | <p>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</p> |
| <p>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</p> | <p>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</p> |

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER, 2017

1. INTRODUCTION

The directors hereby submit their report and the audited financial statements for the year ended 31 December 2017 which disclose the state of affairs of People's Bank of Zanzibar Limited ("the bank").

2. INCORPORATION

The People's Bank of Zanzibar Limited (PBZ) was established on June 30th 1966 and incorporated under Cap. 153 of the Zanzibar Companies Decree as Government owned commercial bank offering both Islamic and Conventional Banking Services.

3. MISSION AND VISION

Vision

To be a leading provider of innovative 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 innovative 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 2017, PBZ has six branches of Islamic Banking located in Zanzibar (Unguja and Pemba), Dar es Salaam and Mtwara. Under Islamic Banking, PBZ offers an array of products ranging from deposit to financing and investments, service ranging from money transfer to all kinds of trade financing. Hence, Islamic Banking products are mainly dealing with deposit mobilization contracts and fund utilization (financing) products.

Under deposits mobilization, the products are current accounts (Mudharaba, Wadiah and Qard) and saving accounts (Mudharaba and Wadiah). All products are available in TZS and other three major foreign currencies i.e. USD, GBP and Euro. Under financing products there are Murabaha, Bai-Muajjal, Ijarah, Mortgage, Salaam and Istisna. Other Investment accounts are Musharakah and Mudharaba products.

Conventional Banking Products

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

- commercial term and personal/consumption loans
- overdrafts facilities, and
- mortgage financing

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PBZ services have been channeled electronically where services are available through mobile and internet banking. Through these services customers perform different banking services in their bank account via mobile phone and computer at any time anywhere and can perform various transactions such as:

- Balance enquiry
- Mini statement and full statement
- Airtime recharge and Utility payments
- Fund transfer – Account to account within PBZ, and to Mobile Network Operators (MNOs)
- Cheque book request and Foreign exchange (FX) rates.

The bank is well known for its expertise in Trade financing activities such as import and export trade dealings 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.

5. COMPOSITION OF THE BOARD OF DIRECTORS

Members of the Board of Directors other than Chairman are appointed by the Minister for Finance and Planning - Zanzibar, while the latter 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 current Directors of the Board and their date of appointment are as shown in the table below:

No	Name	Position	Age (years)	Discipline/Qualifications	Appointment /Remarks
1	Ms.Kidawa H. Saleh	Chairperson	57	Masters in Economic & Planning	Appointment w.e.f 1 March 2018
2	Mr. Juma A. Hafidh	Member (Executive Director)	49	MSc. Finance Strathclyde University, UK.	Appointment w.e.f November 2015
3	Ms. Mwanahija A. Ali	Member	57	MSC. Business Administration – Finance and Banking.	Appointment w.e.f November 2015
4	Mr. Yakout H. Yakout	Member	68	MBA ESAMI/ SMS.	Appointment w.e.f November 2015
5	Mr. Pereira A. Silima	Member	58	Msc for Ho &Bsc (For Hon)	Appointment w.e.f March 2016

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6	Mr. Idd H. Makame	Member	54	MSc. Finance Strathclyde University, UK.	Appointment w.e.f 22 September 2017
7	Ms. Sabra I. Machano	Member	32	Msc. Development Economies and Policy	Appointment w.e.f 17 March 2018
8	Mr. Abdulaziz H. Mahmoud	Member	48	Bachelor of Laws Degree (LL.B)	Appointment w.e.f 17 March 2018

The Members of the Board whose tenure of service expired but served the Board during the year 2017 are as shown below:

9	Mr. Abdulrahman M. Jumbe	Resigned Chairman	80	Diploma in plan administration, project evaluation, foreign trade and national accounts	Appointed since November 2015 and resigned on 24 November 2017
10	Mr. Abdulwakil H. Hafidh	Resigned Member	63	MSc. Finance Srathclyde University, UK.	Appointed since November 2015 and resigned on 24 November 2017
11	Mr. Abdalla A. Omar	Resigned Member	58	Diploma in Business Administration, CBE-Dar es Salaam.	Appointed since November 2015 and resigned on 24 November 2017
12	Mr. Ali K. Juma	Resigned Member	52	Msc. Security and Strategic Studies, National Defence College, Dar es salaam.	Appointed since December 2015 and resigned on 22 September 2017

The Bank's Company Secretary was Ms. Saadiye Hamid Suleiman and all Board Directors are Tanzanian in nationality.

6. THE BOARD AND CORPORATE GOVERNANCE

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

During the review period, the board of the People's Bank of Zanzibar Limited met ordinarily four (4) times and took important decisions on issues affecting the bank.

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The Board is also responsible to ensure that comprehensive system of internal controls and sound corporate governance principles are applied. The Board in particular, reviewed the Financial Statements of the bank for the year ended 31st December, 2017, and approved that these be submitted to the sixteenth Annual General Meeting of Shareholders.

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 31st 2017, the Board had four (4) committees (2016: four (4) committees) in place which were 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. IddiH. Makame	Chairman
2	Mr. Yakout H. Yakout	Member
3	Mr. Abdulaziz H. Mahmoud	Member (Appointed March, 2018)

The Board Credit Committee reports to the full board.

The Board Credit Committee met four (4) times during the year (2016: four (4) times)

Board Audit and Risk Management 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:

S/N	Name	Position
1	Mr. Pereira A. Silima	Chairman
2	Ms. Mwanahija A. Ali	Member
3	Ms. Sabra I. Machano	Member (Appointed March, 2018)

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The Board Credit Committee reports to the full board.

The Board Audit Committee and Risk committee met five (5) times during the year (2016: 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	Position
1	Mr. Yakout H. Yakout	Chairman
2	Mr. Iddi H. Makame	Member
3	Mr. Abdulaziz H. Mahmoud	Member (Appointed March, 2018)

The Board Human Resource and Investment Committee reports to the full board. Managed to meet four (4) times during the year (2016: (8) times)

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	Mr. Abdullah Talib Abdullah	Tanzanian	Master of conflict resolution	Member

The Shariah Advisory Committee met three (3) times during the year under review (2016: four (4) times).

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7. KEY MANAGEMENT STAFF OF THE BANK

The management committee of the Bank is chaired by Managing Director who is assisted by Deputy Managing Director, four (4) Directors and seven (7) Independent Managers. The following are composition of the committee as key management personnel who served the Bank during the year ended 31st December, 2017 or otherwise stated:

	Name	Title
1.	Mr. Juma A. Hafidh	Managing Director
2.	Ms. Khadija Sh. Mzee	Deputy Managing Director (appointed on 12 March 2018)
3.	Mr. Mussa A. Juma	Director of Finance
4.	Mr. Mohammed B. Chwaya	Director of Banking Operations
5.	Mr. Mohamed O. Mohamed	Director of Human Resources and Administration
6.	Mr. Said M Said	Director Islamic Banking
7.	Ms. Saadiye H. Suleiman	Company Secretary (IM)
8.	Mr. Seif A. Said	Head of Risk Management and Compliance (IM)
9.	Mr. Suleiman A Suleiman	Manager Internal Audit (IM)
10.	Mr. Ahmed S. Abdugarim	Manager Credit (IM).
11.	Mr. Said A. Mwinigogo	Manager Marketing and Business Development (IM)
12.	Ms. Mwanaid R Juma	Manager Procurement (IM)
13.	Mr. Khatibu P. Buyu	Manager Information Communication Technology (IM)

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
Revolutionary Government of Zanzibar	310,000,000	31,000,000,000	100%
Total share capital	310,000,000	31,000,000,000	100%

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9. RESULTS AND DIVIDENDS

During the year, the Bank reported after tax profit of TZS 13,126 million. In view of capital adequacy challenge directors do not recommend any dividend for the year under review.

10. REVIEW OF BUSINESS PERFORMANCE

The bank's financial results for the year are set out on page 20 of the financial statements. During the year under review, the Bank recorded a profit before tax of TZS 21,372 million.

Key performance ratios

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

	2017	2016
Return on average assets	3.86%	3.86%
Return on average equity	20.28%	22.05%
Non-interest income to net interest income	62.91%	72.54%
Operating expenses to average assets	5.02%	4.76%
Interest Expenses to Interest Income	31.66%	29.60%
Interest Margin to Average Earning Assets	0.10%	7.52%

11. REVIEW OF OPERATING RESULTS

Operating Results

The Statement of Profit or Loss and Other Comprehensive Income shows that the bank realized profit (before tax) of TZS 21,372 million for the year 2017 compared to an amount of TZS 18,696 million achieved in corresponding year 2016, representing a year-on-year growth of about 14%. This increase was mainly due to higher operating income in 2017 attributed to a 17% and 20% growth in net interest income arising from higher loan investment and profit realized from Islamic investments respectively.

During the year under review, the bank posted a 20% growth in interest income to TZS46,087 million (2016: TZS 38,343 million) in the back of 23% increase in loan assets. Interest expenses increased by about 29% to TZS14,589 million (2016: TZS 11,350 million). This increase resulted from higher cost of deposits. Therefore, interest margin decreased from 70% in 2016 to 68% in 2017.

Between 2016 and 2017, Non-interest income, increased by 6% or TZS 1,078 million to TZS 19,816 million compared to TZS18,738 million in year 2016. The increase in Non-interest income arose in 2017 was mainly due to the increase in Islamic financing profit and recovery from written off bad loans.

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Total operating expenses increased by 20% or TZS 4,670 million in 2017 to TZS 27,767 million. The increase is explained mainly by the exercise of revaluation of bank's properties, more ATM card printings and administrative expenses. Cost-income ratio has slightly decreased to 58% in 2017 from level of 59% in corresponding year. The decrease was mainly due to the increase in interest on loan. Allowance for impairment on loans and advances decreased by 19% in 2017 to TZS 1,935 million (2016: TZS 2,381 million). This decrease has come about due to a decrease in specific impairment loss on loans and advance by 77% or TZS 1,328 million in 2017.

Operating Result	(Amount in TZS'million)			
	2017	2016	increase/ (decrease)	% change
Interest income	46,087	38,343	7,744	20%
Interest expenses	-14,589	-11,350	3,239	29%
Net interest income	31,498	26,993	4,505	17%
Fees and commission income (Net)	6,834	6,743	91	1%
Income from Financing and Investment receivable	5,942	4,961	981	20%
Foreign Currency exchange income (Net)	3,769	4,650	-881	-19%
Other operating income	3,271	2,383	888	37%
Net non-interest income	19,816	18,737	1,079	6%
Net operating income before impairment charge on loan and advance	51,314	45,730	5,584	12%
Impairment Charges on loan and advances	-661	-1,989	-1,328	-67%
Provision for probable loss of other assets	0	-599	-599	-100%
Assets written off	-1,514	-1,349	165	12%
Net operating income	49,139	41,793	7,346	18%
Personnel/Staff cost	-10,918	-10,142	776	8%
General and administration costs	-11,760	-10,007	1,753	18%
Other operating expenses	-5,089	-2,948	2,141	73%
Total operating expenses	-27,767	-23,097	4,670	20%
Profit before tax	21,372	18,696	2,676	14%

Earnings per share increased by 14% from TZS 37.15 in 2016 to TZS 42.34 in 2017 as a result of higher net income.

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Financial Performance

Total assets of the bank increased by about 20% year-on-year to TZS602,757 million as at December 31, 2017. This increase is mainly explained by higher volume of loans and advances, BOT balances and investment in Government securities. Loans and advances increased on net basis by TZS 50,444 million or 23% to TZS 272,853 million in 2017(2016: TZS 222,409 million). The increase in loan and advances is in line with the strategic plan and forecast target. Cash and balance with BOT increased by 22% from TZS90,721 million in 2016 to TZS110,424 million in 2017. The increase in BoT balance was due to the increase in SMR balance as a result of increase in deposit liability. Investment in Government securities increased by TZS 12,498 million or 19% from TZS64,610 million in 2016 to TZS77,108 million in 2017. The increase is explained by higher investment in treasury bills and bonds in the strategy of enhancing liquidity and capital adequacy.

During the review year, customers' deposits liabilities which represent 95% of total liabilities grew by about 18% from TZS 427,194 million in 2016 to TZS 502,922 million reported in 2017. As a result of evaluation of bank's assets and liabilities as described above, increase in retained earnings and other reserves, the bank's shareholder's fund rose by about 24% to TZS 71,614 million in 2017 from TZS 57,825 million reported in 2016.

Key efficiency ratios

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

	2017	2016
Total capital to total assets	11.88%	11.48%
Net non-performing loans to total advances	4.83%	4.73%
Gross loans to total deposits	55.70%	63.88%
Loans to total assets	53.96%	53.70%
Liquidity ratio	31.17%	41%

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 these financial statements. The Directors consider the bank to be solvent within the meaning ascribed by Cap. 153 of the Zanzibar Companies Decree (which has been repealed and replaced by Act. No.13 of 2015) and Banking and Financial Institutions Act, 2006.

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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 TZS51,933. 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 44 to the financial statements.

14. FUTURE PROSPECTS AND DEVELOPMENT PLANS

According to the bank's Strategic Business Plan (2017 – 2020), the Bank planned to accomplish various banking ongoing and 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 2018 to 2020 are as following:

- Implementation of new Core banking system,
- Introduction of International cards business
- Acquisition and deployment of Agency Banking,
- Internet banking,
- Balanced Scorecard Strategic Management System;
- Automation of Procurement Process
- Expanding branch network to Wete, Dodoma and other location in Dar es Salaam, and
- Construction new branch at Malindi and head office building at Mazizini Zanzibar

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

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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.

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 2017, out of 347 staff, 222 were males and 125 were females. Permanent staffs were 80 employees while 242 employees were under three year renewable contracts and 25 employees were under secondment basis.

17. RELATED PARTY TRANSACTIONS

Related party transactions and balances are disclosed in note 41 to the financial statements.

18. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make donations during the year ended 31st December, 2017.

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 31st2017, the bank contributed to different sectors such as health, tourism, education and sports. PBZ spent TZS344 million for social responsibility for the year ended 31st December, 2017.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31 DECEMBER 2017

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER, 2017
(CONTINUED)

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 31st December, 2017 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 31st December, 2017 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.

(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 31st December, 2017 was 347. The Bank is contributing 13% of gross salary for each employee to Zanzibar Social Security Fund (ZSSF) every month. During the period under review, the Bank contributed TZS 721 million to the Fund for employees benefit.

**THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED
ENDED 31 DECEMBER 2017**

**REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER, 2017
(CONTINUED)**

(vi) Relationship Between Management and Employees

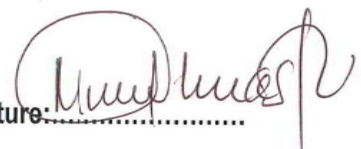
There was continued good relationship between employees and management of the PBZ for the year ended December 31, 2017. There were no unresolved complaints received by management from employees during the year under review.

21. AUDITOR

TAC Associates was the auditor of the Bank during the year ended 31st December 2017 and has expressed willingness to continue and is eligible for re-appointment. A resolution to appoint the auditor for the year 2018 will be put up at the Annual General Meeting.

Approved by the Board of Directors on 10/04/2018 and signed on its behalf by:

Name: KIDAWA H. SALEA Title: CHAIRPERSON Signature: 

Name: MWANAHIZA A. ALI Title: MEMBER Signature: 

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

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.

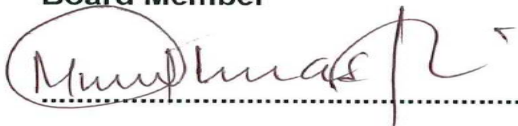
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Cap. 153 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.

Name: MWANAHITA ALMAS ALI

Title: **Board Member**

Signature: 

Date: 10/04/2018

**DECLARATION OF THE HEAD OF FINANCE'S RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 31st December, 2017 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

17/03/2018

Date:

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

To: Chairperson of the Board of Directors,
People's Bank of Zanzibar Ltd,
P.O. Box 1173,
ZANZIBAR

Report on the audit of financial statements for the financial year ended 31st December, 2017

Introduction

We have audited the financial statements of People's Bank of Zanzibar Limited (Bank), which comprise the statement of financial position as at 31st December 2017, and the statement of profit or loss and other comprehensive income, 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 give a true and fair view of the financial position of the Bank as at 31st December, 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Companies Act, No. 13 of 2015.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.

In the current year, there were no key audit matters to communicate in this report.

Other information

The directors are responsible for the other information. Other information include the Director's Report as required by the Companies Act, No.13 of 2015. Other information does not include the Financial Statements and our auditor's report thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information our duty is to report that fact.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 and for such internal control as the 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 (CONTINUED)

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

Auditor's responsibilities for the audit of financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement 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 disclosure made by the directors.

Conclude on the appropriateness of the director'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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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


Report on other legal and regulatory requirements

Compliance with the Companies Act, No. 13 of 2015

As required by the Companies Act, No. 13 of 2015, we report to you, based on our audit, that:

- i) we have obtained all other information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the Bank, so far as appears from our examination of those books;
- iii) information specified by the law regarding director's remuneration and transactions with the Bank is disclosed; and
- iv) the Bank's Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income are in agreement with the books of accounts.

TAC ASSOCIATES (*Certified Public Accountants*)


S. F. SAYORE – FCCA
MANAGING PARTNER


P. J. SHEE – FCCA
ENGAGEMENT PARTNER

DAR ES SALAAM

11 APR 2018
DATE:.....

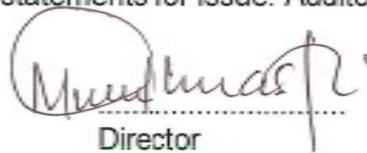
THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	31.12.2017 TZS'000	31.12.2016 TZS'000
ASSETS			
Cash and balance with Bank of Tanzania	9	110,424,254	90,720,864
Placement with with Other Banks	10	62,082,330	52,422,099
Cheques & Items for Clearing		6,472	1,998
Investment in Government Security	11	77,107,737	64,609,712
Loans and Advances to customers	12	272,853,285	222,408,724
Islamic Financing and investments	13	52,398,849	48,025,546
Equity Investment	14	761,150	754,942
Other Assets	15	7,437,620	11,003,544
Property and Equipment	16	16,180,594	12,675,983
Intangible Assets	17	3,505,146	1,003,612
TOTAL ASSETS		602,757,437	503,627,024
LIABILITIES AND EQUITY			
Liabilities			
Due to customers	18	502,922,656	427,193,641
Due to bank		245,354	-
Other Liabilities	19	15,314,097	10,607,939
Debt Securities in issue	20	5,295,191	5,356,500
Borrowings	21	3,360,752	535,974
Deferred Tax	22	1,717,255	1,158,592
Corporate Tax Payable	39	2,288,057	949,126
Total liabilities		531,143,362	445,801,772
Equity			
Share Capital	23	31,000,000	31,000,000
Government Grant	24	4,187,074	767,153
Regulator Risk Reserve	25	5,996,581	4,828,166
General Provision Reserve	26	2,980,440	2,487,834
Other Reserves	27	27,449,980	18,742,099
Total equity		71,614,075	57,825,252
TOTAL LIABILITIES AND EQUITY		602,757,437	503,627,024

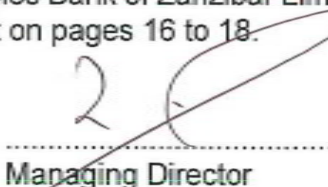
On 10th April 2018 the Board of Directors of the Peoples Bank of Zanzibar Limited authorised these financial statements for issue. Auditors report on pages 16 to 18.



 Chairperson



 Director



 Managing Director

The notes on Page 24 to 72 form Integral part of these financial statements.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

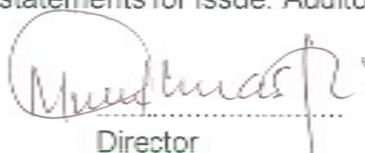
	Notes	2017 TZS'000	2016 TZS'000
Operating income			
Interest income	28	46,087,859	38,342,845
Interest expense	29	(14,589,280)	(11,350,309)
Net interest income		31,498,579	26,992,536
Fees and commissions	30	6,834,291	6,743,285
Income from Islamic Financing	31	5,941,716	4,960,963
Foreign currency exchange income	32	3,768,991	4,650,502
Other operating income	33	3,270,839	2,382,884
		19,815,837	18,737,634
Net operating income before impairment charge on loans and advances		51,314,416	45,730,170
Impairment charge on loans and advances		(660,732)	(1,989,419)
Provision for probable loss of other assets		-	(599,140)
Assets write-off	34	(1,514,215)	(1,349,043)
Net operating income		49,139,469	41,792,568
Personnel costs	35	(10,917,675)	(10,142,016)
General and administration costs	36	(11,759,985)	(10,006,771)
Other operating expenses	37	(5,089,542)	(2,947,865)
Total operating expenses		(27,767,202)	(23,096,652)
Profit before tax		21,372,267	18,695,916
Income tax expense	38	(8,246,719)	(7,180,293)
Profit for the year		13,125,548	11,515,623
Other comprehensive income, net of tax		6,208	2,714
Total comprehensive income for the year, net of tax		13,131,756	11,518,337

EARNING PER SHARE

Basic and diluted earnings per share in TZS 42.34 37.15

On 10th April 2018 the Board of Directors of the Peoples Bank of Zanzibar Limited authorised these financial statements for issue. Auditors report on pages 16 to 18.


 Chairperson


 Director


 Managing Director

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
AUDITED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 TZS'000	2016 TZS'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit Before Taxation	21,372,267	18,696
Depreciation of Property, Plant and Equipment	1,860,032	1,715,553
Amortization of Intangible Assets	107,501	169,723
Loss on revaluation and disposal of fixed assets	(557,947)	0
Adjustment of Fixed assets	(237,364)	(64,221)
Adjustment Employee terminal benefit	0	(366,510)
Adjustment of rental expenses	0	(35,589)
Adjustment of reporting error for the year 2016	(187,001)	0
Amortization of government grant	(117,015)	(9,835)
Operating Profit before Change in Working Capital	22,240,473	20,105,037
Statutory Minimum Reserve (SMR)	0	36,268,042
Treasury bills maturing over 90 days	(7,594,719)	(11,899,318)
Treasury bonds	(5,475,847)	417,614
Loans and Advances	(50,444,560)	(11,212,713)
Islamic Financing	(4,373,303)	(10,213,625)
Bill receivables	0	0
Other Assets	3,565,924	(977,326)
Customer's Deposits	75,729,016	20,367,363
Accrual interest payable (bond)	(61,309)	4,541
Other Liabilities	4,706,159	4,090,903
Cash generated from operations	38,291,833	46,950,519
Income tax paid	(6,349,126)	(5,400,000)
Net Cash Flows from Operating Activities (A)	31,942,707	41,550,520
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and equipment	(2,615,865)	(3,482,054)
Acquisition of Intangible Assets	(22,151)	(76,693)
Investment in equity	(0)	(0)
Proceed from sale of property and equipment	0	1,884
Additional capital WIP (computer software)	(2,586,884)	(350,013)
Additional capital WIP (equipment)	(753,786)	(252,687)
Net Cash Flows from Investing Activities (B)	(5,978,686)	(4,159,563)
CASH FLOW FROM FINANCING ACTIVITIES		
Inter-bank borrowing	2,824,778	216,029
Dividend income	6,754	13,108
Exploitation of Regulatory Risk Reserve against NPL written off	-	-
Proceeds from issuance of long-term debt	-	-
Net Cash Flows from Financing Activities (C)	2,831,532	229,137
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	28,795,553	37,620,094
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	159,033,255	121,413,161
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	187,828,808	159,033,255

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

<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, 2016	21,000,000	776,989	2,371,167	67,066	3,165,441	1,673,877	17,586,703	46,641,244
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
(Decrease)/increase of reserve on regulatory risk	-	-	-	-	1,662,725	0	(1,662,725)	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	(167,029)	167,029	0
General loan provision			116,667				(116,667)	0
Conversion retained earnings to share capital	10,000,000						(10,000,000)	
Total comprehensive income for the year	0	0	0	2,714	0	0	11,515,623	11,518,337
Closing balance as at December 31 st , 2016	31,000,000	767,154	2,487,834	69,780	4,828,166	1,506,848	17,165,470	57,825,252

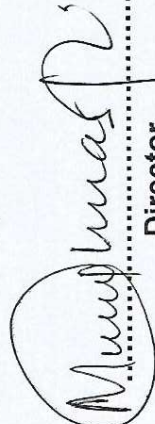
THE PEOPLES BANK OF ZANZIBAR LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

<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, 2017	31,000,000	767,154	2,487,834	69,780	4,828,166	1,506,848	17,165,470	57,825,252
Amortization of Grants	0	(117,015)	0	0	0	0	0	(117,015)
Appropriation of RR Reserve on writing off NPLs					(546,756)		0	(546,756)
Grant from the Government (motor trade, Makunduchi and Wete Hotel)		3,536,936						3,536,936
(Decreasing)/ Increasing of regulatory reserve					1,715,171		(1,715,171)	
Transfer of FA Revaluation reserve to Retained earning	0	0	0	0	0	177,426	(177,426)	0
Adjustment M/S mindset techies advance guarantees							(187,001)	(187,001)
Dividend declared to shareholders							(2,303,125)	(2,303,125)
Adjustment on Fixed asset revaluation reserve						302,083	(28,055)	274,028
General loan provision	0	0	492,606	0	0	0	(492,606)	0
Total comprehensive income for the year	0	0	0	6,208	0	0	13,125,548	13,131,756
Closing Balance as December, 31st 2017	31,000,000	4,187,074	2,980,440	75,988	5,996,581	1,986,357	25,387,635	71,614,075


On 16th April, 2018 the Board of Directors of the Peoples Bank of Zanzibar Limited authorised these financial statements for issue. Auditors report on pages 16 to 18.



Chairperson



Director



Managing Director

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

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.

b) 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, No. 13 of 2015 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.

IAS 7 *Statement of Cash Flows* - Amendments as result of the Disclosure Initiative. Additional disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

IAS 12 *Income Taxes* - Amendments regarding the recognition of deferred tax assets for unrealised losses.

Annual improvements (2014- 2016 cycle)
Non-urgent but necessary clarifications and amendments to the following standards of IFRS:

IFRS 12 Disclosure of Interests in Other Entities

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(ii) 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.

Standard	Annual periods beginning on or after
IFRS 4 <i>Insurance contracts</i> - Applying IFRS 9 Financial instruments (amendments) allow an entity that issues insurance contracts the opportunity to utilize two options - where IFRS 9 is applied prior to the forthcoming insurance contracts standard. These are (a) the overlay approach - which permits an insurer to reclassify certain income/expenditure, arising from designated financial instruments, from profit or loss to OCI, and (b) the deferral approach - temporary exemption from IFRS 9 for insurers whose predominant activity is issuing insurance contracts.	1 January 2018
IFRS 9 <i>Financial Instruments</i> - IFRS 9 will lead to significant changes in the accounting for financial instruments. Detail regarding the changes, as well as the expected impact thereof, have been included below.	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i> - A new accounting standard that provides a single, principle based, five-step model to be applied to all contracts with customers. New disclosures about revenue are also introduced. The adoption of IFRS 15 is not expected to have a significant impact on the Bank.	1 January 2018
IAS 40 <i>Investment Properties</i> - Amendments regarding when an entity should transfer property into, or out of, investment property.	1 January 2018
IFRIC22 <i>Foreign Currency Transactions and Advance Consideration</i> - Amendments clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.	1 January 2018

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

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

IFRS 16	<i>Leases</i> - A new accounting standard that eliminates the classification of leases as either operating leases or finance leases for lessees and, instead, introduces a single accounting model, which recognises all leases on the statement of financial position.	1 January 2019
IFRIC23	<i>Uncertainty Over Income Tax Treatments</i> - Interpretation clarifying the accounting for uncertainties in income taxes.	1 January 2019
IFRS 17	<i>Insurance Contracts</i> - a new insurance accounting standard which establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts.	1 January 2021

Apart from the instances detailed above the Bank is in the process of assessing the potential impact that the adoption of these standards and interpretations may have on its future financial performance or disclosures in the annual financial statements.

IFRS 9 - Financial instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement with effect from 1 January 2018. IFRS 9 includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The impairment requirements will lead to significant changes in the accounting for financial instruments. The Bank will not restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7 Financial Instruments: Disclosures. Any change in carrying amounts from the initial application of IFRS 9 will be recognised in equity.

The bank has a jointly accountable risk and finance implementation and governance programme with representation from all impacted departments. The programme is responsible for the robustness of models, data accuracy, regulatory capital and other process and system impacts as a result of IFRS 9. The revised impairment requirements are expected to have a significant impact on the impairment provisioning of the Bank.

Based on analysis performed, the effects of the new classification and measurement requirements under IFRS 9 will not have a significant impact

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(iv) Standards issued but not yet effective

Impairment

IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward-looking information. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss was already incurred and measures the loss based on the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. This presents a change from the scope of the IAS 39 impairment model which excludes loan commitments and financial guarantee contracts (these were covered by IAS 37: Provisions, Contingent Liabilities and Contingent Assets).

The measurement of expected loss will involve increased complexity and judgment including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk.

Exposures would be divided into 3 stages as follows:

Stage 1: Exposures for which a significant increase in credit risk has not occurred since origination. For these exposures a 12 month expected credit loss will be recognized.

Stage 2: Exposures for which a significant increase in credit risk has occurred since origination. The Bank will assess whether a significant increase in credit risk has occurred based on qualitative and quantitative drivers; as well as exposures that are more than 30 days past due contractual payment date. Lifetime expected credit losses will be recognized for these assets.

Stage 3: Exposures which meet the definition of default. The Bank has aligned its definition of default with Regulatory Capital CRR Article 178, which considers exposures that are more than 90 days past due, forbearance, as well as indicators that an exposure is unlikely to pay. Lifetime expected credit losses will be recognized for these assets.

As per IFRS 9 principles, the gross carrying amount of an exposure is the contractual amount owing from the counterparty; whereas the amortised cost reflects the expected cash flows discounted using the original effective interest rate. Hence the expected credit loss provision, which is the difference between the gross carrying amount and amortised cost, would reflect the expected cash shortfalls discounted by the original effective interest rate.

Consequently, the expected credit loss provision per IFRS 9 includes contractual interest in respect of stage 3 assets; where previously such interest was excluded from the gross carrying amount presented.

The revised impairment model is expected to have a material financial impact on the existing impairment provisions previously recognised in terms of the requirements of IAS 39, as well as increase volatility in the recognition of impairment losses going forward.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2017

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(v) Standards issued but not yet effective

The reasons for the change in impairment provisions are as follows:

- The removal of the emergence period that was necessitated by the incurred loss model of IAS 39. All stage 1 assets will carry a 12 month expected credit loss provision. This differs from IAS 39 where unidentified impairments were typically measured with an emergence period of between three to twelve months.
- The provisioning for lifetime expected credit losses on stage 2 assets; where some of these assets would not have attracted a lifetime expected credit loss measurement per IAS 39.
- The inclusion of forecasted macroeconomic scenarios into the expectation of credit losses;
- The inclusion of expected credit losses on items that typically would not have been impaired under IAS 39, such as loan commitments.

IFRS 9 has been considered in capital planning.

Classification and measurement

IFRS 9 will require financial assets to be classified on the basis of two criteria:

1. The business model within which financial assets are managed, and
2. Their contractual cash flow characteristics (whether the cash flows represent solely payments of principal and interest).

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest.

Other financial assets are required to be measured at fair value through profit and loss if they are held for the purposes of trading, if their contractual cash flows do not meet the 'solely payments of principal and interest' criterion, or if they are managed on a fair value basis and the Bank maximises cash flows through sale. IFRS 9 allows an entity to irrevocably designate a financial asset as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (that is, an accounting mismatch).

An entity is permitted to make an irrevocable election for non traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in profit or loss.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at fair value through profit and loss. Gains and losses on such financial liabilities arising from changes in the Bank's own credit risk are presented in other comprehensive income rather than in profit and loss.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2017

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(vi) Standards issued but not yet effective

An assessment of potential changes to financial assets has been conducted, including an assessment of business models across various portfolios, and a review of contractual cash flow features for complex financial assets.

In October 2017, the IASB issued an amendment to IFRS 9 Prepayment Features with Negative Compensation. Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain). The amendment clarifies how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Under the amendments, the sign of the prepayment amount is not relevant. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. This amendment is effective on 1 January 2019 and is not expected to have a significant impact on 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)
- IFRS 17 Insurance Contracts (Effective 1 January 2021)
- Transfers of Investment Property — Amendments to IAS 40 (Effective 1 January 2018)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (Effective 1 January 2018)
- Annual Improvements 2014-2016 Cycle (issued in December 2016) covering:
 - IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (Effective 1 January 2018)
 - IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (Effective 1 January 2018)
 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (Effective 1 January 2018)
 - IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (Effective 1 January 2018)
 - IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (Effective 1 January 2019)

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

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.

(iii) Fees and Commission Income

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.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

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:

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(viii) Property and Equipment (Continued)

Assets Particulars	Useful life
Motor Vehicles and Motor Cycles	7 years
Furniture and equipment	5 years
Buildings	33 years
Computers and laptops	3 years
ATMs	7 years
Servers	7 years

Leasehold improvement properties (improvement cost of rented bank's buildings and offices) are depreciated over the periods of the leases period. Lease period for the Bank's properties is 5 years for Mwanakwerekwe and Mpirani Branches, 10 years for Kariakoo and IBDMahiwa (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.

(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 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.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xi) Taxation (Continued)

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.

(xii) 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.

(xiii) 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.

(xiv) Cash and Cash Equivalents

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.

(xv) 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.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xvi) 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.

(xvii) Financial instruments - initial recognition and subsequent measurement

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 PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xvii) Financial instruments - initial recognition and subsequent measurement
(Continued)

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 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".

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.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xviii) 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.

(xix) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a 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.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xx) 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.

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 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xxi) 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 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 2017

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets carried at amortized cost (Continued)

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.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

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

5. 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:

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 2017

6. FINANCIAL INSTRUMENTS BY CATEGORY

At 31st December 2017

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	33,436,756	-	-	33,436,756
Balances with Bank Of Tanzania	76,987,498	-	-	76,987,498
Balances with Other Banks	62,082,330	-	-	62,082,330
Cheques & Items for Clearing	6,472	-	-	6,472
Loans and Advances	272,853,285	-	-	272,853,285
Islamic Financing	52,398,849	-	-	52,398,849
Equity Investment	761,150	-	-	761,150
Other assets less prepayments	5,921,878	-	-	5,921,878
Total	504,448,218	-	-	504,448,218

Financial liabilities

	Financial liabilities at amortised cost	Fair value through profit or loss – Held for Trading	Total
Deposits Liabilities	501,689,368	-	501,689,368
Other Liabilities	15,314,097	-	15,314,097
Inter-Bank Borrowing	3,360,752	-	3,360,752
Accrued Interest Payable	5,295,191	-	5,295,191
Total	525,659,408	-	525,659,408

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

6. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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 2017**

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 2017				
Property and Equipment	-	-	16,180,594	16,180,594
	<u>-</u>	<u>-</u>	<u>16,180,594</u>	<u>16,180,594</u>
At 31 December 2016				
Property and Equipment	-	-	12,675,983	12,675,983
	<u>-</u>	<u>-</u>	<u>12,675,983</u>	<u>12,675,983</u>

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 2017

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.

	31.12.2017		31.12.2016	
	TZS '000	%	TZS '000	%
Central Government	8,904,559	3.02	13,177,985	5.86
Public Enterprises and other Government entities	3,927,439	1.33	27,476,339	12.22
Personal and Private Companies	282,392,338	95.65	184,135,386	81.92
Total (Gross)	295,224,336	100.00	224,789,710	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 2017**

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, 2017. Included in the table are the bank's assets and liabilities at carrying amounts, categorized by currency.

	USD	GBP	EURO	TOTAL
Assets				
Cash	349,237	413,706	666,245	1,429,188
Balance with BOT	6,763,105	-	-	6,763,105
Due from other Bank	23,950,784	212,024	3,016,892	27,179,700
Cheque and items for clearing	-	-	-	
Loans and advances	5,651,564	-	-	5,651,564
Bills receivable	-	-	-	
Equity investment	107,595	-	-	107,595
Other assets	10,129,537	-	-	10,129,537
Total foreign currency assets	46,951,822	625,730	3,683,137	51,260,689
Liabilities				
Customers' Deposits	44,364,635	158,891	1,051,360	45,574,886
Other Liabilities	13,520,856	654,775	204,938	14,380,569
Interest Payable	61,724	1,932	1,706	65,362
Total Foreign Currency Liabilities	57,947,215	815,598	1,258,004	60,020,817
Net Balance Sheet Position	(10,995,393)	(189,868)	2,425,133	(8,760,128)

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 PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

8 FINANCIAL RISK MANAGEMENT (Continued)

The table below analyses the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at 31st December, 2017 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	110,424	-	-	-	-	110,424
Balance with other banks	23,095	-	-	-	-	23,095
Interbank Placement	38,987	-	-	-	-	38,987
Investment security	3,147	12,169	36,033	17,086	6,085	74,520
Interest receivable on treasury bills and bonds	359	1,096	712	257	164	2,588
Cheques & Items for Clearing	6	-	-	-	-	6
Loans and advances	284,647	346	5,677	31,611	-	322,281
Equity Investments	-	-	-	-	761	761
Other assets	-	-	-	-	13,914	13,914
Property and equipment	-	-	-	-	16,181	16,181
Total assets	460,665	13,611	42,422	48,954	37,105	602,757
Liabilities						
Due to customers	16,593	22,905	185,095	-	270,186	494,779
Special deposits	1,233	-	-	-	-	1,233
Bankers cheque and draft issued	375	-	-	-	-	375
Payment orders /transfer payables	15	-	-	-	-	15
Interest and other expense payable	1,881	2,009	3,020	-	23	6,933
Other liabilities	-	-	-	-	27,808	27,808
Total liabilities	20,097	24,914	188,115	-	298,017	531,143
Total Interest Sensitivity Gap	440,568	(11,303)	(145,693)	48,954	(260,912)	71,614
Cumulative	440,568	429,265	283,572	332,526	71,614	71,614

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.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

8 FINANCIAL RISK MANAGEMENT (Continued)

	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	-	-	-	-	-	110,424	110,424
Balance with other banks	-	-	-	-	-	23,095	23,095
Interbank Placements	38,987	-	-	-	-	-	38,987
Investment security	3,147	12,169	36,033	17,086	6,085	-	74,520
Interest Receivables on treasury bill and bonds	359	1,096	712	257	164	-	2,588
Cheques & Items for Clearing	-	-	-	-	-	6	6
Loan & advances (Gross of allowances)	284,647	346	5,677	31,611	-	-	322,281
Bills receivables	-	-	-	-	-	-	-
Equity investment	-	-	-	-	-	761	761
Other assets	-	-	-	-	-	13,914	13,914
Property and equipment	-	-	-	-	-	16,181	16,181
Total assets	327,140	13,611	42,422	48,954	6,249	164,381	602,757
Liabilities							
Due to customers	16,593	22,905	185,095	-	-	270,186	494,779
Special deposits	-	-	-	-	-	1,233	1,233
Interest and other expenses payable	1,881	2,009	3,020	-	-	23	6,933
Other liabilities	-	-	-	-	5000	23,198	28,198
Total liabilities	18,474	24,914	188,115	0	5000	294,640	531,143
Total interest sensitivity gap	308,666	-11,303	-145,693	48,954	1,249	-130,259	71,614
Cumulative	308,666	297,363	151,670	200,624	201,873	71,614	71,614

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 2017**

9. CASH AND BALANCE WITH BANK OF TANZANIA	<u>31.12.2017</u> TZS'000	<u>31.12.2016</u> TZS'000
Local and foreign cash in hand	33,436,755	27,823,110
Current accounts with Bank of Tanzania (BoT)		
Available for clearing and operations(local & foreign)	41,480,636	28,422,623
Available as Statutory Minimum Reserve balance (SMR)	<u>35,506,863</u>	<u>34,475,131</u>
Sub-total	<u>76,987,499</u>	<u>62,897,754</u>
Total cash and balance with BoT	<u>110,424,254</u>	<u>90,720,864</u>

In accordance with Section 44 of the Bank of Tanzania Act, 2006 and Sections 4 and 71 of the Banking and Financial Institutions Act, 2006; the Bank is required to maintain Statutory Minimum Reserves (SMR) on its total deposit liabilities and funds borrowed from the general public. The SMR deposit should be at least 10% of customers' total deposits and borrowings from the general public and 40% of government's deposits. The SMR deposit is not available to finance the Bank's day-to-day operations and is therefore excluded from cash and cash equivalents for the purpose of the statement of cash flows (Note 40).

Cash in hand and balances with Central Banks are non-interest bearing assets. All amounts are current.

10. PLACEMENTS WITH OTHER BANKS	<u>31.12.2017</u> TZS'000	<u>31.12.2016</u> TZS'000
Local Banks	11,074,244	10,133,336
Foreign Banks -Nostro Accounts	12,021,190	19,579,426
Inter-bank placements	<u>38,986,896</u>	<u>22,709,336</u>
	<u>62,082,330</u>	<u>52,422,098</u>

As at 31st December 2017 treasury bills securities with face value TZS 13,795 million were held by bank as collateral for various various inter-bank placements.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

11. INVESTMENT IN GOVERNMENT SECURITIES	31.12.2017	31.12.2016
	TZS'000	TZS'000
Treasury bills	44,220,925	36,638,079
Interest Receivable on treasury bills	2,034,313	2,594,981
Treasury bonds (At amortised cost)	30,298,644	24,858,660
Interest Receivable on treasury bonds	553,855	517,991
Total	77,107,737	64,609,711

As at 31st December 2017, treasury bonds with face value amounting to TZS 4,000 million had been pledged as collateral for TMRC loan (**Note 21B**).

Maturity Analysis	31.12.2017	31.12.2016
	TZS'000	TZS'000
- Maturing within 3 months	15,315,753	15,888,294
- Maturing after 3 months but within 12 months	28,905,171	20,749,785
- Interest rceivable	2,034,314	2,594,981
Sub total	46,255,238	39,233,060

(b) Treasury bonds

- Maturing within 3 months	1,471,647	-
- Maturing after 3 months but within 12 months	5,656,299	5,293,871
- Maturity after 1 year but within 5 years	22,398,002	16,779,112
- Maturity over 5 years	772,696	2,785,677
- Interest rceivable	553,855	517,991
Sub total	30,852,499	25,376,651
Total	77,107,737	64,609,711

The maturity analysis is based on the remaining periods to contractual maturity from year end

12. LOANS AND ADVANCES TO CUSTOMERS	31.12.2017	31.12.2016
	TZS'000	TZS'000
Personal loans	239,088,213	176,112,340
Staff Loan	3,702,269	2,989,609
Mortgage loans	2,143,547	2,227,026
Commercial loan and overdraft	29,854,671	43,460,735
Subtotal	274,788,700	224,789,710
Accrued interest on loan and advances	315,637	282,347
Gross loan	275,104,337	225,072,057
Less Allowance for impairment loss	1,935,415	2,380,986
Less Interest in suspense	315,637	282,347
	2,251,052	2,663,333
Net loan and advances	272,853,285	222,408,724

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

Analysis by Geographical Location	31.12.2017	31.12.2016
	TZS'000	TZS'000
Zanzibar (Unguja)	115,807,744	103,530,415
Zanzibar (Pemba)	12,983,765	10,189,719
Dar es Salaam	140,153,486	110,812,550
Mtwara	5,843,705	257,026
Total gross loans and advances	274,788,700	224,789,710
Movement of allowances for impairment	31.12.2017	31.12.2016
	TZS'000	TZS'000
Opening balance	2,380,986	852,517
Increase in Provision for impairment	635,312	1,813,087
	3,016,298	2,665,604
Less amount written off	1,000,410	284,618
Less recovery during the year	80,473	-
Allowance for impairment loss	1,935,415	2,380,986
13. ISLAMIC FINANCING AND INVESTMENTS	31.12.2017	31.12.2016
	TZS'000	TZS'000
Islamic Financing		
Murabaha personnel	26,930,448	22,280,368
Murabaha staff	476,399	400,720
Education personal	286,348	282,171
Education Staff	7,982	6,966
Ijarah financing	566	3,701
Motgage commercial	77,521	86,477
Istisna personal	84,056	38,590
Istisna commercial	434,488	600,000
Istisna staff	4,407	11,500
Murabaha commercial	19,144,161	24,228,756
BaiMuajjal Personal	44,992	165,121
BaiMuajjal Staff	1,097	4,156
Total Financing	47,492,465	48,108,527
Islamic Investments		
Musharakah	334,597	-
Mudharaba	5,000,000	-
Total Investment	5,334,597	-
Total Financing and Investments	52,827,062	48,108,527
Accrued Profit on islamic financing	-127,196	112,142
Total gross Islamic Financing	52,699,866	48,220,669
Less provision for impairment	301,017	95,123
Net Islamic financing and Investments	52,398,849	48,025,546

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Analysis by Geographical Location	31.12.2017	31.12.2016
	TZS'000	TZS'000
Zanzibar (Unguja)	29,515,395	32,530,218
Zanzibar (Pemba)	6,935,166	6,779,416
Dar es Salaam	10,550,802	8,798,893
Mtwara	491,102	-
Total gross Financing	47,492,465	48,108,527

Movement of provision for impairment loss	31.12.2017	31.12.2016
	TZS'000	TZS'000
Opening balance	195,124	18,793
Additional Provision for loan impairment	105,893	176,330
Total	301,017	195,123

14. EQUITY INVESTMENTS	31.12.2017	31.12.2016
	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	241,150	234,942
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
Total	761,150	754,942

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 Afrxim 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, 2017 the bank invest 500,000 shares each TZS 1,000 fully paid up.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

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.

	<u>31.12.2017</u>	<u>31.12.2016</u>
	TZS'000	TZS'000
15. OTHER ASSETS		
Dividend Receivable	32,652	31,772
Staff Advances	386,162	498,194
Imprest	40,698	24,388
Imprest travelling	4,725	18,235
Stationery Stock	19,512	11,238
Writing matters stock	94,088	36,399
Computers items stock	49,159	24,906
Murabaha advance payment for Asset Stock	1,566,317	342,056
Prepaid Insurance	697,799	420,660
Prepaid Service Contract	2,175	0
Prepaid expenses	67,039	69,592
Prepaid House Rent	748,729	673,375
Accounts Receivable	-	4,861
Non Compliance financing receivable	137,856	68,711
Accounts Receivable Tax	1,348,531	1,348,531
Western union receivable	38,506	1,543
World remit receivable	17,484	-
Selcom (mobile banking) receivable	405,824	241,491
EZYPESA e Money	200,340	666,041
EZYPESA receivable	168,324	135,516
HalopesaeMoney	160,040	-
HalopesaSuper Agent receivable	21	-
EFC Tanzania Microfinance Receivable	620	-
Interbank placement interest receivable	127,196	19,555
ATM cash and fees receivables	37,993	27,491
Commision receivables	13,484	30,717
Entries in Transit (Local)	938,132	-
Entries in Transit (Foreign)	18,378	5,987,082
Cash shortage, Misappropriation & Forg.	195	187,428
Suspense miscellaneous (asset)	44,567	566,550
TRA receivables	209,125	178,584
Sub total	7,575,671	11,614,916
Allowance for Probable Loss	138,051	611,372
Total	7,437,620	11,003,544

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

16. PROPERTIES AND EQUIPMENT

Particulars	Land and 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
Cost / Valuation:								
As at 1/1/2017	5,095,311	4,939,501	638,061	5,961,770	916,674	1,721,039	188,729	19,461,085
Adjustment	(931,453)	(146,718)	-	-	(1,500)	(487,097)	2,935,082	1,368,314
Transfer from WIP	2,750,963	35,673	-	-	-	-	(2,786,636)	-
Disposal			(1,104)	-	(24,629)			(25,733)
Additions (Cost)	219,598	426,932	137,219	880,361	176,743	120,000	753,786	2,735,864
As at 31/12/2017	3,174,156	5,255,386	774,177	6,842,132	1,067,288	1,353,942	1,090,961	23,539,530
Accumulated Depreciation:								
As at 1/1/ 2017	338,290	1,841,544	345,963	2,877,588	606,196	775,520	-	6,785,102
Adjustments	(338,290)	(146,718)		-	(1,500)	(775,520)	-	(1,262,028)
Disposal			(1,067)		(23,102)			(24,169)
Charge for the year	120,652	520,548	93,894	770,082	168,387	161,455	-	1,860,032
As at 31/12/2017	120,652	2,215,374	438,791	3,647,670	774,994	161,455	-	7,358,936
Carrying amount								
As at 31.12.2017	7,034,992	3,040,013	335,386	3,194,462	292,294	1,192,486	1,090,961	16,180,594
As at 31.12.2016	4,757,020	3,097,957	292,098	3,084,182	310,478	945,519	188,729	12,675,983

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

17. INTANGIBLE ASSETS

Particulars	Swift software TZS "000"	Core banking Software(B R) TZS "000"	K-Printer Checker Module TZS "000"	AML Solution for CBS TZS "000"	Mobile Bank Solution TZS "000"	Core banking Islamic Division TZS "000"	Interface between BR and Swift system (SSTP) TZS "000"	Auto backup Software TZS "000"	Cheque Clearing Software TZS "000"	Capital work in Progress TZS "000"	Total TZS "000"
COST/VALUATION											
Balance as at 01.01.2017	40,742	311,351	22,277	248,588	81,313	213,315	214,558	44,416	100,026	36,689	1,313,275
Additional for the Year	-	-	0	0	0	0	0	22,151	0	2,586,885	2,609,036
Balance as at 31.12.2017	40,742	311,351	22,277	248,588	81,313	213,315	214,558	66,567	100,026	2,623,574	3,922,311
AMORTIZATION											
Balance as 01.01.2017	0	232,095	0	0	-	77,569	0	0	0	0	309,664
Charges for the Year	0	39,628	0	0	0	67,873	0	0	0	0	107,501
Balance as 31.12.2017	0	271,723	0	0	-	145,442	0	0	0	0	417,165
NET BOOK VALUE AS AT 31.12.2017	40,742	39,628	22,277	248,588	81,313	67,873	214,558	66,567	100,026	2,623,574	3,505,146
AS AT 31.12.2016	40,742	79,257	22,277	248,588	81,313	135,746	214,558	44,416	100,026	36,689	1,003,612

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 2017

	31.12.2017	31.12.2016
	TZS'000	TZS'000
18. DUE TO CUSTOMERS		
(i) Conventional banking		
Current Accounts Deposits	222,009,971	170,269,476
Savings Deposits	72,887,143	62,024,324
Time Deposits	93,271,109	70,589,620
Matured time deposit	25	
Accrued interest on time deposits	6,886,751	4,756,294
Accrued interest on saving deposits	22,942	-
	395,077,941	307,639,714
(ii) Islamic banking		
Current Accounts Deposits		
Al wadiah	47,917,830	71,290,526
Mudharaba	110,145	9,993
Qard Current	218	10,742
	48,028,193	71,311,261
Savings Deposits		
Al wadiah	58,450,558	44,372,670
Mudharaba	132,676	106,255
	58,583,234	44,478,925
Total Islamic deposits	106,611,427	115,790,186
Total	501,689,368	423,429,900
(b) Special Deposits		
Letter of credit & Guarantees Cash Cover	1,233,288	3,763,741
Other special Deposits	0	0
Total special deposits	1,233,288	3,763,741
Total Deposit Liabilities	502,922,656	427,193,641
Maturity analysis	31.12.2017	31.12.2016
	TZS'000	TZS'000
Repayable on demand	409,651,546	356,604,021
Maturing within 3 months	15,746,431	29,063,332
After 3 months but within 6 months	15,045,696	16,941,642
Maturing after 6 months	62,478,983	24,584,646
Total deposit	502,922,656	427,193,641

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

19. OTHER LIABILITIES	<u>31.12.2017</u> TZS'000	<u>31.12.2016</u> TZS'000
Payment Order Outwards & transfers payable	15,355	7,758
Accrual Expenses Payable	454,152	612,218
Provisions	6,318	731,767
Employee Retirement Benefit Provision	2,212,919	2,496,450
Employee Leave Provisions	518,154	502,534
Accounts and other Payable	1,901,992	1,293,969
Cheques & Drafts Issued	375,345	734,554
Treasury Spot deal payable	7,280,375	1,553,488
Dividend payable to shareholders	2,303,125	0
Suspense miscellaneous (liability)	246,362	7,049
Entries in Transit (Local)	-	2,668,152
	<u>15,314,097</u>	<u>10,607,939</u>
20. DEBT SECURITIES IN ISSUE	<u>31.12.2017</u> TZS'000	<u>31.12.2016</u> TZS'000
16.53%, 7 years Corporate Bond to ZSSF	5,000,000	5,000,000
Accrued interest on bond	295,191	356,500
	<u>5,295,191</u>	<u>5,356,500</u>
21. BORROWINGS	<u>31.12.2017</u> TZS'000	<u>31.12.2016</u> TZS'000
Interbank borrowing(Note 21A)	301,545	535,974
Long-term borrowing (Note 21B)	3,059,207	0
Total	<u>3,360,752</u>	<u>535,974</u>
21A. INTER-BANK BORROWING	<u>31.12.2017</u> TZS'000	<u>31.12.2016</u> TZS'000
14 days, 1.3%, GBP 100,000 from CBA Bank	301,545	535,974
Total	<u>301,545</u>	<u>535,974</u>

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

21B. LONG-TERM BORROWING	<u>31.12.2017</u> TZS'000	<u>31.12.2016</u> TZS'000
3 years, 11.5% borrowing from TMRC	2,990,207	0
Accrued interest on TMRC borrowing	69,000	0
	<u>3,059,207</u>	<u>0</u>

22. DEFERRED TAX PAYABLE	<u>31.12.2017</u> TZS'000	<u>31.12.2016</u> TZS'000
As at beginning	1,158,593	327,425
Credit to profit or loss	558,662	831,167
Liability ss at year end	<u>1,717,255</u>	<u>1,158,592</u>

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%.

23. SHARE CAPITAL	<u>31.12.2017</u> TZS'000	<u>31.12.2016</u> TZS'000
Authorised Share Capital 600,000,000 Ordinary Share of Tzs 100 each	<u>60,000,000</u>	<u>60,000,000</u>
Issued and Fully Paid-Up Share Capital 310,000,000 Ordinary Shares Tzs 100 each	<u>31,000,000</u>	<u>31,000,000</u>

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

24. GOVERNMENT GRANT	31.12.2017	31.12.2016
	TZS'000	TZS'000
Value recorded of the buildings:		
ChakeChake building	685,870	685,870
Forodhani Building	155,230	155,230
Motor Trade building (Malindi)	2,538,896	-
Wete Hotel Building (Wete Pemba)	374,117	-
Makunduchi Building	227,923	-
Kiembesamaki (Mazizini) Land	396,000	-
Sub total	4,378,036	841,100
Amortization (cummulative) b/d	(73,947)	(64,111)
Amortization during the year	(117,015)	(9,835)
Sub total	(190,962)	(73,946)
Carrying amount	4,187,074	767,154

Government grant represents buildings donated by the Revolutionary Government of Zanzibar.

25. 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:

	31.12.2017	31.12.2016
	TZS'000	TZS'000
Opening balance	4,828,166	3,165,441
Additional reserve during the year	1,715,171	1,662,725
Utilization for NPL written off	(546,756)	-
Total	5,996,581	4,828,166
Analysed as:		
Provision per BOT regulations	8,233,013	7,404,276
Provision per IAS 39 approach	(2,236,432)	(2,576,110)
Excess over IAS39 Provision Taken to Regulatory Risk Reserve	5,996,581	4,828,166

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

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. GENERAL PROVISION RESERVE

A bank maintained general provisions reserve for credit accommodations which shall one (1) percentage of the outstanding balance consisting of principal, interest and all other charges and fees for which have been capitalized for credit accommodation classified as "current" category under The Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014.

27. OTHER RESERVES

	<u>31.12.2017</u>	<u>31.12.2016</u>
	TZS'000	TZS'000
Reserves comprise of the following:		
Foreign exchange translation on Security	75,988	69,781
Fixed Assets Revaluation Reserve	1,986,357	1,506,848
Retained Earnings	25,387,635	17,165,470
TOTAL	<u>27,449,980</u>	<u>18,742,099</u>

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:-

	<u>31.12.2017</u>	<u>31.12.2016</u>
	TZS'000	TZS'000
Particulars		
Balance Brought Forward	1,506,848	1,673,877
Revaluation Surplus on Derecognized Assets		
Transferred to Retained Earnings	479,509	(167,029)
TOTAL	<u>1,986,357</u>	<u>1,506,848</u>

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

28. INTEREST INCOME	2017	2016
	TZS'000	TZS'000
Interest on loan and advances		
Interest on commercial Loan and Overdrafts	3,687,736	3,741,616
Interest on Personal Loan	32,142,454	23,886,225
Sub total	35,830,190	27,627,841
Investment income		
Income on Treasury Bills	4,896,354	4,954,873
Income on Treasury Bonds	4,266,390	4,062,961
Interest on Foreign placements	577	706
Interest on Inter-bank lending	1,089,745	1,696,464
Interest on Repo	4,603	-
Sub total	10,257,669	10,715,004
Total	46,087,859	38,342,845
29. INTEREST EXPENSES	2017	2016
	TZS'000	TZS'000
Interest on Deposit from customers		
Savings Deposits	1,633,553	1,393,537
Time Deposits - local	11,761,899	8,919,330
Time Deposits - foreign	142,197	127,697
Trust current account local	118,248	-
	13,655,897	10,440,563
Interest on borrowing		
Interest on Corporate Bond (Debt security in issue)	765,227	831,076
Interest on TMRC Loan	69,827	0
Interest on borrowings	98,329	78,669
	933,383	909,745
Total interest expenses	14,589,280	11,350,309
30. FEES AND COMMISSION INCOME (NET)	2017	2016
	TZS'000	TZS'000
Fees and commission income (Note 30A)	7,387,805	7,152,493
Fees and Commission expenses	(553,514)	(409,208)
	6,834,291	6,743,285

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

30A. FEES AND COMMISSION INCOME	2017	2016
	TZS'000	TZS'000
Bank Commissions	4,528,830	4,990,093
Discounts (Reimbursement Income)	-	1,797
Ledger fees	319,347	259,980
Sales of Cheque Books	97,021	96,851
Loans application and authorization Fees	2,442,607	1,803,772
	7,387,805	7,152,493
31. INCOME FROM ISLAMIC FINANCING	2017	2016
	TZS'000	TZS'000
Personal Murabaha	3,391,876	2,614,299
Commercial Murabaha	2,326,295	2,212,469
Staff Murabaha	52,753	34,189
Educational (personal)	40,631	30,807
Educational (staff)	598	329
Motgage (personal)	14,352	17,216
Murabaha Accont (Personal)	484	3,636
Staff BaiMuajjal	12,318	46,193
Ijarah personal (old)	262	582
Istisna Personal	6,731	1,242
Istisna Staff	630	0
Istisna Commercial	94,786	0
	5,941,716	4,960,962
32. FOREIGN CURRENCY EXCHANGE INCOME (NET)	2017	2016
	TZS'000	TZS'000
Foreign Exchange gain	5,330,571	5,083,039
Foreign Exchange loss	(201,749)	(172,678)
Revaluation Loss	(1,359,831)	(259,859)
TOTAL	3,768,991	4,650,502

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

33. OTHER OPERATING INCOME	2017	2016
	TZS'000	TZS'000
Impairment loss recovery –other assets	285,456	0
Sundry income	2,119,814	2,051,474
Dividend Income (Equity investment)	6,754	13,109
Recovery from charged off debtors	741,800	308,466
Amortization of Grants	117,015	9,835
TOTAL	3,270,839	2,382,884

Note: Item of sundry income mostly comprised of realization of long term unclaimed (liability) suspense accounts, over-the-counter withdrawal charge and disbursement fee.

34. ASSETS WRITEN OFF	2017	2016
	TZS'000	TZS'000
Loan and advance	1,512,852	1,302,148
Stock of stationery and printing matters	-	2,304
Cash BOT deposits shortage	703	57
ATM Shortage	660	-
Intangible Asset – Core Banking System (CiBs)	-	43,229
Fixed assets discrepancy (net of depreciation)	-	1,305
TOTAL	1,514,215	1,349,043

35. PERSONNEL/STAFF COSTS	2017	2016
	TZS'000	TZS'000
Salaries and allowances to staff	6,980,011	6,889,042
ZSSF contribution (13%)	720,925	598,744
Skills and Development levy	329,277	318,745
Training Expenses	1,173,602	942,419
Long-term service award	49,200	21,770
Employees vacation leave	520,752	519,780
Employees medical care (medical insurance)	1,143,908	851,516
TOTAL	10,917,675	10,142,016

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

36. GENERAL AND ADMINISTRATION EXPENSES

	<u>2017</u>	<u>2016</u>
	TZS'000	TZS'000
Administrative Expenses	4,902,328	3,989,301
Depreciation of PPE and LHP improvement	1,860,032	1,715,553
Amortization of intangible assets	107,501	169,723
Travelling Expenses and Allowance	1,278,487	1,201,891
Repair and Maintenance	1,199,729	1,004,263
Audit Fees	95,050	94,297
Board Directors Fees & Allowances	527,566	369,291
Insurance expense	537,184	424,293
Security expenses	1,252,108	1,038,159
	<u>11,759,985</u>	<u>10,006,771</u>

37. OTHER OPERATING EXPENSES

	<u>2017</u>	<u>2016</u>
	TZS'000	TZS'000
Sundry Expenses(Note 37A)	2,203,132	943,399
Office Expenses	1,227,659	1,075,528
Loss on disposal of fixed asset	1,249	5,712
Loss on asset revaluation	556,698	-
Currency Transportation Expenses	48,845	42,186
Contribution to Deposits Insurance Fund	640,011	559,597
Stationeries Expenses	411,948	321,443
	<u>5,089,542</u>	<u>2,947,865</u>

37A. SUNDRY EXPENSES

	<u>2017</u>	<u>2016</u>
	TZS'000	TZS'000
Gratuity expense	9,520	18
Other expenses	1,269,490	664,435
Mobile SMS alert expense	16,498	0
Cheques printing expense	136,486	91,198
ATM card/PIN mailer printing (Instant issuing)	771,138	187,748
Total	<u>2,203,132</u>	<u>943,399</u>

Note: Other expenses was generally this year increased as a result of payment of fee to valuer of bank's properties, cost of medical referral to abroad for employees, motivation for review and new policies development and more sitting allowance to various management committees.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

38. PROVISION FOR TAX EXPENSE

The bank has made a provision for taxation of TZS7,688,057,086 being current tax charge and TZS558,661,877 being deferred tax for the year ended 31st December 2017.

	2017	2016
	TZS'000	TZS'000
Current tax charge for the current year	7,688,057	6,349,126
Deferred tax credit for the current year (Note 22)	558,662	831,167
Income tax expense	8,246,719	7,180,293

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:

	2017	2016
	TZS'000	TZS'000
Profit Before Income Tax	21,372,267	18,695,916
Tax Calculated on Statutory Income Tax Rate of 30%	6,411,681	5,608,775
Tax effect of:		
Expense not deductible for tax purpose	1,211,908	970,296
Items allowable for tax purpose	64,468	(229,946)
Deferred tax liability end of the year 2016	1,717,255	1,158,593
Deferred tax liability for prior year 2016	(1,158,593)	(327,425)
Income tax expense	8,246,719	7,180,293

39. CORPORATE TAX PAYABLE

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

	2017	2016
	TZS'000	TZS'000
Tax payable brought forward	949,126	-
Current tax charge for the year 2017	7,688,057	6,349,126
Provisional Tax paid for the year 2017	(6,349,126)	(5,400,000)
Tax payable at the end of the year	2,288,057	949,126

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

40. CASH AND CASH EQUIVALENTS

For the purpose of cash flow statement, cash and cash equivalents are made up of the following:

	31.12.2017	31.12.2016
	TZS'000	TZS'000
Local and Foreign cash on hand(Note 9)	33,436,755	27,823,110
Balance with BOT (Note 9)	76,987,498	62,897,754
Placements with Other Bank (Note 10)	62,082,330	52,422,098
Cheques & Items for Clearing	6,472	1,998
Treasury Bills maturing within 3 months(Note 11)	15,315,753	15,888,295
Cash and cash equivalents	187,828,808	159,033,255

41. 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 2017 were as follows:-

Zanzibar Government and its institutions deposits, loans and other transactions

	31.12.2017	31.12.2016
	TZS'000	TZS'000
Deposits:		
Local currency Deposits	69,725,285	52,716,118
Foreign currency Deposits	63,603,102	51,879,068
	133,328,387	104,595,186
Loan and advances		
Local currency O/D	5,235,553	29,620,370
Foreign currency loan	26,464,503	40,436,330
Interest		
Interest on loans earned by the Bank	396,920	396,920
Interest paid by the bank	6,909,693	4,756,293

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Other Transactions

Rent paid to MTC for Leasing Malindi branch	18,667	18,667
Rent paid to ZSSF for Leasing M/Kwerekwe branch	115,879	120,759
Zanzibar Airport Authority	-	9,473
Rent paid to ZECO	16,137	-
Rent to Zanzibar Ports Corporation	11,137	-
Rent/Land lease paid to ZRB	-	89,956
Rent paid to ZIC for Mpirani Bank Building	178,076	209,477

Director's Remuneration

A list of members of the Board of Directors is shown on page 2. For the period ended 31st December 2017, the total remuneration of Directors in the form of fees and allowances was TZS. 528 million among this TZS 36 million is a directors fee (2016: TZS. 369 million). Term loan facility approved to the directors was TZS 25 million for the period ended 31st December, 2017.

Key Management Personnel Benefits

For the period ended 31st December 2017, key management personnel as indicated in page 6 and 7 above, were advantaged for short term benefit of TZS 1,006 million (2016: TZS 1,145 million) and they enjoyed with term loan/financing facilities of TZS 662.35 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.

42. CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees, Letter of Credits and Undrawn OD facilities

	<u>31.12.2017</u>	<u>31.12.2016</u>
	TZS'000	TZS'000
Local and foreign guarantees	4,938,658	5,930,212
Usance and sight letter of credit	50,187	4,170,168
Undrawn unexpired overdraft facilities	1,853,531	1,970,319
Total	<u><u>6,842,376</u></u>	<u><u>12,070,699</u></u>

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**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Uncalled Capital in Afreximbank

As at 31st December, 2017, 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.

43. 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:-

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1. Balance sheet Assets (net of provisions)			
	Nominal Balance sheet amounts	Risk weight	Risk weighted amounts
Cash	33,436,755,099	0%	-
Balances with Bank of Tanzania	76,987,498,884	0%	-
Balances with Other Banks	23,095,433,806	20%	4,619,086,761
Cheques and Items for Clearing	6,471,538	50%	3,236,393
Investment in Debt Securities	74,519,569,207	0%	-
Interbank loans receivable	38,986,896,000	20%	7,797,379,200
Loans, Advances and Overdrafts			-
i. Loan and advances			-
a. Loans secured by cash	8,904,558,485	0%	-
b. Loans to local Gov't unit	0	100%	-
c. Other loan and advances	301,402,618,962	100%	301,402,618,962
ii Overdrafts			-
a. secured by cash	0	0%	-
b. Other overdrafts	9,610,358,597	100%	9,610,358,597
ii Restructured			-
a. Secured by cash			-
b. Other	0	100%	0
Bills Receivable	0	100%	-
Equity Investments	761,150,073	100%	761,150,073
Property, Plant and Equipment	16,180,593,804	100%	16,180,593,804
Inter branch float items			-
a. Outstanding for 30 days or less	956,509,524	50%	478,254,762
b. Outstanding for 31 days or more	0	100%	-
Stamp Account	0	0%	-
Interest Receivable on Treasury bills and bonds	2,588,168,232	100%	2,588,168,232
Sundry Debtors (staff advance & imprest)	431,585,174	100%	431,585,174
Prepaid Expenses (Deduction from core capital)	1,515,741,789	0%	-
Shortages, Misappropriations & Forgeries	(137,856,000)	100%	(137,856,000)
Intangible Assets (software) [Deduction from core capital]	3,505,146,391	0%	-
Other Assets	9,759,875,055	100%	9,759,875,055
TOTAL RWA	602,511,074,620		353,494,450,390

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**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. Off-Balance Sheet Position					
	Credit conversion factor	O/S Balance (Net of Allow for losses)	Credit Equivalent	Risk Weight	Risk Weighted Amount
Letter of Credit and Guarantees					
Sight Import Letter of Credit Secured by cash/deposits	20%	50,186,975	10,037,395	0%	-
Guarantees for loans, Trade & Securities Secured by other than cash/deposits	100%	1,685,382,421	1,685,382,421	100%	1,685,382,421
Shipping Guarantees Secured by cash/deposit	50%	50,000,000	25,000,000	0%	-
Secured by cash/deposits	50%	69,237,800	34,618,900	0%	-
Performance Bonds Secured by cash/deposits Others	50%	890,705,142	445,352,571	100%	445,352,571
Bid Bonds Secured by cash/deposits	50%	155,058,000	77,529,000	0%	-
Bid Bonds Secured by cash/deposits Others	50%	2,088,275,000	1,044,137,500	100%	1,044,137,500
		4,938,658,363			3,174,872,492
Undrawn Balance of Unexpired Overdraft					
Secured by cash/deposit/BOT Securities/Government	100%	28,012,351	28,012,351	0%	0
Secured by non cash	100%	1,825,518,616	1,825,518,616	100%	1,825,518,616
		1,853,530,967			1,825,518,616
TOTAL RWOBSSE		6,842,376,305			5,000,391,108

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**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. Market Risk (Foreign Exchange Risk)			
	Absolute value	Multiplier factor	Risk Weighted Amount
	TZS		TZS
Net Open Position (NOP)	220,360,765	8.33	1,836,339,708

4. Operational Risk			
	Absolute value	Multiplier factor	Risk Weighted Amount
	TZS		TZS
15% of average of 3 years gross income	6,411,883,198	8.33	53,432,359,985

ADJUSTED RWA& BSE (Summary)

Amount in TZS

Risk weighted assets (1)	353,494,450,390
Risk weighted off balance sheet exposure (2)	5,000,391,108
Market Risk (3)	1,836,339,708
Operational Risk (4)	53,432,359,985
Adjusted Risk Weighted Assets and off balance sheet exposure	413,763,541,191

COMPOSITION OF CAPITAL

Core Capital (Tier 1):

	TZS
Paid up ordinary share capital	31,000,000,000
Capital grant	4,187,073,489
Retained earning	12,262,086,339
Qualifying year to date profits	13,125,548,376
	60,574,708,204

Total

Deductions

Prepaid expenses	1,515,741,789
Intangible assets	3,505,146,391
Available core capital	55,553,820,024

Less: Minimum Capital Requirement (Core Capital)

51,720,442,649

Excess/(Deficiency) Core Capital

3,833,377,375

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**NOTES TO THE AUDITED FINANCIAL STATEMENTS (continued)
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Supplementary (tier 2) capital:

	TZS
Securities revaluation reserve	75,988,079
Subordinate debt (Bond) (not to exceed 50% of core capital)	5,000,000,000
General provision	2,980,440,150
Available Supplementary Capital	8,056,428,229

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

	7,206,623,624
Minimum capital requirement	7,206,623,624
Excess/(deficiency) capital	0

Capital Adequacy ratios:

Core capital (tier 1)	13.43%
Total capital (tier 1 & tier 2)	15.37%

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.

44. PERFORMANCE INDICATORS

Statement of Financial Position

	31.12.2017	31.12.2016
	%	%
(i) Shareholder's fund to Total Assets	11.88	11.48
(ii) Non performing loans to Total gross Loans	4.83	4.73
(iii) Gross Loans to Total deposits	55.70	63.88
(iv) Gross Islamic financing to Islamic deposits	49.43	41.54
(v) Loans Total Assets	53.96	53.70
(vi) Earning assets to Total Assets	67.85	75.56
(vii) Total deposit growth	19.68	5.00
(viii) Islamic deposit growth	-7.93	3.48

Statement of Profit or Loss and Other Comprehensive Income

(i) Return on Average Total Assets	3.86	3.86
(ii) Return On Capital (core capital)	23.63	24.62
(iii) Return On Shareholder Fund	20.28	22.05
(iv) Interest Expenses to Interest Income	31.66	29.60
(v) Interest Margin to Average Earning Assets	0.1	7.52