AZANIA BANK LIMITED

DIRECTORS REPORT

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

AZANIA BANK LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

HEAD OFFICE
Mawasiliano Towers
P.O. Box 32089
Dar es Salaam
Tanzania.

REGISTERED OFFICE
Mawasiliano Towers
P.O. Box 32089
Dar es Salaam
Tanzania.

CORRESPONDENT BANKS

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

EBI SA Groupe Ecobank
Les Collines de L'Arche
Immeuble Concorde F
92057 Paris La Défense Cedex
Tel.: +33(0)1 70 92 21 00
Fax : +33(0)1 70 92 20 89
Email:ebifr@ecobank.com

MAIN BANKERS

Bank of Tanzania
10 Mirambo Street
P.O. Box 2939
Dar es Salaam
Tanzania

Stanbic Bank Tanzania Limited
P.O. Box 72647
Dar es Salaam
Tanzania

CRDB Bank Limited
P.O. Box 72344
Dar es Salaam
Tanzania

LAWYERS
Hallmark Attorneys
Ocean Road
P.O. Box 13811
Dar es Salaam
Tanzania

COMPANY SECRETARY
Mr. Geofrey N. Dimoso
Mawasiliano Towers
P.O. Box 32089
Dar es Salaam
Tanzania

AUDITORS
Ernst & Young
Certified Public Accountants
Utalii House 36 Laibon Road, Oysterbay
P.O. Box 2475
Dar es Salaam
Tanzania

6 REVIEW OF FINANCIAL POSITION (Continued)

Financial instruments held to maturity

The increase in investment in financial instruments by TZS 368 million (2%) relates to investment in treasury bills and equity investment in Tanzania Mortgage Refinance Company Limited (TMRC). The surplus funds were reinvested in short term placements to improve the Bank's liquidity maturity profile.

Balances with other banks

Balances with other banks decreased by TZS 11,201 million (59%) from prior year. The decrease was due to the closure of Commerzbank accounts and the decrease in interest yielding short term placements with banks.

Loans and advances

The loans and advances increased by TZS 41,859 million (27%) on account of growth in credit facilities to existing and new customers.

Intangible assets

Intangible assets decreased by TZS 171 million (24%) from prior year. The decrease was due to amortization of intangible assets.

Deposits

Deposits increased by TZS 46,770 million (23%) through growth in customer base with the expansion of the branch network and increased marketing activities.

Long term borrowing

The net increase in long term borrowings by TZS 2,428 (26%) million is attributed to increase in borrowing from TMRC by TZS 5,000 million to refinance mortgage portfolio thereby bridging the gap of asset and liability mismatch. The difference relate to repayments on Oikocredit, NSSF, PPF and UN Habitat facilities.

Other liabilities

Other liabilities decreased by TZS 724 million (28%) mainly due to decrease in balances relating to the letters of credit shipping guarantee at the year - end compared to previous year.

Key efficiency ratios

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

	2013	2012
Total capital to total assets	10.97%	13.62%
Net non-performing loans to total advances	4.76%	4.70%
Gross loans to total deposits	75.61%	72.83%
Loans to total assets	66.23%	61.03%
Liquidity Ratio	13.49%	24.58%

7 GOING CONCERN AND SOLVENCY EVALUATION

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

8 ACCOUNTING POLICIES

The annual financial statements are prepared on the underlying assumption of a going concern. The Bank's accounting policies, which are laid out in Note 4 are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

9 ACQUISITIONS AND DISPOSALS

There was no material disposal or acquisition of business during year 2013 (2012: Nil).

10 FUTURE DEVELOPMENTS

The future development plans centres around improved efficiency and control and improve quality of service delivery to customers through introduction of technological driven innovative solutions. In this endeavour, the following priority areas have been identified:

- Value maximization through introduction of new products and services;
- Introduce various measures to manage operating expenses and cost of funding;
- Increase proportion of non-interest income to total income through introduction of new services and various alternate banking channels;
- Enhance Information and Communication Technology (ICT) platform to support innovation and financial inclusion to benefit our customers and other stakeholders;
- Open a new branch in Tunduma, a new agency in Rwagasore and relocation of Masdo branch from Masdo House to Tancot House;
- Introduce new products such as 'Dhamira accounts' to enhance financial inclusiveness; and
- Undertake diagnostic review of the bank's operations, performance and organization structure.

11 DIVIDEND

The Board of Directors does not propose payment of dividend for the year 2013 (2012: Nil).

12 MANAGEMENT OF THE BANK

The Bank is under the supervision of the Board of Directors and the day to day management is entrusted to the Managing Director.

Azania Bank Limited has a broad based Board of Directors comprising of Non Executive Directors. The Chairman and all other members of the Board of Directors represent institutional shareholders while one director represents minority shareholders.

The organization structure of the Bank comprises the following Departments: Credit, Finance, Managing Director's Office, Legal Services, Banking Operations, Management Information Technology, Human Resources and Administration and Internal Audit (Reporting to the Board Audit Committee).

The Managing Director reports to the Board and the Department directors report to the Managing Director.

13 COMPOSITION OF THE BOARD OF DIRECTORS

The Directors of the Bank, who held office throughout the year were as follows:

Name	Position	Age	Qualifications / Discipline	Nationality	Date of Appointment
Mr. William E. Erio	Chairman	50	Master of Laws	Tanzanian	12 September 2005
Mr. Yacoub M. Kidula	V/Chairperson	53	MBA Finance	Tanzanian	15 May 2008
Mr. Nathan E. Mnyawami	Member	46	M.A. Economics	Tanzanian	6 August 2009
Mr. Gabriel J. Silayo	Member	45	M.A. Economics	Tanzanian	27 June 2006
Mr. Andulile J.Mwakalyelye	Member	54	M.A. Economics	Tanzanian	21 February 2008
Mr. Eliudi B. Sanga	Member	52	M.A. Economics	Tanzanian	24 June 2010
Mr. Ludovick S. Mrosso	Member	56	MBA, CPA (T)	Tanzanian	23 December 2010
Mr. Arnold B. Kilewo	Member	75	L.L.B. – London AMP - Harvard	Tanzanian	11 April 2011
Mr. Charles G. Singili	Member	56	CPA (T), B.Com Accountancy	Tanzanian	2 September 2005

It is important to note that Mr. William E. Erio has retired from the Board after completing two consecutive terms while Mr. Andulile J. Mwakalyelye resigned after conclusion of his contract with East African Development Bank (EADB). The newly appointed directors to replace the two are Ms Assumpta Mallya to represent PPF and Mrs Juliana Sweke to represent EADB.

The Directors of the Bank are all non-executive except for the Managing Director.

The Company Secretary as at 31 December 2013 was Mr. Geofrey N. Dimoso who also performs legal advisory activities for the Bank as Director of Legal Services.

14 DIRECTORS' INTEREST

Mr. Arnold B. Kilewo and Mr. Charles G. Singili have interest in the share capital of the Bank forming part of minority shareholding as disclosed below in note 16 of the Directors' report. They hold 0.12% and 0.02% of the ordinary share capital reported as at 31 December 2013 and 2012, respectively.

15 DIRECTORS' REMUNERATION

The remuneration for services rendered by the non-executive Directors of the Bank in 2013 was TZS 55 million (2012: TZS 62 million).

16 CAPITAL STRUCTURE AND SHAREHOLDING

i) Capital Structure

Authorised share capital

- 100,000,000 Ordinary Shares of TZS 1,000 each
- 1,000,000 Non-cumulative irredeemable preference shares of TZS 1,000 each
- 2,000,000 Convertible loan stock of TZS 1,000 each

Paid up share capital and share premium

- 23,637,594 Ordinary shares of TZS 1,000 each (2012: 23,634,081 shares of TZS 1,000 each).
- 69,444 Non-cumulative irredeemable preference shares of TZS 1,000 each (2012: 69,444 shares of TZS 1,000 each).
- 200,000 Convertible loan stock of TZS 1,000 each (2012: 200,000 Convertible loan stock of TZS 1,000 each).

In addition, there is share premium of TZS 6,746 million (2012: TZS 6,274 million).

ii) Shareholding

As at 31st December 2013, the following shareholders held shares in Azania Bank Limited:

Ordinary Shares

Name of the shareholders	Number of shares held	(%)
National Social Security Fund (NSSF)	8,218,778	34.77
PPF Pensions Fund (PPF)	7,110,318	30.08
Public Service Pensions Fund (PSPF)	4,057,143	17.16
Local Authorities Pensions Fund (LAPF)	3,351,229	14.18
East African Development Bank (EADB)	550,000	2.33
Minority Shareholders (less than 1% each)	350,127	1.48
Total	**23,637,594**	**100.00**

Preference Shares

Name of the shareholders	Number of shares held	(%)
National Social Security Fund (NSSF)	55,555	80
PPF Pensions Fund (PPF)	13,889	20
Total	**69,444**	**100.00**

Convertible Loan Stock

Name of the shareholder	Number of shares held	(%)
PPF Pensions Fund (PPF)	200,000	100.00
Total	**200,000**	**100.00**

Note: Shares of the Bank are not publicly traded.

17 SUBSEQUENT EVENTS

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

18 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 statement of financial position, commitments not recognized in the statement of financial position and market and other risk positions at a weighted amount to reflect their relative risk.

The Bank's capital adequacy ratios are included below:

	Nominal Statement of financial position	Risk weighted	Nominal Statement of financial position	Risk weighted
	2013	2013	2012	2012
	TZS'000	TZS'000	TZS'000	TZS'000
Cash balance	15,296,413	-	18,363,725	-
Balances with Bank of Tanzania	46,220,328	-	25,434,201	-
Balances with other banks	7,858,435	1,531,567	19,059,489	4,713,990
Financial instruments held to maturity	19,363,150	2,020,000	18,995,194	2,020,000
Loans and advances	199,699,278	184,378,636	157,840,665	143,096,856
Leasehold improvement	2,795,517	2,656,756	3,330,661	2,252,701
Property and equipment	3,872,440	3,680,000	4,121,026	3,930,583
Intangible assets	528,667	-	700,070	-
Tax recoverable	591,062	591,062	591,393	160,073
Deferred tax asset	585,040	-	-	-
Other assets	4,702,404	4,577,266	4,411,759	3,075,603
Total assets	**301,512,734**	**199,435,297**	**252,848,183**	**159,249,806**
Not recognised positions				
Credit related commitments	18,601,410	6,979,586	4,139,856	1,842,439
Minimum Capital Required for Market Risk (NOP)		1,509,759		1,905,066
Total risk-weighted assets		**207,924,642**		**162,997,311**

	Capital	Ratios	Capital	Ratios
Tier 1 capital	25,939,940	12.5%	26,434,153	16.2%
Tier 1 + Tier 2 capital	26,139,940	12.6%	26,634,153	16.3%

19 CORPORATE GOVERNANCE

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

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

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

The Board held five (5) ordinary meetings, four (4) special meetings and three (3) extra ordinary meetings during the year. The special meetings were held to discuss and deliberate on various reports including; External Auditors' reports, the Bank's Annual General Meeting (AGM) reports, Bank of Tanzania (BOT) Report of Examination (ROE) and the Budget for the year 2014 while the extra ordinary meetings were held to discuss the Conditional Offer to Acquire Equity Ownership by a potential investor in the Bank.

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

Board Audit Committee

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

The members who served the Board Audit Committee during the year ended 31 December 2013 are detailed below:

Name	Position
Mr. Eliudi B. Sanga	Chairman
Mr. Yacoub M. Kidula	Member
Mr. Gabriel J. Silayo	Member
Mr. Arnold B. Kilewo	Member

The Committee meets four times in a year.

Board Credit Committee

This Committee is responsible for the review of the Bank's overall lending policy, conducting independent loan reviews, delegation and review of lending limits and is overall responsible for the management of Credit Risk.

19 CORPORATE GOVERNANCE (Continued)

The members who served the Board Credit Committee during the year ended 31 December 2013 are detailed below:

Name	Position
Mr. Andulile J.Mwakalyelye	Chairman
Mr. Ludovick S. Mrosso	Member
Mr. Nathan E. Mnyawami	Member
Mr. Charles G.Singili	Member

The Committee meets four times in a year.

Board Risk Management and Compliance Committee

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

The members who served the Risk Management and Compliance Committee during the year ended 31 December 2013 are detailed below:

Name	Position
Mr. Ludovick S. Mrosso	Chairman
Mr. Andulile J. Mwakalyelye	Member
Mr. Nathan E. Mnyawami	Member
Mr. Charles G. Singili	Member

The Committee meets four times in a year.

Board Human Resources Committee

This Committee was initially known as Board Recruitment and Remuneration Committee but was changed to Board Human Resources Committee due to expansion of its role in dealing with all matters pertaining to employees' welfare beyond recruitment and remuneration activities.

Members who served the Board Human Resources Committee during the year ended 31 December 2013 are detailed below:

Name	Position
Mr. Gabriel J. Silayo	Chairman
Mr. Eliudi B. Sanga	Member
Mr. Yacoub M. Kidula	Member
Mr. Arnold B. Kilewo	Member
Mr. Charles G. Singili	Member

The Committee meets two times in a year.

20 EMPLOYEES WELFARE

Relationship between management and employees
The relationship between employees and management continued to be cordial. Complaints are resolved through meetings and discussions. Work morale is good and there were no unresolved complaints from employees. The Bank provides training, medical assistance and loans to its employees. There is good teamwork between management and staff.

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

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

Medical facilities
All members of staff with a maximum number of five dependants for each employee are covered under the medical insurance scheme. Currently these services are provided by AAR Insurance (T) Limited.

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

Retirement benefits
The Bank makes contributions in respect of staff retirement benefits to statutory National Social Security Fund, PPF Pensions Fund (PPF) and Local Authorities Pensions Fund (LAPF).

The number of employees at the end of year totaled 246 as compared to 249 at the end of 2012.

21 DISABLED PERSONS

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

22 GENDER PARITY

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties. As at 31 December 2013, the Bank had a total of 246 of whom 135 were male (55%) and 111 (45%) female employees [2012: 130 were male (52%) and 119 female (48%) employees].

23 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 33 to these financial statements.

24 POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. However, in recognition of its responsibility as a corporate citizen, during the year the Bank donated to various organizations a total of TZS 50.9 million (2012: TZS 43.4 million).

25 CORPORATE SOCIAL RESPONSIBILITY

The Bank participates actively in community activities and development programmes throughout the country. Areas being given priority by the Bank are health, education, natural disasters' victims, disabled persons, security and sports.

26 AUDITORS

Ernst & Young are the auditors of the Bank for the year ended 31 December 2013 and they are eligible for re-appointment as this is their second year in auditing Azania Bank Limited.

Approved by the Board of Directors on 31-03-2014 and signed on its behalf by:

Name: Mr. Eliudi B. Sanga **Title: Director** **Signature:** ______

Name: Mr. Ludovick S. Mrosso **Title: Director** **Signature:** ______

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2013

The Tanzanian Companies Act, 2002 requires the Directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Bank as at the end of the 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 Companies Act 2002 and the Banking and Financial Institutions Act, 2006. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit or loss.

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: Mr. Eliudi B. Sanga **Signature:** ______ **Date:** 31/03/2014
DIRECTOR

Name: Mr. Ludovick S. Mrosso Signature: ______ **Date:** 31/03/2014
DIRECTOR

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Ernst & Young
Certified Public Accountants
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Fax: +255 22 2666948
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www.ey.com

INDEPENDENT AUDITORS' REPORT

To the shareholders of
AZANIA BANK LIMITED

Report on the financial statements

We have audited the accompanying financial statements of **Azania Bank Limited,** as set out on pages 16 to 74; which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Tanzanian Companies Act, 2002, and in compliance with the Banking and Financial Institutions Act, 2006 and for such internal controls as the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of **Azania Bank Limited** as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Tanzanian Companies Act, 2002 and the Banking and Financial Institutions Act, 2006.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the shareholders of
AZANIA BANK LIMITED

Report on other legal and regulatory requirements

This report, including the opinion, has been prepared for, and only for, the Bank's members as a body in accordance with the Tanzanian Companies Act, 2002, the Banking and Financial Institutions Act, 2006 and for no other purposes.

As required by the Tanzanian Companies Act, 2002, we report to you, based on our audit, that:

i. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose 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. The Directors' report is consistent with the financial statements;

iv. Information specified by law regarding directors' remuneration and transactions with the Bank is disclosed; and

v. The Bank's statement of financial position and the statement of comprehensive income are in agreement with the books of account.

Ernst & Young

Ernst & Young
Certified Public Accountants

Signed by: Neema Kiure Mssusa

Dar es Salaam

Date: 31 March 2014

AZANIA BANK LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 TZS '000'	2012 TZS '000'
Operating income			
Interest income	7	33,102,010	23,360,523
Interest expense	8	(16,833,765)	(11,489,430)
Net interest income		**16,268,245**	**11,871,093**
Fees and commissions	9	3,633,818	2,598,919
Other income	10	2,086,065	1,777,939
Foreign exchange income	11	1,104,675	866,719
		6,824,558	**5,243,577**
		23,092,802	**17,114,670**
Provision for impairment of loans and advances	20	(1,194,551)	(369,577)
Net operating income		**21,898,252**	**16,745,094**
Personnel costs	12	8,810,061	6,757,620
General and administration costs	13	8,875,909	6,563,959
Amortisation of leasehold improvement	22	517,367	365,806
Depreciation of property and equipment	21	958,085	939,760
Amortisation of intangible asset	23	322,845	264,979
Provision for bad and doubtful debts	25	118,037	83,904
Write off of irrecoverable receivables	25		55,225
Total operating expenses		**19,602,305**	**15,031,253**
Finance costs	14	1,388,726	1,290,706
Profit before tax		**907,221**	**423,135**
Income tax credit/(expense)	24	(538,697)	(512,539)
Profit/(loss) for the year		**368,524**	**(89,404)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**368,524**	**(89,404)**
Earnings per share			
Net income per share - basic (TZS)		15.54	(3.70)
Net income per share - diluted (TZS)		15.54	(3.70)

AZANIA BANK LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	2013 TZS '000'	2012 TZS '000'
Assets			
Cash balances	15	15,296,413	18,363,725
Balances with Bank of Tanzania	16	46,220,328	25,434,201
Balances with other Banks	17	7,858,435	19,059,489
Financial instruments held to maturity	18	19,363,150	18,995,194
Loans and advances	20	199,699,278	157,840,665
Property and equipment	21	2,795,517	4,121,026
Leasehold improvement	22	3,872,440	3,330,660
Intangible assets	23	528,667	700,070
Tax recoverable		591,393	591,393
Tax Receivable	24	445,132	
Deffered tax asset	24	324,869	-
Other assets	25	4,571,821	4,411,759
Total assets		**301,567,442**	**252,848,183**
Liabilities and equity			
Liabilities			
Due to customers	26	254,444,173	207,674,488
Revolving credit facilities	27	11,934,570	9,506,419
Other liabilities	28	1,854,894	2,585,079
Taxation payable	24	-	(95,314)
Loan stock (convertible)	29	200,000	200,000
Deferred tax liability	24	-	585,040
Total liabilities		**268,433,637**	**220,455,712**
Capital and Reserves			
Share capital	30	23,707,038	24,174,427
Share premium		6,745,860	6,273,551
Retained earnings		9,373	(520,372)
Regulatory reserves	32	2,303,644	2,464,865
Revaluation reserve		367,890	-
Total Capital and Reserves		**33,133,805**	**32,392,471**
Total Liabilities and Equity		**301,567,442**	**252,848,183**

These financial statements were authorised for issue by the Board of Directors on ______________________________, 2014 and were signed on behalf by:

Name: ELIUD B. SANGA Title: Chairman Signature: __________

Name: LUDOVICK S. MROSSO Title: Director Signature: __________

AZANIA BANK LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital TZS '000'	Share premium TZS '000'	Retained earnings TZS '000'	Revaluation Reserve TZS '000'	Regulatory reserves TZS '000'	Total TZS '000'
2013						
At 01 January	24,174,427	6,273,551	(520,372)	-	2,464,865	32,392,471
Profit for the year	-	-	368,524	-	-	368,524
Additional during the year	4,920	-	-	-	-	4,920
Transfer to share premium	(472,309)	472,309	-	367,890	-	367,890
Transfer to regulatory reserve	-	-	161,221	-	(161,221)	-
At 31 December	**23,707,038**	**6,745,860**	**9,373**	**367,890**	**2,303,644**	**33,133,805**
2012						
At 01 January	24,159,222	6,273,551	(189,040)	-	2,222,937	32,466,670
Loss for the year	-	-	(89,404)	-	-	(89,404)
Additional during the year	15,205	-	-	-	-	15,205
Transfer to regulatory reserve	-	-	(241,928)	-	241,928	-
At 31 December	**24,174,427**	**6,273,551**	**(520,372)**	**-**	**2,464,865**	**32,392,471**

AZANIA BANK LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 TZS '000	2012 TZS '000
Operating activities			
Profit before tax for the year		907,221	423,135
Adjustments for:			
Amortisation of leasehold improvements		517,367	365,806
Depreciation of property and equipment		958,085	939,760
Amortisation of intangible asset		322,845	264,979
Impairment charge on loans and advances		1,194,551	369,577
Provision for doubtful receivable		118,037	83,904
Write offs		-	55,225
Revaluation gain		194,839	-
Gain/loss on disposal of property and equipment		-	(2,120)
		3,305,724	2,077,130
Cash flow from operating profits before working capital changes		**4,212,945**	**2,500,265**
Changes in operating assets and liabilities			
Increase in statutory minimum reserves		(15,598,800)	(4,895,000)
(Increase)/decrease in loans and advances		(41,858,613)	(39,484,271)
Increase in other assets		(204,819)	(1,630,077)
(Decrease)/Increase in due to banks		-	(500,000)
Increase/(decrease) in due to customers		46,769,685	68,762,269
Decrease/(increase) in financial instruments held to maturity		(367,956)	2,393,325
Increase/(decrease) in other liabilities		(730,186)	910,704
		(7,777,743)	**28,057,214**
Tax paid	24	(225,000)	(425,000)
Net cash flows generated from operating activities		**(8,002,743)**	**27,632,214**
Investing activities			
Acquisition of leasehold improvement		(910,209)	(2,940,386)
Acquisition of property and equipments		(563,114)	(3,362,860)
Purchase of intangible assets		(38,046)	(62,645)
Proceeds from disposal of property and equipment		-	2,120
Equity investment (TMRC)/Umoja Switch		(1,000,000)	(20,000)
Net cash flows used in investing activities		**(2,511,368)**	**(6,383,771)**
Financing activities			
Proceeds/(repayments) revolving credit facilities		1,428,151	(2,184,974)
Proceeds from issuance of share capital		4,920	15,205
Net cash flows generated from financing activities		**1,433,071**	**(2,169,769)**
Increase/(decrease) in cash and cash equivalents		**(9,081,040)**	**19,078,674**
Cash and cash equivalents			
At the beginning of the year		42,018,345	22,939,672
At the end of the year	19	**32,937,305**	**42,018,345**

1 GENERAL INFORMATION

Azania Bank Tanzania Limited ('the Bank') is a limited liability company incorporated and domiciled in Tanzania. The Bank's shares are not publicly traded. The address of its registered office is as hereunder:

Azania Bank Limited
Mawasiliano Towers, Sam Nujoma Road
P.O. Box 32089
Dar Es Salaam, Tanzania

The principal activity of Azania Bank Limited is the provision of a broad range of banking and financial services to the general public as stipulated by the Banking and Financial Institutions Act, 2006. There has been no significant change in the principal activities of the Bank during the financial year ended 31 December 2013.

The financial statements of Azania Bank Limited for the year ended 31 December 2013 were authorized for issue in accordance with the Board resolution on **31st March 2014** and were signed on their behalf as shown in the Statement of Financial Position.

2 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 and Interpretations to those Standards for assets and liabilities to be stated at their fair value or amortised cost as disclosed in the accounting policies hereafter. The financial statements are presented in Tanzania Shillings (TZS) except where explicitly stated.

Statement of compliance

The financial statements of Azania Bank Limited have been prepared in accordance with International Financial Reporting Standards (IFRSs) and Interpretations to those Standards, and comply with the Tanzanian Companies Act, 2002 and the Banking and Financial Institutions Act, 2006.

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 37.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and Interpretations
The accounting policies adopted are consistent with those of previous financial year, except for the following new and amended IFRS and IFRIC interpretation effective as of January 2013:

IFRS 7 Offsetting financial assets and financial liabilities
These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g. Collateral agreements). The disclosures will provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. The company has adopted the amendments, although have no impact on its financial position

IAS 19 Employee Benefits (Revised 2011)
The 'corridor approach' currently allowed as an alternative basis in IAS 19 for the recognition of actuarial gains and losses on defined benefit plans has been removed. Actuarial gains and losses in respect of defined benefit plans are now recognised in OCI when they occur. For defined benefit plans, the amounts recorded in profit or loss are limited to current and past service costs, gains and losses on settlements and interest income/ expense The distinction between short-term and other long term benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits. In many instances this is expected to have a significant impact on the manner in which leave pay and similar liabilities are currently classified.
The amendments are effective as of 1 January 2013 and have no impact on banks financial positions

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 1 Government Loans – Amendments to IFRS 1
These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Company.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Company as the Company has no joint ventures or joint arrangements.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities.IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the Company as the Company has no subsidiaries, joint ventures or joint arrangements. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Company's financial position or performance

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Company.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is has assessed the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 1 First time adoption
A first-time adopter may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first financial statements. The amendment is effectively immediately.

IFRS 13 Fair value measurements
With respect to the para 52 on portfolio exception, the portfolio exception can be applied to financial assets, financial liabilities and other contracts. The amendment is effective prospectively.

IAS 16 Properties, Plant and Equipment

The amendment clarifies that servicing equipment is Property, Plant and Equipment (PP&E) when used during more than one period; it should otherwise be classified as inventory.
The amendment deletes the requirement that spare parts and servicing equipment used only in connection with an item of PP&E should be classified as PP&E.

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.

Recognition of income and expenses

Revenue is recognised 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 recognised:

Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as 'other operating income'.

However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the (EIR) from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fees and commission income

The Bank earns fees and commission income from diverse range of services it provides to its customers. Fees income can be divided into the following categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Other income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. Other income is recognized in the period in which it is earned.

Employees' benefits including post employment benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognised as an expense in the profit or loss in the period the employees render the services.

Post retirement benefits

The Bank operates a defined contribution plan whereby each of its employees and the Bank contribute 5% and 15%, respectively of the employee's monthly salaries to state owned and managed (statutory) Funds, namely, the National Social Security Fund (NSSF), PPF Pensions Fund (PPF) and Local Authorities Pensions Fund (LAPF). The contributions are recorded as an expense under "Personnel expenses" in the year to which they relate. Unpaid contributions are recognized as a liability.

The Bank has also established Group Endowment Scheme (GES) that provide a lump-sum benefit (gratuity) on the basis of member's last basic salary times the number of completed months of service to Azania Bank in case the following events occur: Voluntary retirement from the age of 55 to 59 years, Compulsory retirement at the age of 60 years, Early retirement on medical grounds, Employment termination due to restructuring and by natural attrition. Currently out of 246 employees as beneficiaries, on the basis of compulsory retirement 2 employees are due up to the year 2017, 8 up to year 2022, 16 up to year 2027, 23 up to year 2032 and 197 up to year 2044.

The Bank has engaged African Life Assurance (ALA) to manage the GES where the arrangement is contribute annually TZS 350m to build up the fund to cover both the past and present retirement benefits for the existing employees.

Other employee benefits

The Bank provides free medical treatment to staff and their dependants. The cost is recorded as an expense under "personnel expense". The estimated monetary liability for employees' accrued leave entitlement at the reporting date is recognised as an expense accrual.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, excluding the costs of day-to-day servicing. Costs of replacing part of the property and equipment and major inspection cost are capitalized if the recognition criteria are met.

Borrowing costs for long-term projects are capitalized if they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other repair and maintenance costs are recognised in profit or loss as incurred.

Property and equipment (Continued)

Depreciation is calculated on straight line basis to write down the cost of the asset to its residual value over the estimated useful economic life at the following rates:

Description	Years
Motor vehicles	5
Furniture and fittings	6.67
Office equipment	5
Computer equipment	5

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised. The asset's residual values, useful lives and methods are reviewed at each financial year end, and adjusted prospectively if appropriate.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. (Refer to accounting policy on impairments of non-financial assets).

Intangible assets

The Bank's intangible assets include the value of computer software, banking software and Umoja Switch Consortium licenses more than 12 months.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

An intangible asset is recognised 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. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as change in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income through profit or loss in the expense category consistent with the function of the intangible asset. Amortisation is calculated using the straight line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Description	Number of years
Computer Software	5
Banking software	5
Umoja Consortium Licenses	Indefinite life

Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the profit or loss in the statement of comprehensive income on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold improvements

Leases of leasehold improvements are classified as operating leases; these include improvements made on leased Bank buildings for its head office and branches. The total payments made under operating leases are charged to the statement of comprehensive income through profit or loss account on a straight-line basis over the life of the lease period. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leasehold improvements are stated at cost, less accumulated amortisation and accumulated impairment in value. Leasehold improvements amortisations are calculated on straight line basis at annual rates estimated to write down the carrying values of the assets to their residual value over their expected useful lives. The annual amortisations of operating leasehold improvements in use is:

Leasehold improvements	10 years

No amortisation charge is made to leasehold improvements work in progress under office renovation.

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 recognised 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 recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the profit or loss in the statement of comprehensive income.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments - initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognised 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 measurement of 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.

Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Other income'. Interest and dividend income or expense is recorded in 'Other income' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, equities and short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other income' when the right to the payment has been established.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available-for-sale financial investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. The Bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income and accumulated in equity in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss in 'Other operating income'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the profit or loss as 'Other income' when the right of the payment has been established, the losses arising from impairment of such investments are recognised in profit or loss and removed from the 'Available-for-sale reserve'.

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 amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the statement of comprehensive income.

The losses arising from impairment of such investments are recognised in statement of comprehensive income 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 have to 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.

Placements with banks and loans and advances

'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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

After initial measurement, amounts 'Placements with banks' and 'Loans and advances' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised 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 amortisation is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognised in statement of comprehensive income as part of "Credit loss expense".

The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event).

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised 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 recognised to the extent of the Bank's continuing involvement in the asset.

In that case, the Bank also recognises 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 derecognised 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 recognised in profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net trading income'.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

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 reorganisation 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised 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, recognised 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 recognised 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 realised 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 recognised, the previously recognised 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 collateralised 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based 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'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss in the statement of comprehensive income. There are no equity investments classified as available for sale.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised 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 amortisation is included in finance cost in the profit or loss in the statement of comprehensive income.

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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

Acceptances and letters of credit

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off statement of financial position transactions and disclosed as contingent liabilities. Estimates of the outcome and financial effect of contingent liabilities is made by management based on information available up to the date the financial statements are approved for issue by directors. Any expected loss is charged to the profit or loss in the statement of comprehensive income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents referred in the cash flow 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, due from banks on demand and investments with maturity periods of three months or less in money market instruments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currency translation

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

Transactions and balances

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 'Other operating income' in statement of comprehensive income.

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.

Taxes

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

Deferred tax
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 recognised for all taxable temporary differences, except:

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax (Continued)

- 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 recognised 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 utilised 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 recognised 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 utilised.

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. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised 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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity or other comprehensive income are also recognised 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Value added tax

Revenues, expenses and assets are recognised 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 recognised as an asset or liability in the statement of financial position.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Segment reporting

The Bank's segmental reporting is based on the integrated nature of its activities and its branches; it is reported as one business segment.

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 recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

a) 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 utilisation, 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). The impairment loss on loans and advances is disclosed in more detail in note 20.

b) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

c) Held to maturity investments

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

6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2018. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will not have an impact on classification and measurements of the Bank's financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued

Annual improvements project
In November 2012, the IASB published an exposure draft of 4 proposed amendments to 4 IFRSs under its annual improvements project (cycle 2011-2013). In December 2013, the final amendments were published. The effective date and transition, unless otherwise noted, the amendments should be effective for annual periods beginning on or after 1st July 2014. The amendments are generally effective prospectively as below

IFRS 3 Scope exceptions for joint ventures
Joint arrangements are outside the scope of IFRS 3, not just joint ventures as before. The scope exceptions apply only to the accounting in the financial statements of the joint arrangements itself. The amendment is effective prospectively.

IFRS 13 Fair value measurements
With respect to the para 52 on portfolio exception, the portfolio exception can be applied to financial assets, financial liabilities and other contracts. The amendment is effective prospectively.

IAS 40 Investment properties
The pronouncement clarifies Interrelationship of IFRS 3 and IAS 40 when classifying property as investment property (IP) or owner-occupied property. Description of ancillary services in IAS 40 differentiates between Investment property and owner-occupied property. IFRS 3 is used to determine if transaction is the purchase of an asset or a business combination.

6. STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39*

The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments are applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy. However, entities that discontinued hedge accounting in the past, because of a novation that would be in the scope of the amendments, may not reinstate that previous hedging relationship. Earlier application is permitted and must be disclosed.

IAS 36 Recoverable Amount Disclosures for Non- Financial Assets

The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets as originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment.amendments will have no impact on the Bank's financial statements as the Bank has no entities under its control.

IFRIC 21 *Levies*

IFRIC 21 is applicable to all levies other than outflows that are within the scope of other standards (e.g., IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised before the specified minimum threshold is reached.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company

		2013	2012
		TZS '000	TZS '000
7	**INTEREST INCOME**		
	Loans and advances	30,094,729	20,793,075
	Placements with banks	1,078,924	557,458
	Debt securities	1,928,358	2,009,990
		33,102,010	**23,360,523**
8	**INTEREST EXPENSE**		
	Personal deposits	3,505,395	951,251
	Corporate deposits	3,241,620	801,033
	Charity/Socities/Clubs/Schools/Clubs	3,200	6,372
	Banks	2,777,363	1,413,738
	Non Bank and Financial Institutions	5,821,429	7,038,248
	Current and savings accounts	1,484,758	1,278,788
		16,833,765	**11,489,430**
9	**FEES AND COMMISSIONS**		
	Minimun balance fee	551,750	498,999
	Security perfection	609,988	396,328
	Sundries	703,093	394,809
	Ledger fee - Savings and Current account	618,509	532,613
	Telegraphic charges	312,518	207,732
	Loan insurance	96,529	179,228
	Guarantee indemnities	393,297	126,721
	Special clearance - LCY	56,750	44,126
	Recover on cheque books	40,962	32,323
	Letters of credit (LCs inward)	5,664	30,310
	Collaterals insurance	93,172	26,031
	Western union	24,053	23,985
	Salary processing	31,941	23,463
	Unpaid cheques - LCY	20,150	22,326
	Statement fees	20,987	14,632
	M-Pesa	13,460	12,111
	Other miscellaneous income	40,995	33,180
		3,633,818	**2,598,919**

		2013	2012
		TZS '000	TZS '000
10	**OTHER INCOME**		
	Loan arrears fee	1,356,157	1,218,914
	Sundry income	491,172	344,149
	ATM income	101,788	85,332
	Recoveries	111,445	87,398
	Telex/Cable charges	12,930	21,077
	TRA revenue collection	8,000	13,600
	Courier/Postage charge	4,574	5,349
	Profit on disposal of fixed assets	-	2,120
		2,086,065	**1,777,939**
11	**FOREIGN EXCHANGE INCOME**		
	Trading account	877,986	822,033
	Fund transfer	147,950	28,970
	Western union	11,042	9,843
	Sundries	68,589	5,873
	Exchange on sales and purchases	208	-
	Exchange loss	(1,100)	-
		1,104,675	**866,719**
12	**PERSONNEL COSTS**		
	Wages and salaries	5,894,032	4,752,298
	Retirement benefit contribution	1,314,922	969,475
	Staff medical insurance	272,097	158,289
	Leave travel	469,406	362,353
	Staff training	556,185	329,340
	Allowances	195,882	78,784
	Uniforms	65,249	60,375
	Realocation	36,040	42,420
	Commlttee meetings	6,250	4,285
		8,810,061	**6,757,620**

The average number of employees during the year and at the end of the year was 249 (2011:189)

		2013	2012
13	**GENERAL AND ADMINISTRATION EXPENSES**		
	Auditors' remuneration	28,911	50,603
	Consumables	64,557	28,090
	Burial support	3,500	6,800
	Utilities	428,530	419,370
	Subscription	39,313	51,455
	Premises costs	1,616,632	1,396,772
	Generator repair and maintenance	182,830	146,274
	Sub total	**2,364,272**	**2,099,363**

	2013	2012
	TZS '000	TZS '000

13 GENERAL AND ADMINISTRATION EXPENSES (Continued)

	2013 TZS '000	2012 TZS '000
Motor vehicle security	174,840	117,164
Computer accessories	304,234	249,639
Household equipment and accessories	149,654	76,202
Insurance cost	260,032	64,026
Deposit Insurance Fund	273,456	223,221
Board directors training	229,918	222,306
Stationery cost - accessories	519,540	459,720
Advertising - Brochures	718,149	740,648
Security cost	647,865	466,652
SWIFT expenses	63,164	30,897
Communocation and postage	829,766	600,413
Travel cost	477,529	293,788
ATM expenses	316,027	366,935
Tax consultancy fee	49,620	58,581
Legal and professional fee	209,636	114,207
Entertainment expenses	28,858	62,606
Other operating expenses	1,103,678	291,036
Bank charges	155,670	26,556
Sub total	**6,511,637**	**4,464,596**
Total	**8,875,909**	**6,563,959**

14 FINANCE COSTS

	2013 TZS '000	2012 TZS '000
Credit lines and other borrowings	1,388,726	1,290,706
	1,388,726	**1,290,706**

15 CASH BALANCE

	2013 TZS '000	2012 TZS '000
Local currency	11,568,025	12,866,235
Foreign currency	3,728,388	5,497,490
	15,296,413	**18,363,725**

16 BALANCES WITH BANK OF TANZANIA

	2013 TZS '000	2012 TZS '000
Statutory Minimum Reserve (SMR)	36,437,870	20,839,070
Other balances	9,782,458	4,595,131
	46,220,328	**25,434,201**

The bank is required to maintain minimum cash reserves on deposits with the Bank of Tanzania - Statutory Minimum Reserves (SMR). Statutory Minimum Reserves is not available to finance the Bank's day to day operations and hence is excluded from cash and cash equivalents for the purpose of cash flow statement.

		2013	2012
		TZS '000	TZS '000
17	**BALANCES WITH OTHER BANKS**		
	In interest bearing fixed deposit accounts	9,844,000	18,285,869
	In non-interest bearing current accounts	(2,621,457)	484,746
	Cheques and items for clearing	524,790	260,620
	Accrued interest	111,101	28,254
		7,858,435	**19,059,489**
18	**FINANCIAL INSTRUMENTS HELD TO MATURITY**		
	Treasury bills	1,394,000	-
	Other private bonds	15,586,880	17,586,880
	TMRC investment account	2,000,000	1,000,000
	UMOJA Switch investment account	20,000	20,000
		19,000,880	**18,606,880**
	Accrued interest receivable on debt	362,270	388,314
		19,363,150	**18,995,194**

TMRC is a specialized financial institution that provides long term funding to financial institutions for the purposes of mortgage lending. TMRC has the objective of supporting financial institutions to do mortgage lending by refinancing Primary Mortgage Lenders (PMLs) mortgage portfolio. Azania Bank is one of the founding member and has subscribed and injected TZS 1,000 million to TMRC. Other shareholders are ABC, BOA, CRDB, DCB, Exim Bank, NIC, NBC, NMB,PBZ and TIB.

Items in the course of collection represent net position of clearing items for Cheques and ATM clearing with other banks networking UMOJA Switch.

		2013	2012
19	**CASH AND CASH EQUIVALENTS**		
	Cash in hand	15,296,413	18,363,725
	Balances with Bank of Tanzania (excluding SMR)	9,782,458	4,595,131
	Placements with other banks	7,858,435	19,059,489
		32,937,305	**42,018,345**

20 LOANS AND ADVANCES

	2013 TZS '000	2012 TZS '000
Consumer	72,495,423	62,410,677
Corporate	45,037,614	28,039,103
Education	2,392	2,392
Individual	6,073,972	5,703,074
Kiseke	5,103,183	5,912,054
Mortgage	30,678,910	24,681,875
Uwezeshaji loans	43,593	40,875
NHC - loans	2,254,444	921,661
Personal	8,035,305	7,837,952
SME	23,207,046	16,361,460
Interest in suspense	(2,065,782)	(1,358,090)
	190,866,100	**150,553,033**
Staff	5,996,483	5,315,597
	196,862,583	**155,868,630**
Accrued interest receivable on loan and advances	4,542,732	3,585,326
Gross loans and advances	**201,405,315**	**159,453,956**
Allowances for impairment losses	(1,706,037)	(1,613,291)
Net loans and advances	**199,699,278**	**157,840,665**

Movements in allowance for impairment losses

	2013 TZS '000	2012 TZS '000
At the beginning of the year	1,613,291	1,243,714
Amount charged off during the year	(856,485)	-
Amount recovered during the year	(245,319)	-
Provision for impairment	1,194,551	369,577
At the end of the year	**1,706,037**	**1,613,291**

Maturity analysis of the net loan portfolio

	2013 TZS '000	2012 TZS '000
Within one year	61,425,118	34,606,838
Between one year and three years	41,023,959	41,405,013
Over three years	97,250,200	81,214,869
Net loans and advances	**199,699,278**	**157,226,719**

21 PROPERTY AND EQUIPMENT

31 December 2013

	Motor vehicles	Office furniture, equipments & fittings	Computer equipments	Work In Progress	Total
	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'
Cost					
At 01 January	747,568	3,161,652	1,864,161	1,592,570	7,365,951
Revaluation adjustment	(729,386)	(2,116,835)	(1,630,842)	-	(4,477,063)
	18,182	1,044,817	233,319	1,592,570	2,888,888
Additions	163,375	336,060	63,679	-	563,114
Transfers	-	568,174	34,311	(1,592,570)	(990,085)
Revaluation gain/(loss)	270,443	(276,436)	200,832	-	194,839
At 31 December	**452,000**	**1,672,615**	**532,141**	**(0)**	**2,656,756**
Accumulated depreciation					
At 01 January	565,680	1,555,667	1,258,870	-	3,380,217
Revaluation adjustment	(729,386)	(2,116,835)	(1,630,842)	-	(4,477,063)
Revaluation adjustment	-	-	-	-	-
	(163,706)	(561,168)	(371,972)	-	(1,096,846)
Charge for the year	146,434	474,840	336,811	-	958,085
At 31 December	**(17,272)**	**(86,328)**	**(35,161)**	**-**	**(138,761)**
Net book value					
At 31 December	**469,272**	**1,758,943**	**567,302**	**(0)**	**2,795,517**

The Bank engaged TKA Associates who are professional valuers to do fixed assets revaluation which also included coding and verification of all fixed assets owned by the Bank.

21 PROPERTY AND EQUIPMENT

31 December 2012

	Motor vehicles	Office furniture, equipments & fittings	Computer equipments	Work In Progress	Total
	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'
Cost					
At 01 January	587,885	2,116,947	1,051,373	422,183	4,178,388
Additions	159,683	1,223,105	809,684	1,170,387	3,362,860
Disposals	-	(1,034)	(3,103)	-	(4,138)
At 31 December	**747,568**	**3,339,018**	**1,857,954**	**1,592,570**	**7,537,110**
Accumulated depreciation					
At 01 January	442,868	1,204,153	829,691	-	2,476,712
Charge for the year	107,779	344,603	487,377	-	939,760
Disposals	-	(78)	(310)	-	(388)
At 31 December	**550,647**	**1,548,679**	**1,316,758**	**-**	**3,416,084**
Net book value					
At 31 December	**196,921**	**1,790,339**	**541,196**	**1,592,570**	**4,121,026**

Included in motor vehicles, office equipment and computer equipment are assets with a cost of TZS 730,087,280 which have been fully depreciated.

		2013	2012
		TZS '000	TZS '000
22	**LEASEHOLD IMPROVEMENTS**		
	Cost		
	At 01 January	3,731,973	1,869,023
	Revaluation adjustment	(2,016,650)	-
		1,715,324	1,869,023
	Transfers	990,085	-
	Additions	910,209	2,940,386
	Revaluation gain	64,907	-
	At 31 December	**3,680,524**	**4,809,409**
	Accumulated amortisation		
	At 01 January	1,515,140	1,112,943
	Revaluation adjustment	(2,016,650)	
	Revaluation adjustment	(207,774)	
		(709,283)	1,112,943
	Charge for the year	517,367	365,806
	At 31 December	**(191,916)**	**1,478,749**
	Net book value		
	At 31 December	**3,872,440**	**3,330,660**
23	**INTANGIBLE ASSETS**		
	Cost		
	At 01 January	1,577,676	1,515,031
	Additions	38,046	62,645
	At 31 December	**1,615,721**	**1,577,676**
	Accumulated amortisation		
	At 01 January	877,606	612,627
	Charge for the year	322,845	264,979
	At 31 December	**1,087,054**	**877,606**
	Net book value		
	At 31 December	**528,667**	**700,070**

Intangible assets include the core banking software called Flexicubes, application office software and a lifetime membership fee for the UMOJA Consortium.

	2013	2012
	TZS '000	TZS '000

24 TAX

a} Tax expense

	2013	2012
Current year tax	**538,697**	**213,097**
Deferred tax charge/(credit)	(260,171)	299,442
	278,526	**512,539**

b} Reconciliation of tax expense to tax based on accounting profit:

	2013	2012
Accounting Profit before tax	907,221	423,135
Tax applicable rate of 30%	272,166	126,941
Origination and reversal of temporary differences	6,360	430,409
	278,526	**557,350**

c} Deferred tax

	2013	2012
Accelerated depreciation for tax purposes	1,082,897	1,950,133
Other temporary differences	-	-
	1,082,897	**1,950,133**
Deferred tax asset thereon at 30%	324,869	585,040
Less: Opening deferred tax assets	(585,040)	(285,598)
Deferred tax credit	**(260,171)**	**299,442**

d} Tax payable/(repayable)

	2013	2012
Opening balance	(95,314)	116,589
Tax expense	538,697	213,097
Tax overpaid previous	(663,514)	-
Payment during the year	(225,000)	(425,000)
	(445,132)	**(95,314)**

e} Tax recoverable

	2013	2012
Tax recoverable on matured bonds errorneous deducted withholding tax on financial institution by BOT and paid to TRA	**591,393**	**591,393**

		2013	2012
		TZS '000	TZS '000
25	**OTHER ASSETS**		
	Sundry receivables	89,044	93,727
	Write off of unrecoverable receivables	-	(55,225)
		89,044	**38,502**
	Other receivables	1,079,920	313,290
	Provision for doubtful receivables	(83,904)	(83,904)
	General provision	(118,037)	-
		877,979	**229,386**
	Prepaid expenses	2,685,675	2,793,383
	Collection account	415,020	1,246,314
	M-pesa	634,686	104,173
	Inter-Branch Accounts	(130,584)	-
		3,604,797	**4,143,871**
	Total other assets	**4,571,821**	**4,411,759**

26 DUE TO CUSTOMERS

CUSTOMERS DEPOSIT - SAVINGS

	2013	2012
Personal accounts	58,934,487	48,100,398
Aspire accounts	78,622	36,277
Banks & non-bank financial institutions	52,930	141,904
Churches / charity organisations / schools	518,958	421,520
Collection accounts	458,461	72,704
Corporate accounts	171,901	122,396
Loan internal accounts	245,513	967,617
Small and Medium Enterprises	593,089	339,210
Societies and clubs	946,841	311,124
Staff	388,391	430,998
State and local government.	8,728	687
Watoto accounts	1,052,723	647,989
	63,450,643	**51,592,823**

26 DUE TO CUSTOMERS (Continued)

	2013 TZS '000	2012 TZS '000
CUSTOMERS DEPOSITS - CURRENT ACCOUNT		
Call accounts	1,001,860	2,826,706
Churches/charity organisations/schools	528,481	321,521
Corporates	16,711,267	27,095,540
Non financial parastatals (NFPES)	207,837	161,167
Personal	15,429,520	17,205,353
Small and Medium Enterprises	3,158,987	1,927,267
Societies and clubs	811,610	453,991
Staff	2,910	2,939
State and local government	-	2,477
	37,852,473	**49,996,961**
FIXED DEPOSIT LIABILITIES		
Bank guarantees	276,281	113,988
Non-bank financial institutions	15,841,100	13,079,000
Churches/charity organisation/schools	19,927	31,112
Corporates	51,496,891	15,690,697
Education	84,232	110,914
Insurance - special deposits	1,259,660	884,950
Mortgage	5,864,833	5,993,638
Personal	27,203,098	22,774,857
Securities	39,785	71,048
Settlement account	11,409,484	1,237,703
Societies and clubs	11,217	38,643
State and local government	34,457,281	42,798,778
Uwezeshaji fund account	240,000	240,000
	148,203,790	**103,065,330**
SUB TOTAL DUE TO CUSTOMERS	**249,506,906**	**204,655,114**

	2013	2012
	TZS '000	TZS '000
26 DUE TO CUSTOMERS (Continued)		
INTEREST ACCRUED ON DEPOSIT		
Churches/charity organisation/schools	127	1,998
Corporate accounts	1,295,474	241,893
Interest payable - Current and Savings accounts	63,951	50,809
Non-bank financial institutions	1,868,885	2,046,020
Small and medium enterprises	65	15,622
Special deposits	134,519	78,860
Personal accounts	1,574,247	584,172
	4,937,267	**3,019,374**
GRAND TOTAL DUE TO CUSTOMERS	**254,444,173**	**207,674,488**
Maturity analysis of due to customers		
Payable within 90 days	177,455,364	143,781,535
Payable after 90 days and within one year	76,988,809	52,688,905
Payable after one year		8,184,675
Interest accrued on deposits		3,019,374
	254,444,173	**207,674,488**

Deposits from local banks had maturity of 30 days or less.

	2013	2012
27 REVOLVING CREDIT FACILITIES		
Tanzania Mortgage Refinance Company (TMRC)	9,200,000	4,200,000
Oiko credit	1,746,029	2,838,086
NSSF	798,958	1,416,667
PPF	189,583	939,583
UN Habitat	-	112,083
	11,934,570	**9,506,419**

The Parastatal Pension Fund (PPF) loans, consisting of revolving credit lines which were obtained in previous years . The loans are repayable within a period of four years. The loans attract average interest at the rate of 12.67% p. a.

The National Social Security Funds (NSSF) loans, consisting of six credit lines which were obtained in years 2007 and 2008. The loans are repayable within a period of three years. The loans attract average interest at the rate of 13.14% p.a.

During the year 2008 the Bank secured a loan from OIKO credit which payable for 4 years at the rate of 3.5% above the 182 days treasury bills.

		2013	2012
		TZS '000	TZS '000
28	**OTHER LIABILITIES**		
	Deffered Tax Asset	22,636	-
	Inter branch accounts	(497,834)	(152,867)
	Letter of credit - Shipping guarantee	200,944	1,260,880
	Accrual and other expenses	827,483	885,053
	Tax payables	-	231,897
	Credit outstanding recoveries	378,271	138,819
	Other liabilities	623,328	17,883
	Bankers cheque	300,066	203,415
		1,854,894	**2,585,079**

29 CONVERTIBLE LOAN STOCK

Opening balance	200,000	200,000
Closing balance	**200,000**	**200,000**

The loan stock was issued for the purpose of raising finance to develop the operation of Azania Bank Limited and is convertible into shares at nominal value.

Interest is payable to PPF annually on the anniversary date at the rate of 0.5% per annum above the official annual average of 365 Treasury Bills rate at the time of payment.

Parastatal Pension Fund (PPF) convertible loan was obtained in 1995 and renewed in 2005. The loan is repayable 10 years from the disbursement date and can be converted to equity on the tenth anniversary date at PPF' s discretion, but having considered the performance of the bank in terms of profitability, balance sheet strength and other performance measures. Interest is of 0.5% per annum above the official annual average of 365 days treasury bills at the time of payment.

30 SHARE CAPITAL

Authorised:		
100,000,000 Ordinary shares of TZS 1,000 each	100,000,000	100,000,000
2,000,000 Convertible loan stock of TZS 1,000 each	2,000,000	2,000,000
1,000,000 Non cumulative irredeemable preference shares of TZS 1,000 each	1,000,000	1,000,000
Total	**103,000,000**	**103,000,000**
Issued and fully paid:		
24,104,983 Ordinary shares of Tshs 1,000 each	23,637,594	24,104,983
69,444 Non-cumulative irredeemable preference shares of Tshs 1,000 each	69,444	69,444
	23,707,038	**24,174,427**

	2013	2012
	TZS '000	TZS '000

31 REGULATORY CAPITAL

	2013 TZS '000	2012 TZS '000
Share capital	23,707,038	24,174,427
Share premium	6,745,860	6,273,551
Accumulated profit/(loss)	9,373	(520,372)
	30,462,271	29,927,606
Less:		
Prepaid expenses	(2,939,810)	(2,793,383)
Intangible assets	(528,667)	(700,070)
Deferred tax asset	-	-
Core capital (Tier 1) at the end of the year	**26,993,794**	**26,434,153**
Required minimum core capital	5,000,000	5,000,000

32 SPECIAL RESERVE AND RETAINED EARNINGS

	2013 TZS '000	2012 TZS '000
Retained earnings	9,373	(520,372)
Special reserve	2,421,758	2,464,865
	2,431,131	**1,944,493**

Regulatory reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution and not part of the bank's core capital.

33 RELATED PARTY DISCLOSURES

The shareholders of the bank are disclosed in the directors report. A number of banking transactions such as loans and deposits transactions are entered into with related parties in the normal course of business. The related party transactions outstanding at the end of the year are as follow:

a) Deposit liabilities from related parties

	2013 TZS '000	2012 TZS '000
National Social Security Fund (NSSF)	7,002,556	10,478,010
Parastatal Pension Fund (PPF)	9,685,942	2,943,640
Public Service Pension Fund	-	5,000,000
Local Authorities Pension Fund	1,500,000	7,944
	18,188,499	**18,429,594**

b) Loans from the related parties

	2013 TZS '000	2012 TZS '000
National Social Security Fund (NSSF)	798,958	1,416,667
Parastatal Pension Fund (PPF)	189,583	939,583
	988,542	**2,356,250**

	2013	2012
	TZS '000	TZS '000

33 RELATED PARTY DISCLOSURES (Continued)

c) Loans to key management personnel

Senior management	1,867,904	1,788,037
	1,867,904	**1,788,037**

d) Key management personnel compensation

Short term employee benefit	**1,142,635**	**805,201**

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly including any director of the bank. All related party transactions were at arm's length and in the normal course of business, and on terms and conditions similar to those applicable to other customers except for staff loans where the rate of interest is 10% for all staffs loans except for education loans which are interest free.

e) Directors remuneration	**55,000**	**62,000**

The remuneration for services rendered by the non-executive Directors of the Bank in 2013 was TZS 55 million (2012: TZS 62 million).

34. CAPITAL MANAGEMENT

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania (BOT), for supervisory purposes.
The required information is filed with the BOT on a quarterly basis.

The BOT requires each bank or banking group to:
(a) hold the minimum level of Core Capital of TZS 5 billion;
(b) maintain a ratio of core capital to the risk-weighted assets plus risk –weighted off-the financial position assets (the 'Basel ratio') at or above the required minimum of 10%;
(c) and maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-the financial position items.

The Bank's regulatory capital is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Prepaid expenses and deferred charges are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital and unrealized gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and ratios of the Bank for the year ended 31 December 2013 and year ended 31 December 2012. During those two years, the Bank complied with the entire externally imposed capital requirement to which it is subject.

	2013 TZS'000	2012 TZS'000
Tier 1 Capital		
Share capital and share premium	30,824,958	30,447,978
Accumulated (loss)	(1,557,131)	(520,372)
Prepaid expense, deferred tax and intangible assets	(3,327,887)	(3,493,453)
Total qualifying Tier 1 capital	**25,939,940**	**26,434,153**
Tier 2 capital	**200,000**	**200,000**
Total regulatory capital	**26,139,940**	**26,634,153**
Total risk-weighted assets	**207,924,642**	**162,997,311**

	Required ratio % 2013	Bank's ratio % 2013	Bank's ratio % 2012
Tier 1 capital	10.0%	12.5%	16.2%
Tier 1 + Tier 2 capital	12.0%	12.6%	16.3%

35. RISK MANAGEMENT

Risk management framework

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk, market risks, operational risks and interest rate risks. 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.

Risk management is carried out by the Assets and Liability Committee and Risk Management Committee (ALCO + RMC) under policies approved by the Board of Directors. The ALCO + RMC Committee evaluate financial risk in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign-exchange risk, interest-rate risk, credit risk, and liquidity risk.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important risks are credit risk, liquidity risk, market risk and other operational risk.

(a) Credit risk

Credit Risk is defined as the potential that a Bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

Management of credit risk

The credit manager of the Bank is responsible within the Credit Department for developing and implementing appropriate systems for credit risk identification, measurement and mitigations. The credit risk management process is part of the overall operational risk management framework of the Bank, and is reviewed continually with respect to its accuracy and appropriateness.

The bank mitigates risk concentration through policy and portfolio diversification in regard to loan products, economic sectors or geographical location. The Credit Manager reviews the portfolio concentration on regular basis and discuss in the Management Credit Committee (MCC) about the degree of portfolio concentration and possible risks involved with other Management team members. The MCC also reviews the historical tendencies in non-performing loans overall, by sector, by branch and by officer but also historical tendencies in average loan amounts, average time of loan processing, disbursement concentration at month-end.

No individual is authorised to take lending decisions alone. Credit Committees with different levels of authorization exist on head office; branch, and team/unit levels. The specific responsibilities of credit manager and MCC in this due respect are:

- to identify and define the various types of credit risk inherent in the Bank's banking operation;
- set parameters and tolerance limits to each of these identified credit risk;
- address credit risk in all of the Bank's activities and at both the individual credit and portfolio levels;
- ensure that the Bank operate under sound, well defined credit granting process;
- ensure that the credit granting functions are being properly managed;

35. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Management of credit risk (Continued)

- ensure credit exposures are within levels consistent with prudential standards and internal limits set;
- ensure that there are systems in place to monitor the overall composition and quality of the credit portfolio; and
- ensure that exceptions to policies, procedures and set limits are reported in a timely manner and to the appropriate level of management.

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

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 by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

i. Loans and advances

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

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses. Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, the Bank uses a loan classification method with five classes as shown below. The allocation of exposures into the respective class segments is made primarily based on the respective repayment status of each loan. Independently of the current repayment status, a loan can be 'downgraded' if the Bank has obtained information suggesting a material elevation of the default risk of the respective borrower.

Bank's internal rating and classification scale:

Bank's rating	Description of the grade
1	Current
2	Especially mentioned
3	Substandard
4	Doubtful
5	Loss

35. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

ii. Impairment and provisioning policies

As per the regulatory requirement of the Bank of Tanzania, the Bank uses different classification categories (with respect to overdue days) for SME loans and other loans, respectively. Loan loss provisions are computed on a quarterly basis based on the above loan classification table in connection with the prescribed provisioning rates (again differing for SME loans and other loans, respectively).

Independently of the above internal rating and classification/provisioning method, the Bank uses an individual impairment forecast method with respect to each loan which has either been in overdue for more than 90 days or is otherwise deemed to be at material risk of partial or full loss. The methodology for making individual impairment forecast is based primarily on the respective internal assessment of probability of recovery, but also takes into account the historical loss rates of loans which have been in protracted arrears. Due to the fact that the Bank has been operating for more than eighteen years, it has an adequate write-off history, the current emphasis is placed on a simplified individual recovery forecast considering such factors as recent account movements of the respective client and the availability of registered or unregistered collateral items yet to be seized and disposed off.

Due to the different methodologies applied, the impairment allowance provided for in the financial statements (to arrive at the Net Loan Portfolio) is by default lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes. In the balance sheet, the difference between the two items is held as a non-distributable regulatory reserve. The impairment provision is in principle derived from each of the internal rating grades, although in practice the predominant share arises from the bottom two grading segments.

The table below shows the percentage of the Bank's on-balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories.

	2013		2012	
	Loans and advances (%)	**Loan loss provision (%)**	**Loans and advances (%)**	**Loan loss provision (%)**
Current	94.62%	0.00%	93.24%	0.00%
Especially mentioned	0.74%	0.04%	2.24%	0.11%
Substandard	1.57%	0.16%	2.13%	0.21%
Doubtful	0.61%	0.30%	0.40%	0.20%
Loss	2.46%	2.46%	1.99%	1.99%
Total	**100.00%**	**2.95%**	**100.00%**	**2.51%**

35. RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

iii. Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on the statement of financial position

	2013 TZS'000	2012 TZS'000
Consumer	72,495,423	62,410,677
Corporate	45,037,614	8,039,103
Education	2,392	2,392
Individual	6,073,972	5,703,074
Kiseke	5,103,183	5,912,054
Mortgage	30,678,910	24,681,875
Uwezeshaji loans	43,593	40,875
NHC - loans	2,254,444	921,661
Personal	8,035,305	7,837,952
SME	23,207,046	16,361,460
Interest in suspense	(2,065,782)	(1,358,090)
	190,866,100	**150,553,033**
Staff	5,996,483	5,315,597
	196,862,583	**155,868,630**
Accrued interest receivable on loan and advances	4,542,732	3,585,326
Gross loans and advances	**201,405,315**	**159,453,956**
Allowances for impairment losses	(1,706,037)	(1,613,291)
Net loans and advances	**199,699,278**	**157,840,665**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2013 and 31 December 2012, respectively without taking into account of any collateral held or other credit enhancements attached. The exposures set out above are based on the net carrying amounts as reported in the statement of financial position. The Bank does not have credit risk exposures relating to off – statement of financial position assets.

As shown above, of the total maximum exposure, 66% is derived from loans and advances to banks and customers (December 2012: 62%). Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from its loan and advances portfolio.

35. RISK MANAGEMENT (Continued)

iv. Loans and advances

Movements in allowance for impairment losses

	2013 TZS'000	2012 TZS'000
At the beginning of the year	1,613,291	1,243,714
Amount charged off during the year	(856,485)	-
Provision for impairment	949,232	369,577
At the end of the year	**1,706,037**	**1,613,291**

Maturity analysis of the net loan portfolio

Within one year		
Between one year and three years	61,425,118	34,606,838
Between three and five years	41,023,959	41,405,013
Over five years	97,250,200	81,828,814
Net loans and advances	**199,699,278**	**157,840,665**

Credit quality of the portfolio of loans and advances that were neither past due nor impaired is assessed by reference to the internal rating system.

35 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit quality by class of transactions

The credit quality of financial assets is managed by the bank using internal credit ratings. The table below shows the credit quality by class of financial assets exposed to credit risk, based on the bank's internal credit rating system. The amount presented are gross of impairment allowances.

	Neither past due nor impaired				
	Current	Especially mentioned	Past due but not impaired	Individually impaired	Total
2013	**TZS '000'**	**TZS '000'**	**TZS '000'**	**TZS '000'**	**TZS '000'**
Financial assets					
Cash balances	15,296,413	-	-	-	15,296,413
Balances with Bank of Tanzania	46,220,328	-	-	-	46,220,328
Balance with other banks	7,858,435	-	-	-	7,858,435
Financial instruments held to maturity	19,363,150	-	-	-	19,363,150
Loans and advances (gross)	188,803,653	1,518,927	4,443,305	5,007,059	199,772,944
Other assets (exluding prepayments)	1,886,145	-	-	-	1,886,145

2012					
Financial assets					
Cash balances	18,363,725	-	-	-	18,363,725
Balances with Bank of Tanzania	25,434,201	-	-	-	25,434,201
Balance with other banks	19,059,489	-	-	-	19,059,489
Financial instruments held to maturity	18,995,194	-	-	-	18,995,194
Loans and advances (gross)	148,679,034	3,566,289	3,401,876	3,806,756	159,453,955
Other assets (exluding prepayments)	1,618,376	-	-	-	1,618,376
	232,150,020	**3,566,289**	**3,401,876**	**3,806,756**	**242,924,941**

35 RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Concentration of risks of financial assets and liabilities with crdit risk exposure

Geographical analysis

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2013 and 2012. For this table the Bank has allocated exposures to regions based on the country of domicile of its counter parts (Amounts in TZS '000)

	Tanzania	Europe	America	Others	Total
2013	**TZS '000'**	**TZS '000'**	**TZS '000'**	**TZS '000'**	**TZS '000'**
Financial assets					
Cash balances	15,296,413	0	-	-	15,296,413
Balances with Bank of Tanzania	46,220,328	-	-	-	46,220,328
Balance with other banks	12,129,970	-	(4,271,535)	-	7,858,435
Financial instruments held to maturity	19,363,150	-	-	-	19,363,150
Loans and advances	199,699,278	-	-	-	199,699,278
Other assets	4,571,821	-	-	-	4,571,821
	297,280,959	**-**	**(4,271,535)**	**-**	**293,009,424**
Financial liabilities					
Due to banks	-	-	-	-	-
Due to customers	254,444,173	-	-	1	254,444,174
Revolving credit facilities	11,934,570	-	-	-	11,934,570
Other liabilities	1,854,894	-	-	-	1,854,894
	268,233,637	**-**	**-**	**1**	**268,233,638**

	Tanzania	Europe	America	Others	Total
2012	**TZS '000'**	**TZS '000'**	**TZS '000'**	**TZS '000'**	**TZS '000'**
Financial assets					
Cash balances	13,729,290	761633	3,803,577	69,225	18,363,725
Balances with Bank of Tanzania	25,434,201	-	-	-	25,434,201
Balance with other banks	4,041,063	1,234,373	13,784,053	-	19,059,489
Financial instruments held to maturity	18,995,194	-	-	-	18,995,194
Loans and advances	141,863,145	123,807	15,853,713	-	157,840,665
Other assets	1,435,015	64,230	119,131	-	1,618,376
	205,497,908	**2,184,043**	**33,560,474**	**69,225**	**241,311,650**
Financial liabilities					
Due to banks	-	-	-	-	-
Due to customers	174,767,732	1,223,924	31,682,831	1	207,674,488
Revolving credit facilities	9,506,419	-	-	-	9,506,419
Other liabilities	1,183,709	6,120	1,395,250	-	2,585,079
	185,457,860	**1,230,044**	**33,078,081**	**1**	**219,765,986**

35 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The following table breaks down the Bank's main credit exposure at their carrying amounts as categorised by the industry sectors of its counterparties (Amounts in TZS '000)

Industry analysis	Financial Services	Agriculture, Fishing and Forestry	Manufacturing	Trade	Hotels and restaurants	Transportation and communication	Utility	Health and education	Other	Total
	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'
2013										
Financial assets										
Cash balances	15,296,413	-	-	-	-	-	-	-	-	15,296,413
Balances with Bank of Tanzania	46,220,328	-	-	-	-	-	-	-	-	46,220,328
Balance with other banks	7,858,435	-	-	-	-	-	-	-	-	7,858,435
Financial instruments held to maturity	19,363,150	-	-	-	-	-	-	-	-	19,363,150
Loans and advances	-	1,702,301	10,724,120	46,774,125	4,981,548	496,158	-	2,303,622	132,791,072	199,772,944
Other assets (excluding prepayments)	1,886,145	-	-	-	-	-	-	-	-	1,886,145
	90,624,471	**1,702,301**	**10,724,120**	**46,774,125**	**4,981,548**	**496,158**	**-**	**2,303,622**	**132,791,072**	**290,397,415**
2012										
Financial assets										
Cash balances	18,363,725	-	-	-	-	-	-	-	-	18,363,725
Balances with Bank of Tanzania	25,434,201	-	-	-	-	-	-	-	-	25,434,201
Balance with other banks	19,059,489	-	-	-	-	-	-	-	-	19,059,489
Financial instruments held to maturity	18,995,194	-	-	-	-	-	-	-	-	18,995,194
Loans and advances	-	353,626	10,328,163	29,948,238	1,816,609	242,740	-	1,277,888	113,873,401	157,840,665
Other assets (excluding prepayments)	1,618,376	-	-	-	-	-	-	-	-	1,618,376
	83,470,985	**353,626**	**10,328,163**	**29,948,238**	**1,816,609**	**242,740**	**-**	**1,277,888**	**113,873,401**	**241,311,651**

35. RISK MANAGEMENT (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

Liquidity, or the ability to fund increases in assets and meet obligations as they come due, is crucial to the ongoing viability of any banking organisation. Therefore, managing liquidity is among the most important activities conducted by banks. Sound liquidity management can reduce the probability of serious problems. Indeed, the importance of liquidity transcends the individual bank, since a liquidity shortfall at a single institution can have system-wide repercussions. For this reason, the analysis of liquidity requires bank management not only to measure the liquidity position of the bank on an ongoing basis but also to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands. This analysis includes behavioural assumptions on, inter-alia, customer loans, customer deposits and reserve assets. This is tested under normal and adverse market scenario conditions. Limits are established by the Board and senior management for the maximum cumulative cash outflows over successive time bands. Various liquidity ratios, concentration and stress limits are additional tools employed by the Bank to manage funding liquidity risk.

The bank has put in place the following guidelines tolerance levels for effective management of liquidity risk.

- Liquid Assets to be not less than 50% of customer deposits with a maturity of 30 days or less
- Liquid Assets to be not less than 20% of Demand Liabilities plus projected net cash outflows in the following four business weeks
- Maturity gap to be not more than 100% of Total Capital with Maturity Gap defined as Liabilities falling due within 90 days [including the portion of any indebtedness falling due within that period] less the aggregate of assets which mature or are payable to the Bank on demand or within 90 days

35 RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The table below analyses maturity profiles of assets and liabilities of the Bank based on the remaining period using 31 December 2012 and 2011 as a base period to the contractual maturity date

	Up to 1 month	Up to 3 months	Up to 6 months	Up to 12 months	Over 12 months	Total
	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'
At 31 December 2013						
Assets						
Cash balances	15,296,413	-	-	-	-	15,296,413
Balances with Bank of Tanzania	46,220,328	-	-	-	-	46,220,328
Balance with other banks	7,858,435	-	-	-	-	7,858,435
Financial instruments held to maturity	-	1,394,000	-	1,000,000	14,586,880	16,980,880
Loans and advances	21,262,181	15,717,599	4,513,897	19,931,441	138,347,826	199,772,944
Other assets (excluding prepayments)	1,886,145	-	-	-	-	1,886,145
Financial assets	**92,523,502**	**17,111,599**	**4,513,897**	**20,931,441**	**152,934,707**	**288,015,145**
Liabilities						
Due to banks	-	-	-	-	-	-
Due to customers	138,338,128	39,117,236	63,465,000	13,523,809	-	254,444,173
Revolving credit facilities	111,655	327,665	648,547	1,256,880	9,589,823	11,934,570
Other liabilities	2,040,559	-	-	-	-	2,040,559
Total Liabilities	**140,490,342**	**39,444,901**	**64,113,547**	**14,780,689**	**9,589,823**	**268,419,302**
Net Liquidity gap	**(47,966,841)**	**(22,333,301)**	**(59,599,650)**	**6,150,752**	**143,344,883**	**19,595,843**
Cummulative gap	**(47,966,841)**	**(70,300,142)**	**(129,899,792)**	**(123,749,040)**	**19,595,843**	**-**

35 RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

	Up to 1 month TZS '000'	Up to 3 months TZS '000'	Up to 6 months TZS '000'	Up to 12 months TZS '000'	Over 12 months TZS '000'	Total TZS '000'
At 31 December 2012						
Assets						
Cash balances	18,363,725	-	-	-	-	18,363,725
Balances with Bank of Tanzania	25,434,201	-	-	-	-	25,434,201
Balance with other banks	19,059,489	-	-	-	-	19,059,489
Financial instruments held to maturity	-	-	-	-	18,995,194	18,995,194
Loans and advances	9,677,137	2,118,171	3,034,727	19,776,802	123,233,828	157,840,665
Other assets (excluding prepayments)	1,350,487	267,889	-	-	-	1,618,376
Financial assets	**73,885,040**	**2,386,060**	**3,034,727**	**19,776,802**	**142,229,022**	**241,311,651**
Liabilities						
Due to banks	-	-	-	-	-	-
Due to customers	116,378,054	27,446,266	32,764,425	19,924,480	11,161,263	207,674,488
Revolving credit facilities	112,083	20,833	425,000	109,375	8,839,127	9,506,419
Other liabilities	506,316	1,492,777	358,090	3,836	224,061	2,585,079
Total Liabilities	**116,996,453**	**28,959,876**	**33,547,515**	**20,037,691**	**20,224,451**	**219,765,986**
Net Liquidity gap	**(43,111,414)**	**(26,573,816)**	**(30,512,788)**	**(260,889)**	**122,004,570**	**21,545,664**
Cummulative gap	**(43,111,414)**	**(69,685,230)**	**(100,198,017)**	**(100,458,906)**	**21,545,664**	**-**

35 RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The table below shows analysis of assets and liabilities analysed according to when they are

	Less than 12 months TZS '000'	Over 12 months TZS '000'	Total TZS '000'
As at 31 December 2013			
Assets			
Cash balances	15,296,413	-	15,296,413
Balances with Bank of Tanzania	46,220,328	-	46,220,328
Balance with other banks	7,858,435	-	7,858,435
Financial instruments held to maturity	2,394,000	16,969,150	19,363,150
Loans and advances	61,425,118	138,347,826	199,772,944
Property and equipment	-	2,656,756	2,656,756
Leasehold improvement	-	3,680,000	3,680,000
Intangible assets	-	528,667	528,667
Tax recoverable	-	591,062	591,062
Other assets	-	5,606,966	5,606,966
Total assets	**133,194,294**	**168,380,427**	**301,574,721**
Liabilities			
Due to banks			-
Due to customers	240,920,365	13,523,809	254,444,173
Revolving credit facilities	11,934,570	-	11,934,570
Other liabilities	1,854,894	-	1,854,894
Taxation payable	-	-	-
Loan stock (convertible)	200,000	-	200,000
Deferred tax liability	-	-	-
Total liabilities	**254,909,828**	**13,523,809**	**268,433,637**
Net (equity & Reserves)	**(121,715,535)**	**154,856,618**	**33,141,083**
	Less than 12 months	**Over 12 months**	**Total**
	TZS '000'	**TZS '000'**	**TZS '000'**

35 RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The table below shows analysis of assets and liabilities analysed according to when they are

	Less than 12 months TZS '000'	Over 12 months TZS '000'	Total TZS '000'
As at 31 December 2013			
Assets			
Cash balances	15,296,413	-	15,296,413
Balances with Bank of Tanzania	46,220,328	-	46,220,328
Balance with other banks	7,858,435	-	7,858,435
Financial instruments held to maturity	2,394,000	16,969,150	19,363,150
Loans and advances	61,425,118	138,347,826	199,772,944
Property and equipment	-	2,656,756	2,656,756
Leasehold improvement	-	3,680,000	3,680,000
Intangible assets	-	528,667	528,667
Tax recoverable	-	591,062	591,062
Other assets	-	5,606,966	5,606,966
Total assets	**133,194,294**	**168,380,427**	**301,574,721**
Liabilities			
Due to banks			-
Due to customers	240,920,365	13,523,809	254,444,173
Revolving credit facilities	11,934,570	-	11,934,570
Other liabilities	1,854,894	-	1,854,894
Taxation payable	-	-	-
Loan stock (convertible)	200,000	-	200,000
Deferred tax liability	-	-	-
Total liabilities	**254,909,828**	**13,523,809**	**268,433,637**
Net (equity & Reserves)	**(121,715,535)**	**154,856,618**	**33,141,083**

	Less than 12 months TZS '000'	Over 12 months TZS '000'	Total TZS '000'
As at 31 December 2012			
Assets			
Cash balances	18,363,725	-	18,363,725
Balances with Bank of Tanzania	25,434,201	-	25,434,201
Balance with other banks	19,059,489	-	19,059,489
Financial instruments held to maturity	-	18,995,194	18,995,194
Loans and advances	34,606,838	123,233,828	157,840,665
Property and equipment	-	4,121,026	4,121,026
Leasehold improvement	-	3,330,660	3,330,660
Intangible assets	-	700,070	700,070
Tax recoverable	-	591,393	591,393
Other assets	1,618,376	-	1,618,376
Total assets	**99,082,629**	**150,972,171**	**250,054,800**
Liabilities			
Due to customers	196,513,225	11,161,263	207,674,488
Revolving credit facilities	667,292	8,839,127	9,506,419
Other liabilities	2,361,019	224,061	2,585,079
Taxation payable	(95,314)	-	(95,314)
Loan stock (convertible)	-	200,000	200,000
Deferred tax liability	-	585,040	585,040
Total liabilities	**199,446,221**	**21,009,491**	**220,455,712**
Net (equity & Reserves)	**(100,363,592)**	**129,962,680**	**29,599,088**

35 RISK MANAGEMENT (Continued)

(c) Market risk

Market risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market prices. Broadly, the Bank is concerned with two main components under market risk:

- Interest rate risk is the risk that the value of an interest rate sensitive instrument will fall as a result of a change in market interest rates.
- Foreign exchange risk is the risk of loss due to adverse changes in foreign exchange rates.

The Asset and Liability Committee oversees the management of Market risk inherent in the Bank. The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimizing on the return on the risk.

Interest rate risk exposure

Interest rate risk is the exposure of an institution's financial condition to adverse movements in interest rates. Accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value. However, excessive interest rate risk can pose a significant threat to an institution's earnings and capital base. Changes in interest rates affect the bank's earnings by changing its net interest income and the level of other interest-sensitive income and operating expenses. Changes in interest rates also affect the underlying value of the bank's assets, liabilities and off-balance sheet instruments because the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of institutions.

As a commercial bank focusing on small and medium sized enterprises there are specific advantages in having relatively short term loans. However, these favourable market conditions are off-set by the need of offering fixed interest rate on loans to clients without an opportunity to re-price the loans (i.e. amend the interest rate) during the life of the loan if market conditions move against the bank. For this reason, the bank needs to match the type of interest charged on loans to customers with the features of the interest rate offered to depositors and loans raised from other banks. Appropriate Risk Management objectives under such circumstances is to put in place strategies for avoiding extraordinary or unexpected losses in a downturn which will usually also mean foregoing high profits in an unexpected upturn.

The table below summarises the exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The bank does not bear an interest rate risk on off balance sheet items.

35 RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Interest rate risk exposure (Continued)

As at 31 December 2013	Up to 1 month TZS '000	Up to 3 months TZS '000	Up to 6 months TZS '000	Up to 12 months TZS '000	Over 12 months TZS '000	Non-interest Bearing TZS '000	Total TZS '000
Financial assets							
Cash balances	-	-	-	-	-	15,296,413	15,296,413
Balances with Bank of Tanzania	-	-	-	-	-	46,220,328	46,220,328
Balance with other banks	-	2,394,000	-	-	-	16,969,150	19,363,150
Loans and advances	21,262,181	15,717,599	4,513,897	19,931,441	138,347,826	-	199,772,944
Other assets	-	-	-	-	1,886,145	-	1,886,145
Total	**21,262,181**	**18,111,599**	**4,513,897**	**19,931,441**	**140,233,971**	**78,485,891**	**282,538,981**
Financial liabilities							
Due to banks	-	-	-	-	-	-	-
Due to customers	138,338,128	39,117,236	63,465,000	13,523,809	11,161,263	-	265,605,436
Revolving credit facilities	-	-	-	-	111,655	-	111,655
Other liabilities	-	-	-	-	2,040,559	-	2,040,559
	138,338,128	**39,117,236**	**63,465,000**	**13,523,809**	**13,313,477**	**-**	**267,757,651**
Interest repricing gap	**(117,075,947)**	**(21,005,636)**	**(58,951,104)**	**6,407,632**	**126,920,494**	**78,485,891**	**14,781,330**
Cummulative gap	**(117,075,947)**	**(138,081,584)**	**(197,032,687)**	**(190,625,055)**	**(63,704,561)**	**14,781,330**	**-**

35 RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Interest rate risk exposure (Continued)

	Up to 1 month	Up to 3 months	Up to 6 months	Up to 12 months	Over 12 months	Non-interest Bearing	Total
As at 31 December 2012	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Financial assets							
Cash balances	-	-	-	-	-	18,363,725	18,363,725
Balances with Bank of Tanzania	-	-	-	-	-	25,434,201	25,434,201
Balance with other banks	-	9,844,000	-	-	-	(2,186,164)	7,657,836
Financial instruments held to maturity	-	-	-	-	18,995,194	-	18,995,194
Loans and advances	9,677,137	2,118,171	3,034,727	19,776,802	123,233,828	-	157,840,665
Other assets	-	-	-	-	-	1,618,376	1,618,376
Total	**9,677,137**	**11,962,171**	**3,034,727**	**19,776,802**	**142,229,022**	**43,230,138**	**229,909,998**
Financial liabilities					-		
Due to banks	-	-	-	-	-	-	-
Due to customers	116,378,054	27,446,266	32,764,425	19,924,480	11,161,263	-	207,674,488
Revolving credit facilities	112,083	20,833	425,000	109,375	8,839,127	-	9,506,419
Other liabilities	-	-	-	-	-	2,585,079	2,585,079
	116,490,137	**27,467,099**	**33,189,425**	**20,033,855**	**20,000,390**	**2,585,079**	**219,765,986**
Interest repricing gap	**(106,813,000)**	**(15,504,928)**	**(30,154,698)**	**(257,053)**	**122,228,631**	**40,645,059**	**10,144,011**
Cummulative gap	**(106,813,000)**	**(122,317,928)**	**(152,472,626)**	**(152,729,679)**	**(30,501,048)**	**10,144,011**	**-**

35 RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Foreign currency exchange risk (Continued)

The various currencies to which the bank is exposed are summarised in the table below (All amounts are expressed in Tanzania Shillings -

	TZS	USD	EURO	GBP	KES	Total
As at 31 December 2013						
Financial assets						
Cash balances	11,300,140	3,078,580	548,856	100,571	381	15,028,527
Balances with Bank of Tanzania	39,705,357	6,514,971	-	-	-	46,220,328
Balance with other banks	477,034	6,344,000	563,405	273,397	-	7,657,836
Items in the course of collection	-	-	-	-	-	-
Loans and advances (net)	182,343,703	16,584,661	0	-	-	198,928,365
Other assets	4,571,821	119,131	31,412	32,818	-	4,755,182
Total	**238,398,055**	**32,641,343**	**1,143,674**	**406,786**	**381**	**272,590,239**
Financial liabilities						
Due to banks	-	-	-	-	-	-
Due to customers	222,484,455	31,959,718	-	-	-	254,444,173
Cummulative gap	9,506,419	-	-	-	-	9,506,419
Other liabilities	1,854,894	1,395,250	-	6,120	-	3,256,264
Total	**233,845,768**	**33,354,968**	**-**	**6,120**	**-**	**267,206,856**
Net financial position	**4,552,287**	**(713,625)**	**1,143,674**	**400,666**	**381**	**5,383,382**

	TZS	USD	EURO	GBP	KES	Total

35 RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Foreign currency exchange risk (Continued)
As at 31 December 2012

Financial assets						
Cash balances	13,729,290	3,803,577	524,391	237,242	69,225	18,363,725
Balances with Bank of Tanzania	25,434,201	-	-	-	-	25,434,201
Balance with other banks	4,041,063	13,784,053	526,698	707,675	-	19,059,489
Items in the course of collection	18,995,194	-	-	-	-	18,995,194
Loans and advances (net)	141,863,144	15,853,713	121,981	1,826	-	157,840,665
Other assets	1,435,014	119,131	31,412	32,818	-	1,618,376
Total	**205,497,906**	**33,560,475**	**1,204,483**	**979,562**	**69,225**	**241,311,650**
Financial liabilities						
Due to banks	-	-	-	-	-	-
Due to customers	174,767,732	31,682,831	1,028,663	195,261	1	207,674,488
Revolving credit facilities	9,506,419	-	-	-	-	9,506,419
Other liabilities	1,183,709	1,395,250	-	6,120	-	2,585,079
Total	**185,457,860**	**33,078,081**	**1,028,663**	**201,380**	**1**	**219,765,986**
Net financial position	**20,040,046**	**482,394**	**175,820**	**778,181**	**69,224**	**21,545,664**

35 RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities

The fair values of the Bank's other financial assets and liabilities such as loans and advances to customers and banks, financial instruments held to maturity, due to banks, due to customers, other borrowings and other liabilities are measured using level 2 hierarchy and the its fair value approximate the respective carrying amounts as reported in the statement of financial position.

36 CONTINGENT LIABILITIES AND COMMITMENTS

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

At year end, the bank had 106 outstanding cases with third parties and ex employees of the bank, in some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case and no provisions are held against such cases. However the bank does not currently expect the final outcome of such case to have a material adverse effect on its financial position.

Operating lease commitments

The bank has entered in commercial leases on premises for its head office and branches. These leases have an average life of ten years with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2013	2012
	TZS'000	TZS'000
Within one year	1,387,660	1,224,000
After one year but not more than five years	5,550,639	5,484,000
More than five years	3,250,716	3,408,000
Total	**10,189,015**	**10,116,000**

37 EVENTS AFTER REPORTING DATE

There is no significant event after the reporting date which occurred and needs further disclosures in the financial statements.

38 COMPARATIVES

Comparative figures have been adjusted where necessary, to conform with changes in presentation in the current year and the prior year adjustments on errors and omissions of material nature.