AZANIA BANK LIMITED

ANNUAL REPORT

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

BANK OF TANZANIA
RECEIVED
31 MAR 2015
DIRECTOR BANKING SUPERVISION
DAR ES SALAAM

AZANIA BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

TABLE OF CONTENTS

AZANIA BANK LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

1 INTRODUCTION

The Directors submit their report and the audited financial statements for the year ended 31 December 2014 which disclose the state of affairs of Azania Bank Limited ("the Bank").

The financial statements for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Directors as indicated on the statement of financial position.

2 INCORPORATION

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

3 MISSION AND VISION

Vision Statement:

The Bank envisions being a One Stop Financial Centre.

Mission Statement:

The Bank is committed to availing freedom of access to a range of quality financial services to our customers using competent and dedicated staff applying appropriate technology.

4 PRINCIPAL ACTIVITIES

The principal activity of Azania Bank Limited is the provision of banking and related services stipulated by the Banking and Financial Institutions Act, 2006. There has been no significant change in the principal activities of the Bank during the financial year ended 31 December 2014.

5 REVIEW OF BUSINESS PERFORMANCE

The Bank's results are set out on page 16 of the financial statements. During the year under review, the Bank recorded a profit before tax of TZS 3,548 million compared to TZS 907 million in the previous year, representing an increase of 291%. The increase is mainly due to increase in revenue both interest income and non-interest income despite the high cost of funding experienced during the year and an increase in provisions for impairment of financial assets, specifically, accounts receivables.

Interest income

Interest income during the year amounted to TZS 36,602 million compared to TZS 33,102 million in the previous year, representing an increase of 11% (TZS 3,500 million). This is mainly due to the growth of other interest earning assets particularly investments in debt securities (treasury bills) and placements with other banks which increased from the previous year balances by 970% and 140%, respectively.

Interest expense

Interest expense during the year amounted to TZS 18,381 million, as compared to TZS 16,834 million in the previous year, representing an increase of 9% (TZS 1,547 million). The increase in interest expense is mainly attributed to the growth in interest bearing deposits as well as the increased market interest rates on Tanzanian Shillings denominated deposits during the year.

5 REVIEW OF BUSINESS PERFORMANCE (Continued)

Net interest income

Net interest income (interest income less interest expenses) during the year amounted to TZS 18,221 million, as compared to TZS 16,268 million in prior year, representing an increase of 12% (TZS 1,953 million).

Non - interest income

Non-interest income mainly includes fee and commission income, foreign exchange income and other operating income. Non-interest income amounted to TZS 7,487 million compared to TZS 6,825 million in the previous year, representing an annual increase of 10% (TZS 662 million).

Non-interest expenses

Non-interest expenses before tax amounted to TZS 19,771 million as compared to TZS 19,602 million in prior year, implying an increase of 1%. The increase is largely attributed to the provisions made to accounts receivables due to doubts on recoverability. The number of employees at the end of year totaled 244 as compared to 246 in 2013.

Income tax expense

Income tax expense amounted to TZS 1,158 million (2013: TZS 539 million).

Key performance ratios

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

	2014	2013
Return on average assets	0.69%	0.33%
Return on average equity	6.49%	2.77%
Non-interest income to net interest income	41.22%	41.95%
Operating expenses to average assets	6.18%	7.07%
Non-interest expenses to operating income	79.90%	95.86%

6 REVIEW OF FINANCIAL POSITION

The Bank's financial position is set out on page 17 of the financial statements. Movements on the major balances are as explained in the table below:

Item	2014	2013	Increase / (Decrease)	Increase / (Decrease)
	TZS ' 000	TZS ' 000	TZS ' 000	%
Cash and bank balances with Bank of Tanzania	59,998,554	61,516,741	(1,518,187)	-2.5%
Balances with other banks	29,730,563	7,858,435	21,872,128	278%
Financial instruments held to maturity	33,360,598	19,363,150	13,997,448	72%
Loans and advances	202,694,045	199,699,278	2,994,768	1.5%
Property and equipment	3,022,768	2,795,517	227,251	8%
Leasehold improvement	3,322,247	3,872,440	(550,193)	-14%
Intangible assets	505,783	528,667	(22,884)	-4.3%
Deposits	285,472,002	254,444,173	31,027,829	12%
Long term borrowing	11,811,458	11,934,570	(123,112)	-1%
Other liabilities	2,746,701	1,854,894	891,807	48%

6 REVIEW OF FINANCIAL POSITION (Continued)

Financial instruments held to maturity

The increase in investment in financial instruments by TZS 13,997 million (72%) relates to investment in treasury bills that was aimed at improving the Bank's liquidity position. 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 increased by TZS 21,872 million (278%) from prior year. The increase was attributed to establishment of a new correspondence relationship with EBI SA Groupe Ecobank and transfer of funds from SMR account to Bank of Tanzania (BoT) operating account following reduction of SMR rate on private deposits from 10% to 8% with effect from 29th December 2014.

Loans and advances

The loans and advances increased by TZS 2,994 million (1.5%) on account of maintaining the credit portfolio to manage Risk Weighted Assets (RWAs).

Intangible assets

Intangible assets decreased by TZS 23 million (4.3%) from prior year. The decrease was due to amortization of intangible assets.

Deposits

Deposits increased by TZS 31,028 million (12%) through growth in customer base from the expanded branch network and increased marketing and promotional activities.

Long term borrowing

The net decrease in long term borrowings by TZS 123 million (1%) is attributed to repayments on Oikocredit credit facility, NSSF & PPF revolving credit facilities and UN Habitat credit facility.

Other liabilities

Other liabilities increased by TZS 892 million (48%) mainly due to increase in balances relating to the letters of credit, shipping guarantees, tax payable and endowment fund compared to the previous year.

Key efficiency ratios

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

	2014	2013
Total capital to total assets	10.45%	10.97%
Net non-performing loans to total advances	4.40%	4.76%
Gross loans to total deposits	71.64%	75.61%
Loans to total assets	59.93%	66.23%
Liquidity Ratio	25.57%	13.49%

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 the 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 in the financial statements are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

9 ACQUISITIONS AND DISPOSALS

The Bank disposed a fully depreciated motor vehicle during the year 2014 at TZS 12 million (2013: Nil).

10 FUTURE DEVELOPMENTS

The future development plans centre 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 such as the envisaged Bima Savings Accounts, Custody Business and Agency Banking to improve financial performance;
- Introduce various measures to manage operating expenses and cost of funding to maintain an efficiency ratio of 70%;
- Increase proportion of non-interest income to total income from 16.7% to 20% through introduction of new services and various alternate banking channels such as mobile banking and enhancing internet banking;
- Enhance Information and Communication Technology (ICT) platform to support innovation and financial inclusion to benefit our customers and other stakeholders;
- Open new branches in Tunduma, Mtwara, Kariakoo II, Twin Towers along Samora Avenue and new agencies in Rwagasore and Namanga;
- Acquire a new core banking system to improve management information systems; and
- Review the organization structure to enhance operational efficiency.

11 DIVIDEND

The Board of Directors does not propose payment of a dividend for the year 2014 (2013: 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 Systems, Human Resources & 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. Yacoub M. Kidula	Chairperson	53	MBA Finance	Tanzanian	15 May 2008
Mr. Eliudi B. Sanga	V/Chairperson	52	M.A. Economics	Tanzanian	24 June 2010
Mr. Gabriel J. Silayo	Member	45	M.A. Economics	Tanzanian	27 June 2006
Mr. Nathan E. Mnyawami	Member	46	M.A. Economics	Tanzanian	6 August 2009
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
Ms. Assumpta M. Mallya	Member	46	MBA	Tanzanian	14 March 2014
Ms. Juliana M. Sweke	Member	48	MBA, CPA(T)	Tanzanian	20 December 2014
Mr. Charles G. Singili	Member	56	CPA (T), B.Com Accountancy	Tanzanian	2 September 2005

There were two newly appointed directors namely Ms. Assumpta Mallya representing PPF to replace Mr. William E. Erio who retired from the Board after completing two consecutive terms and Ms. Juliana Sweke representing EADB to replace Mr. Andulile J. Mwakalyelye who resigned after conclusion of his contract with East African Development Bank (EADB).

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

The Company Secretary as at 31 December 2014 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 2014 and 2013, respectively.

15 DIRECTORS' REMUNERATION

The remuneration for services rendered by the non-executive Directors of the Bank in 2014 was TZS 99.5 million (2013: TZS 55 million).

17 SUBSEQUENT EVENTS

There are no events subsequent to the reporting date which require disclosure in or adjustment of 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
	2014	**2014**	**2013**	**2013**
	TZS'000	**TZS'000**	**TZS'000**	**TZS'000**
Cash balances	23,925,814	-	15,296,413	-
Balances with Bank of Tanzania	36,072,740	-	46,220,328	-
Balances with other banks	29,730,563	6,898,082	7,858,435	1,531,567
Financial instruments held to maturity	33,360,598	2,020,000	19,363,150	2,020,000
Loans and advances	202,694,045	189,223,042	199,699,277	184,378,636
Leasehold improvement	3,322,247	3,322,247	3,872,440	3,872,440
Property and equipment	3,022,768	3,022,768	2,795,517	2,795,517
Intangible assets	505,783	198,196	528,667	-
Tax recoverable	591,393	676,450	1,036,193	1,036,193
Deferred tax asset	350,330	-	324,869	-
Other assets	4,041,829	4,041,829	4,571,820	4,571,820
Total assets	**337,703,167**	**209,402,614**	**301,567,109**	**200,206,173**
Not recognised positions				
Credit related commitments	10,862,162	6,661,182	18,601,410	6,979,586
Minimum Capital Required for Market Risk (NOP)		1,187,335		1,509,759
Total risk-weighted assets		**217,251,131**		**208,695,518**

	Capital	**Ratios**	**Capital**	**Ratios**
Tier 1 capital	30,102,633	13.86%	26,923,060	12.90%
Tier 1 + Tier 2 capital	32,302,633	14.87%	27,123,060	13.00%

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 reflect 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 six (6) ordinary meetings, four (4) special meetings and one (1) extra ordinary meeting 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, Diagnostic Review of the Bank report and Proposal for Capital Restructuring while the extra ordinary meeting was held to discuss the investment proposal by Catalyst Principals.

In addition, the Board has reconstituted 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 2014 are detailed below:

Name	Position
Mr. Eliudi B. Sanga	Chairman
Mr. Arnold B. Kilewo	Member
Mr. Ludovick S. Mrosso	Member
Ms. Assumpta M. Mallya	Member

The Committee met six time during the year whereby four were ordinary meetings and two special meeting to dicuss draft audited financials and draft budget for the year 2015

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 2014 are detailed below:

Name	Position
Mr. Nathan E. Mnyawami	Chairman
Mr. Gabriel J. Silayo	Member
Ms Juliana M. Sweke	Member
Mr. Charles G.Singili	Member

During the year the, the committee met four time to discuss credit reports

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 2014 are detailed below:

Name	Position
Mr. Gabriel J. Silayo	Chairman
Mr. Nathan E. Mnyawami	Member
Ms Juliana M. Sweke	Member
Mr. Charles G. Singili	Member

The Committee met four times in a year to discuss risk and compliance reports

Board Human Resources Committee

This Committee deals with all matters pertaining to employees' welfare including recruitment and remuneration activities.

Members who served the Board Human Resources Committee during the year ended 31 December 2014 are detailed below:

Name	Position
Mr. Eliudi B. Sanga	Chairman
Mr. Arnold B. Kilewo	Member
Mr. Ludovick S. Mrosso	Member
Ms. Assumpta M. Mallya	Member
Mr. Charles G. Singili	Member

The committee met two times during the year

20 EMPLOYEE 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 the year totaled 244 as compared to 246 at the end of 2013.

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 2014, the Bank had a total of 244 of whom 132 were male (54%) and 112 (46%) female employees [2013: 135 were male (55%) and 111 female (45%) employees].

23 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 33 to the 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 40.4 million (2013: TZS 50.9 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 2014 and they are eligible for re-appointment as this is their third year in auditing Azania Bank Limited.

Approved by the Board of Directors on 31/mar/.....2015 and signed on its behalf by:

Name: Mr. Yacoub M. Kidula Chairman	**Title: Director**	**Signature:**
Name: Mr. Eliudi B. Sanga Vice Chairman	**Title: Director**	**Signature:**

AZANIA BANK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2014

The Tanzanian Companies Act, 2002 requires the Directors to prepare financial statements for each financial period that present fairly, in all material respects, the state of financial 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 present fairly, in all material respects, 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. Yacoub M. Kidula **Signature:** ____________ **Date:** 31/mar/2015
CHAIRMAN

Name: Mr. Eliudi B. Sanga **Signature:** ____________ **Date:** 31 MARCH 2015
VICE CHAIRMAN

Building a better
working world

Ernst & Young
Certified Public Accountants
Utalii House
36 Laibon Road, Oysterbay
PO Box 2475
Dar es Salaam
Tanzania

Tel: +255 22 2667227 / 7368 / 6853
Fax: +255 22 2666948
Email: info.tanzania@tz.ey.com
www.ey.com

INDEPENDENT AUDITOR'S REPORT

To the shareholders of
AZANIA BANK LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Azania Bank Limited which comprise the statement of financial position as at 31 December 2014, 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 as set out on pages 16 to 74.

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 control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's 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 at 31 December 2014, 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.

A member firm of Ernst & Young Global Limited.

Building a better
working world

INDEPENDENT AUDITOR'S 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 | 3 | **2015**

AZANIA BANK LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 TZS '000'	2013 TZS '000'
Operating income			
Interest income	7	36,602,042	33,102,010
Interest expense	8	(18,380,932)	(16,833,765)
Net interest income		**18,221,110**	**16,268,245**
Fees and commissions	9	4,375,229	3,633,818
Other income	10	2,110,159	2,086,065
Foreign exchange income	11	1,001,805	1,104,675
		7,487,194	**6,824,558**
		25,708,303	**23,092,802**
Provision for impairment of loans and advances	20	(1,012,799)	(1,194,551)
Net operating income		**24,695,504**	**21,898,252**
Personnel costs	12	(8,938,818)	(8,810,061)
General and administration costs	13	(8,747,022)	(8,875,909)
Amortisation of leasehold improvement	22	(369,727)	(517,367)
Depreciation of property and equipment	21	(486,272)	(958,085)
Amortisation of intangible asset	23	(348,356)	(322,845)
Write off of irrecoverable receivables	25	(881,794)	-
Provision for bad and doubtful debts	25	-	(118,037)
Total operating expenses		**(19,771,988)**	**(19,602,305)**
Finance costs	14	(1,426,364)	(1,388,726)
Profit before tax		**3,497,152**	**907,221**
Income tax expense	24	(1,157,955)	(538,697)
Profit for the year		**2,339,198**	**368,524**
Other comprehensive income		-	-
Total comprehensive income for the year		**2,339,198**	**368,524**

AZANIA BANK LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	2014 TZS '000'	2013 TZS '000'
Assets			
Cash balances	15	23,925,814	15,296,413
Balances with Bank of Tanzania	16	36,072,740	46,220,328
Balances with other Banks	17	29,730,563	7,858,435
Financial instruments held to maturity	18	33,360,598	19,363,150
Loans and advances	20	202,694,045	199,699,277
Property and equipment	21	3,022,768	2,795,517
Leasehold improvement	22	3,322,247	3,872,440
Intangible assets	23	505,783	528,667
Tax recoverable	24	591,393	591,393
Tax receivable	24	85,057	445,131
Deffered tax asset	24	350,330	324,869
Other assets	25	4,041,829	4,571,820
Total assets		**337,703,167**	**301,567,442**
Liabilities and equity			
Liabilities			
Due to customers	26	285,472,002	254,444,173
Revolving credit facilities	27	11,811,458	11,934,570
Other liabilities	28	2,746,704	1,854,894
Loan stock (convertible)	29	2,200,000	200,000
Total liabilities		**302,230,164**	**268,433,637**
Capital and Reserves			
Share capital	30	23,707,038	23,707,038
Share premium		6,745,860	6,745,860
Retained earnings		2,601,117	9,373
Regulatory reserves	32	2,051,098	2,303,644
Revaluation reserve		367,890	367,890
Total Capital and Reserves		**35,473,003**	**33,133,805**
Total Liabilities and Equity		**337,703,167**	**301,567,442**

These financial statements were authorised for issue by the Board of Directors on 31.03.2015, 2015 and were signed on behalf by:

Name: Yacoub M. Kidula Title: Chairman Signature: Kidula

Name: Eliud B. Sanga Title: Director Signature: [signature]

AZANIA BANK LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital TZS '000'	Share premium TZS '000'	Retained earnings TZS '000'	Revaluation Reserve TZS '000'	Regulatory reserves TZS '000'	Total TZS '000'
2014						
At 01 January	23,707,038	6,745,860	9,373	367,890	2,303,644	33,133,805
Profit for the year	-	-	2,339,198	-	-	2,339,198
Transfer to share premium	-	-	-	-	-	-
Transfer to regulatory reserve	-	-	252,546	-	(252,546)	-
At 31 December	**23,707,038**	**6,745,860**	**2,601,117**	**367,890**	**2,051,098**	**35,473,003**
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	-	-	-	-
Revaluation gain	-	-	-	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**

The statutory reserve represents an amount set aside to cover additional provisions for loan losses required to comply with the requirements of the Bank of Tanzania prudential guidelines. This amount is not available for distribution.

AZANIA BANK LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 TZS '000	2013 TZS '000
Operating activities			
Profit before tax for the year		3,497,152	907,221
Adjustments for:			
Amortisation of leasehold improvements	22	369,727	517,367
Depreciation of property and equipment	21	486,272	958,085
Amortisation of intangible asset	23	347,456	322,845
Impairment charge on loans and advances	20	1,012,799	1,194,551
Provision for doubtful receivable		-	118,037
Write off		881,794	
Revaluation gain		-	194,839
Gain on disposal of property and equipment		(2,375)	-
		3,095,673	3,305,724
Cash flow from operating profits before working capital changes		**6,592,825**	**4,212,946**
Changes in operating assets and liabilities			
Decrease /(increase) in statutory minimum reserves	16	4,828,000	(15,598,800)
Increase in loans and advances	20	(2,994,767)	(41,858,613)
Decrease/(increase) in other assets		529,991	(204,819)
Increase in due to customers		31,027,828	46,769,685
Increase in financial instruments held to maturity		(13,997,447)	(367,956)
Decrease in other liabilities		(914,826)	(730,186)
		25,071,605	**(7,777,742)**
Tax paid	24	(675,000)	(225,000)
Net cash flows from operating activities		**24,396,605**	**(8,002,742)**
Investing activities			
Acquisition of leasehold improvement	22	(27,307)	(910,209)
Acquisition of property and equipments	21	(884,499)	(563,114)
Purchase of intangible assets	23	(437,970)	(38,046)
Proceeds from disposal of property and equipment	21	12,000	-
Equity investment (TMRC)/Umoja Switch		-	(1,000,000)
Net cash flows used in investing activities		**(1,337,776)**	**(2,511,368)**
Financing activities			
Proceeds revolving credit facilities		123,112	1,428,151
Issue of convertible loan stock	29	2,000,000	-
Proceeds from issuance of share capital		-	4,920
Net cash flows from financing activities		**2,123,112**	**1,433,071**
Increase/(decrease) in cash and cash equivalents		**25,181,941**	**(9,081,039)**
Cash and cash equivalents			
At the beginning of the year		32,937,306	42,018,345
At the end of the year	19	**58,119,247**	**32,937,306**

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 2014.

The financial statements of Azania Bank Limited for the year ended 31 December 2014 were authorized for issue in accordance with the Board resolution on ________________ 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

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

- **Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27):** These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10.

- **IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32:** These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.

- **IFRIC Interpretation 21 Levies (IFRIC 21):** IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

- **IAS 36 Disclosure requirements for the recoverable amount of impaired assets - Amendments to IAS 36:** Clarifies the disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- **IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39:** These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

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 (EIR) 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.

During 113th Meeting of The Board held on 1st July 2014, the Board decided to limit the Group Endowment Scheme to the existing employees effective 1st July 2014 and establish another incentive scheme particularly Bonus Scheme to staff who will be employed subsequent to the cut off period. The Board further directed management to manage the Scheme internally rather than outsourcing it due to high management costs by third party fund managers. The Bank therefore, is managing GES internally where the arrangement is to accrue annually TZS 300m to build up the fund to cover both the past and present retirement benefits for the existing employees. So far the Bank has invested Tshs 400m with another local bank as a measure of building up the fund.

Currently there are 232 employees as beneficiaries, on the basis of compulsory retirement only 1 employee is due in the year 2017, 8 up to year 2022, 14 up to year 2027, 20 up to year 2032 and 189 up to year 2049.

Other employee benefits

The Bank provides free medical treatment to staff and their dependants. The cost is recorded as an expense under "personnel expenses". 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 amortisation of operating leasehold improvements in use is:

Description	Number of years
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)

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:

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

IFRS 15: Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 9: Financial instruments
IFRS 9, as issued in July 2014, reflects the completion of all the phases of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, impairment as well as hedge accounting.

Classification and measurement of financial instruments

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

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

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

The derecognition principles in terms of IAS 39 remain the same in IFRS 9.

Financial Liabilities: For liabilities designated at fair value through profit and loss, the change in the fair value of the liability attributable to changes in credit risk is presented in OCI. All other classification and measurement requirements in IAS 39 have been carried forward into IFRS 9.

Impairment of financial assets:
The expected credit loss model applies to debt instruments recorded at amortised cost or at fair value through other comprehensive income (such as loans, debt securities and trade receivables), lease receivables and most loan commitments and financial guarantee contracts. Entities are required to recognise either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. The measurement of expected credit losses would reflect a probability-weighted outcome, the time value of money and reasonable and supportable information.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

IFRS 9: Financial instruments (continued)

Effective date and transition:
The standard applies to annual periods beginning on or after 1 January 2018, although early application is permitted. Retrospective application is required, however, transition reliefs are provided (including no restatement of comparative period information). Entities will only be permitted to early apply a previous version of IFRS 9 if their date of initial application is before 1 February 2015. However, if an entity has early applied a previous version of IFRS 9 before 1 February 2015, the entity is permitted to continue to apply that version until IFRS 9 becomes mandatorily effective in 1 January 2018. Moreover, it will be possible to apply early just the new accounting treatment of fair value gains and losses arising from own credit risk on liabilities designated at fair value through profit or loss without applying the other requirements of IFRS 9, until IFRS 9 becomes mandatorily effective.

The Bank is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

Other standards that have been issued or revised but were not yet effective for financial year ended 31 December 2014

- IFRS 14: Regulatory Deferral Accounts (Effective 1 January 2016)
- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (Effective 1 January 2016)
- IAS 16 and IAS 41: Accounting for bearer plants (Effective 1 January 2016)
- IAS 19: Defined Benefit Plans: Employee Contributions (Effective 1 July 2014)
- IFRS 11: Accounting for the acquisition of interests in a Joint Operation (Effective 1 January 2016)
- IAS 27: Equity method in separate financial statements (Effective 1 January 2016)

Improvement project
Below is a summary of the improvements issued in December 2013 but which were not yet effective for the financial year ended 31 December 2014:
- IFRS 2 – Share-based Payment (Effective 1 July 2014)
- IFRS 3 – Business Combinations (Effective 1 July 2014)
- IFRS 8 – Operating Segments (Effective 1 July 2014)
- IAS 16 – Property, plant and equipment and IAS 38 Intangible Assets (Effective 1 July 2014)
- IAS 24 – Related Parties (Effective 1 July 2014)
- IAS 40 – Investment Property (Effective 1 July 2014)
- IAS 24 – Key management personnel (Effective 1 July 2014)
- IFRS 3 – Scope of Joint ventures (Effective 1 July 2014)
- IFRS 13 – Scope of paragraph 52

Below is a summary of the improvements issued in December 2014 but which were not yet effective for the financial year ended 31 December 2014:

- IFRS 5 – Noncurrent assets held for sale and discontinued operations (Effective 1 January 2016)
- IFRS 7 – Financial instruments: Disclosures (Effective 1 January 2016)
- IAS 19 – Employee benefits (Effective 1 January 2016)
- IAS 34 – Interim financial reporting (Effective 1 January 2016)

		2014	2013
		TZS '000	TZS '000
7	**INTEREST INCOME**		
	Loans and advances	33,606,019	30,094,729
	Placements with banks	620,750	1,078,924
	Debt securities	2,375,272	1,928,358
		36,602,042	**33,102,010**
8	**INTEREST EXPENSE**		
	Personal deposits	3,115,429	3,505,395
	Corporate deposits	6,504,582	3,241,620
	Charity/Socities/Clubs/Schools/Clubs	8,270	3,200
	Banks	3,631,446	2,777,363
	Non Bank and Financial Institutions	3,536,642	5,821,429
	Current and savings accounts	1,584,563	1,484,758
		18,380,932	**16,833,765**
9	**FEES AND COMMISSIONS**		
	Minimun balance fee	706,279	551,750
	Security perfection	404,234	609,988
	Sundries	682,002	703,093
	Ledger fee - Savings and Current account	746,914	618,509
	Telegraphic charges	384,131	312,518
	Loan insurance	480,146	96,529
	Guarantee indemnities	217,247	393,297
	Special clearance - LCY	60,249	56,750
	Recover on cheque books	36,477	40,962
	Letters of credit (LCs inward)	19,684	5,664
	Collaterals insurance	80,706	93,172
	Western union	39,469	24,053
	Salary processing	57,770	31,941
	Unpaid cheques - LCY	41,540	20,150
	Statement fees	41,698	20,987
	M-Pesa	352,280	13,460
	Other miscellaneous income	24,403	40,995
		4,375,229	**3,633,818**

		2014	2013
		TZS '000	TZS '000
10	**OTHER INCOME**		
	Loan fee	1,735,564	1,356,157
	Sundry income	4,562	491,172
	ATM income	82,143	101,788
	Recoveries	18,347	111,445
	Telex/Cable charges	3,252	12,930
	Loss on disposal of fixed assets	(2,375)	-
	Commission from Tanzania Revenue Authority	11,133	8,000
	Courier/Postage charge	-	4,574
	Cash Withdrawal Commission	257,534	-
		2,110,159	**2,086,065**
11	**FOREIGN EXCHANGE INCOME**		
	Trading account	(124,247)	877,986
	Fund transfer	1,012,559	147,950
	Western union	18,114	11,042
	Sundries	218,773	68,589
	Exchange on sales and purchases	1,308	208
	Exchange loss	(124,702)	(1,100)
		1,001,805	**1,104,675**
12	**PERSONNEL COSTS**		
	Wages and salaries	6,156,559	5,894,032
	Retirement benefit contribution	1,351,476	1,314,922
	Staff medical insurance	284,393	272,097
	Leave travel	477,809	469,406
	Staff training	334,127	556,185
	Allowances	227,582	195,882
	Uniforms	68,000	65,249
	Realocation	5,330	36,040
	Commlttee meetings	33,543	6,250
		8,938,818	8,810,061

The number of employees at the end of the year was 244 (2013: 246).

		2014	2013
13	**GENERAL AND ADMINISTRATION EXPENSES**		
	Auditors' remuneration	54,000	28,911
	Consumables	70,876	64,557
	Burial support	19,050	3,500
	Utilities	557,944	428,530
	Subscription	108,046	39,313
	Premises costs	1,725,795	1,616,632
	Generator repair and maintenance	140,764	182,830
	Motor vehicle cost	198,327	174,840
	Computer accessories	251,602	304,234
		3,126,402	**2,843,346**

		2014	2013
		TZS '000	TZS '000
13	**GENERAL AND ADMINISTRATION EXPENSES (Continued)**		
	Household equipment and accessories	152,370	149,654
	Insurance cost	218,664	260,032
	Deposit Insurance Fund	378,610	273,456
	Board directors Cost	373,686	229,918
	Stationery cost & accessories	551,098	519,540
	Advertising - Cost	491,734	718,149
	Security cost	756,090	647,865
	SWIFT expenses	49,125	63,164
	Communocation and postage	692,906	829,766
	Travel cost	690,961	477,529
	ATM expenses	183,280	316,027
	Tax consultancy fee	7,731	49,620
	Legal and professional fee	509,890	209,636
	Entertainment expenses	69,908	28,858
	Other operating expenses	383,723	1,103,678
	Bank charges	110,842	155,670
	Sub total	**5,620,620**	**6,032,563**
	Grand total	**8,747,022**	**8,875,909**
14	**FINANCE COSTS**		
	Credit lines and other borrowings	1,426,364	1,388,726
		1,426,364	**1,388,726**
15	**CASH AND BANK BALANCE**		
	Local currency	19,057,608	11,568,025
	Foreign currency	4,868,206	3,728,388
		23,925,814	**15,296,413**
16	**BALANCES WITH BANK OF TANZANIA**		
	Statutory Minimum Reserve (SMR)	31,609,870	36,437,870
	Other balances-Current account	4,462,870	9,782,458
		36,072,740	**46,220,328**

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 the statement of cash flows.

17 BALANCES WITH OTHER BANKS

	2014 TZS '000	2013 TZS '000
In interest bearing fixed deposit accounts	23,670,000	9,844,000
In non-interest bearing current accounts	5,803,659	(2,621,457)
Cheques and items for clearing	195,994	524,790
Accrued interest	60,909	111,101
	29,730,563	**7,858,435**
Maturing within more than three months	-	-
Maturing within less than three months	**29,730,563**	**7,858,435**
	29,730,563	7,858,435

Placements with other banks are not secured and earn interest on normal market interest rates that ranged between 3.8% to 15.2% as at year-end (2013: 3.6% to 12.9%).

18 FINANCIAL INSTRUMENTS HELD TO MATURITY

	2014	2013
Treasury bills	14,917,438	1,394,000
Other private bonds	15,586,880	15,586,880
TMRC investment account	2,000,000	2,000,000
UMOJA Switch investment account	20,000	20,000
	32,524,318	19,000,880
Accrued interest receivable on debt securities	836,279	362,270
	33,360,598	**19,363,150**

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.

19 CASH AND CASH EQUIVALENTS

	2014	2013
Cash and Bank Balances	23,925,814	15,296,413
Balances with the central bank	36,072,740	46,220,328
Placements with other banks	29,730,563	7,858,435
	89,729,117	**69,375,175**
SMR Deposit excluded note (16)	(31,609,870)	(36,437,870)
Cash and cash equivalent for the statement of cash flow purposes:	**58,119,247**	**32,937,305**

		2014	2013
		TZS '000	TZS '000
20	**LOANS AND ADVANCES**		
	Consumer	72,592,372	72,495,423
	Corporate	31,641,978	45,037,614
	Education	36,485	2,392
	Individual	5,719,438	6,073,972
	Kiseke	4,247,397	5,103,183
	Mortgage	38,463,380	30,678,910
	Uwezeshaji loans	36,272	43,593
	NHC - loans	4,055,236	2,254,444
	Personal	11,084,329	8,035,305
	SME	26,590,618	23,207,046
	Interest in suspense	(2,763,837)	(2,065,782)
		191,703,667	**190,866,100**
	Staff	7,153,147	5,996,483
		198,856,813	**196,862,583**
	Accrued interest receivable on loan and advances	5,683,429	4,542,732
	Gross loans and advances	**204,540,242**	**201,405,315**
	Allowances for impairment losses	(1,846,198)	(1,706,037)
	Net loans and advances	**202,694,045**	**199,699,277**

Interest in supense relates to the impairment amount for the interest accrued on impaired loans.

Movements in allowance for impairment losses

	2014	2013
At the beginning of the year	1,706,037	1,613,291
Allowance for an Identified Losses	-	-
Loans written off	(872,639)	(856,485)
Amount recovered during the year	-	(245,319)
Provision for impairment	1,012,799	1,194,551
At the end of the year	**1,846,198**	**1,706,037**

Maturity analysis of the net loan portfolio

	2014	2013
Within one year	100,292,871	61,425,118
Between one year and three years	56,111,476	41,023,959
Over three years	46,289,698	97,250,200
Net loans and advances	**202,694,045**	**199,699,277**

21 PROPERTY AND EQUIPMENT

31 December 2014

	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	452,000	1,672,615	532,141	-	2,656,756
	452,000	1,672,615	532,141	-	2,656,756
Additions	-	430,812	50,662	403,025	884,499
Disporsal	(15,000)				(15,000)
At 31 December	**437,000**	**2,103,427**	**582,803**	**403,025**	**3,526,255**
Accumulated depreciation					
At 01 January	(17,272)	(86,328)	(35,161)	-	(138,761)
Adjustment	20,414	95,967	39,595	-	155,976
	3,142	9,639	4,434	-	17,215
Charge for the year	87,900	286,446	111,926	-	486,272
Disporsal	(500)				
At 31 December	**90,542**	**296,085**	**116,360**	**-**	**503,487**
Net book value					
At 31 December	**346,458**	**1,807,342**	**466,443**	**403,025**	**3,022,768**

31 December 2013	Motor vehicles TZS '000'	Office furniture, equipments & fittings TZS '000'	Computer equipments TZS '000'	Work In Progress TZS '000'	Total TZS '000'
Cost					
21 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**	**-**	**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)
	(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**	**-**	**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.

22 LEASEHOLD IMPROVEMENTS

	2014 TZS '000	2013 TZS '000
Cost		
At 01 January	3,680,524	3,731,973
Revaluation adjustment	-	(2,016,650)
Transfers	-	990,085
Additions	27,307	910,209
Revaluation gain	-	64,907
At 31 December	**3,707,831**	**3,680,524**
Accumulated amortisation		
At 01 January	(191,917)	1,515,140
Revaluation adjustment	-	(2,224,424)
Adjustment	207,774	-
	15,857	(709,284)
Charge for the year	369,727	517,367
At 31 December	**385,584**	**(191,917)**
Net book value		
At 31 December	**3,322,247**	**3,872,440**

23 INTANGIBLE ASSETS

	2014 TZS '000	2013 TZS '000
Cost		
At 01 January	1,615,722	1,577,676
Additions	437,970	38,046
At 31 December	**2,053,691**	**1,615,722**
Accumulated amortisation		
At 01 January	1,087,054	764,209
Adjustment	113,397	-
Charge for the year	347,456	322,845
At 31 December	**1,547,908**	**1,087,054**
Net book value		
At 31 December	**505,783**	**528,667**

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

	2014	2013
	TZS '000	TZS '000
24 TAXATION		
a} Tax expense		
Current year tax	1,183,416	538,697
Deferred tax credit	(25,461)	(25,427)
	1,157,955	**513,270**
b} Reconciliation of tax expense to tax based on accounting profit:		
Accounting Profit before tax	3,497,152	907,221
Tax applicable rate of 30%	1,049,146	272,166
Expenses not deductible for tax purposes	108,809	241,104
	1,157,955	**513,270**

c} Deferred tax

Deferred income tax is calculated in full on all temporary timing differences, under the liability method using a principal tax rate of 30%. The movement on the deferred tax account is as follows:

	2014	2013
Opening balance	**(324,869)**	**(299,442)**
Release during the year	(25,461)	(25,427)
	(350,330)	(324,869)
Net deferred income tax asset (30%)		
Composition of the deferredincome tax asset		
Accelerated depreciation of property & equipment	(1,167,767)	(1,082,897)
Net deductible difference	**(1,167,767)**	**(1,082,897)**
Net deferred income tax asset (30%)	(350,330)	(324,869)
d} Tax payable/(recoverable)		
Opening balance	(445,131)	(95,314)
Charge for the year	1,183,416	538,697
Paid during the year	(675,000)	(225,000)
Tax overpaid prior year	(148,341)	(663,514)
	(85,057)	**(445,131)**
e} Tax recoverable	**591,393**	**591,393**

This is a tax recoverable on matured bonds erroneous deducted withholding tax on financial institution by BOT and paid to TRA

		2014	2013
		TZS '000	TZS '000
25	**OTHER ASSETS**		
	Sundry receivables	101,662	89,044
	Other receivables	1,089,549	1,079,920
	Prepaid expenses	2,095,269	2,685,675
	Collection account	576,537	415,020
	M-pesa	-	634,686
	Inter-Branch Accounts	178,813	(130,584)
	Provisions for bad debts	(201,941)	(201,941)
		4,041,829	**4,571,820**
	Write off of unrecoverable receivables	**881,794**	-
	Movement in provisions		
	Opening balance	201,941	83,904
	Charge during the year	(881,794)	-
	Written of receivables	**881,794**	118,037
		201,941	**201,941**
26	**DUE TO CUSTOMERS**		
	CUSTOMERS DEPOSIT - SAVINGS		
	Personal accounts	70,437,572	58,934,487
	Aspire accounts	41,070	78,622
	Banks & non-bank financial institutions	126,261	52,930
	Churches / charity organisations / schools	712,678	518,958
	Collection accounts	466,727	458,461
	Corporate accounts	152,434	171,901
	Loan internal accounts	219,375	245,513
	Small and Medium Enterprises	442,132	593,089
	Societies and clubs	559,992	946,841
	Staff	361,615	388,391
	State and local government.	6,832	8,728
	Watoto accounts	950,540	1,052,723
	Dhamira Accounts	859,607	-
	Call accounts	227,006	1,001,860
	Churches/charity organisations/schools	626,482	528,481
	Corporates	21,888,499	16,711,267
	Non financial parastatals (NFPES)	278,126	207,837
	Personal	19,915,901	15,429,520
	Small and Medium Enterprises	4,128,416	3,158,987
	Societies and clubs	1,563,300	811,610
	Staff	2,915	2,910
	State and local government	26,206	-
		123,993,687	**101,303,116**

	2014	2013
	TZS '000	TZS '000
26 DUE TO CUSTOMERS (Continued)		
FIXED DEPOSIT LIABILITIES		
Bank guarantees	162,444	276,281
Non-bank financial institutions	39,609,000	15,841,100
Churches/charity organisation/schools	191,718	19,927
Corporates	52,286,835	51,496,891
Education	86,883	84,232
Insurance - special deposits	986,998	1,259,660
Mortgage	5,719,087	5,864,833
Personal	31,591,075	27,203,098
Securities	62,094	39,785
Settlement account	2,457,062	11,409,484
Societies and clubs	73,286	11,217
State and local government	23,248,698	34,457,281
Uwezeshaji fund account	240,000	240,000
	156,715,179	**148,203,790**
SUB TOTAL DUE TO CUSTOMERS	**280,708,866**	**249,506,906**
INTEREST ACCRUED ON DEPOSIT		
Churches/charity organisation/schools	451,310	127
Corporate accounts	1,736,138	1,295,474
Interest payable - Current and Savings accounts	192,887	63,951
Non-bank financial institutions	1,037,455	1,868,885
Small and medium enterprises	212	65
Special deposits	168,481	134,519
Personal accounts	1,176,654	1,574,247
	4,763,135	4,937,267
GRAND TOTAL DUE TO CUSTOMERS	**285,472,002**	**254,444,173**
Maturity analysis of due to customers		
Payable within 90 days	206,471,698	177,455,364
Payable after 90 days and within one year	74,237,169	76,988,809
Payable after one year		-
Interest accrued on deposits	4,763,135	-
	285,472,002	**254,444,173**

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

27 REVOLVING CREDIT FACILITIES

	2014 TZS '000	2013 TZS '000
Tanzania Mortgage Refinance Company (TMRC)	9,200,000	9,200,000
Oiko credit	800,000	1,746,029
NSSF	311,458	798,958
PPF	-	189,583
GEPF	1,500,000	-
	11,811,458	**11,934,570**

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.

The Bank secured a long term funding from Government Employees Provident Fund (GEPF) in Terms of a Revolving Fund Starting from 17-Nov-2014 to 16 Nov 2018 at the rate of 14.5%

28 OTHER LIABILITIES

	2014 TZS '000	2013 TZS '000
Taxes payable	-	22,636
Inter branch accounts	-	(497,834)
Letter of credit - Shipping guarantee	1,027,318	200,944
Accrual and other expenses	115,096	827,483
Credit outstanding recoveries	264,402	378,271
Other liabilities	694,509	623,328
Withholding tax payables	164,959	-
Statutory deductions payables	275,626	-
Bankers cheque	204,793	300,066
	2,746,704	**1,854,894**

Other liabilities are non interest bearing and have maturity periods randing from 30 - 60 days. The liabilities are unsecured.

		2014	2013
		TZS '000	TZS '000
29	**CONVERTIBLE LOAN STOCK**		
	Opening balance	200,000	200,000
	Addition (GEPF)	2,000,000	-
	Closing balance	**2,200,000**	**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.

The Bank secured a loan stock which from Government Employees Pension Fund (GEPF) Starting from 19 Nov 2014 for the period of five years up to 18 Nov 2019 at the rate of 16.75%. The loan is subordinated and the lender has an option to convert the loan into ordinary shares at the time of

		2014	2013
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	23,637,594
	69,444 Non-cumulative irredeemable preference shares of Tshs 1,000 each	69,444	69,444
		23,707,038	**23,707,038**

		2014	2013
31	**REGULATORY CAPITAL**		
	Share capital	23,707,038	23,707,038
	Share premium	6,745,860	6,745,860
	Retaining Earning	2,601,117	9,373
		33,054,015	30,462,271
	Less:		
	Prepaid expenses	(2,095,269)	(2,939,810)
	Intangible assets	(505,783)	(528,667)
	Deferred tax asset	(350,330)	(324,869)
	Core capital (Tier 1) at the end of the year	**30,102,633**	**26,668,925**
	Required minimum core capital	5,000,000	5,000,000

	2014	2013
	TZS '000	TZS '000

32 SPECIAL RESERVE AND RETAINED EARNINGS

	2014 TZS '000	2013 TZS '000
Special reserve	2,303,644	2,421,758
	2,303,644	**2,421,758**

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:

	2014 TZS '000	2013 TZS '000
a) Deposit liabilities from related parties		
National Social Security Fund (NSSF)	2,001,573	7,002,556
Parastatal Pension Fund (PPF)	13,030,288	9,685,942
Local Authorities Pension Fund	3,500,000	1,500,000
	18,531,861	**18,188,499**
b) Loans from the related parties		
National Social Security Fund (NSSF)	311,458,333	798,958
Parastatal Pension Fund (PPF)	-	189,583
	311,458,333	**988,542**
c) Loans to key management personnel		
Senior management	2,360,802	1,867,904
	2,360,802	**1,867,904**
d) Key management personnel compensation		
Short term employee benefit	**721,024**	**1,142,635**

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 0.8% for all staffs loans except for education loans which are interest free.

	2014 TZS '000	2013 TZS '000
e) Directors remuneration	**54,500**	**55,000**

The remuneration for services rendered by the non-executive Directors of the Bank in 2014 was TZS 54.5 million (2013: TZS 55 million).

34. 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;

34. 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

34. 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.

	2014		2013	
	Loans and advances (%)	**Loan loss provision (%)**	**Loans and advances (%)**	**Loan loss provision (%)**
Current	94.92%	0.00%	94.62%	0.00%
Especially mentioned	1.38%	0.07%	0.74%	0.04%
Substandard	1.16%	0.12%	1.57%	0.16%
Doubtful	0.78%	0.39%	0.61%	0.30%
Loss	1.77%	1.77%	2.46%	2.46%
Total	**100.00%**	**2.34%**	**100.00%**	**2.95%**

34. 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

	2014 TZS'000	2013 TZS'000
Consumer	72,592,372	72,495,423
Corporate	31,641,978	45,037,614
Education	7,853	2,392
Individual	5,719,438	6,073,972
Kiseke	4,247,397	5,103,183
Mortgage	38,463,380	30,678,910
Uwezeshaji loans	36,272	43,593
NHC - loans	4,055,236	2,254,444
Personal	11,084,329	8,035,305
SME	26,590,618	23,207,046
Interest in suspense	(2,763,837)	(2,065,782)
	191,675,034	**190,866,100**
Staff	7,153,147	5,996,483
	198,828,181	**196,862,583**
Accrued interest receivable on loan and advances	5,683,429	4,542,732
Gross loans and advances	**204,511,610**	**201,405,315**
Allowances for impairment losses	(1,906,400)	(1,706,037)
Net loans and advances	**202,605,210**	**199,699,278**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2014 and 31 December 2013, 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, 65% is derived from loans and advances to banks and customers (December 2013: 66%). 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.

34. RISK MANAGEMENT (Continued)

iv. Loans and advances

Movements in allowance for impairment losses

	2014 TZS'000	2013 TZS'000
At the beginning of the year	1,706,037	1,613,291
Amount charged off during the year	(786,042)	(856,485)
Provision for impairment	986,405	949,232
At the end of the year	**1,906,400**	**1,706,037**

Maturity analysis of the net loan portfolio

Within one year		
Between one year and three years	100,204,036	61,425,118
Between three and five years	56,111,476	41,023,959
Over five years	46,289,698	97,250,200
Net loans and advances	**202,605,210**	**199,699,278**

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.

34 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
2014	TZS '000'	TZS '000'	TZS '000'	TZS '000'	TZS '000'
Financial assets					
Cash balances	23,925,814	-	-	-	23,925,814
Balances with Bank of Tanzania	36,072,740	-	-	-	36,072,740
Balance with other banks	29,730,563	-	-	-	29,730,563
Financial instruments held to maturity	33,360,598	-	-	-	33,360,598
Loans and advances (gross)	189,363,840	2,812,055	3,970,616	6,374,736	202,521,247
Other assets (exluding prepayments)	4,041,829	-	-	-	4,041,829
	316,495,384	**2,812,055**	**3,970,616**	**6,374,736**	**329,652,791**
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 (gross)	188,803,653	1,518,927	4,443,305	5,007,059	199,772,944
Other assets (exluding prepayments)	-	-	-	-	-
	277,541,978	**1,518,927**	**4,443,305**	**5,007,059**	**288,511,270**

34 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'
2014										
Financial assets										
Cash balances	23,925,814	-	-	-	-	-	-	-	-	23,925,814
Balances with Bank of Tanzania	36,072,740	-	-	-	-	-	-	-	-	36,072,740
Balance with other banks	29,730,563	-	-	-	-	-	-	-	-	29,730,563
Financial instruments held to maturity	33,360,598	-	-	-	-	-	-	-	-	33,360,598
Loans and advances	-	233,428	931,560	62,692,914	2,182,759	1,010,982	-	3,026,827	132,615,575	202,694,045
Other assets (excluding prepayments)	4,041,829	-	-	-	-	-	-	-	-	4,041,829
	127,131,544	**233,428**	**931,560**	**62,692,914**	**2,182,759**	**1,010,982**	**-**	**3,026,827**	**132,615,575**	**329,825,589**
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)	-	-	-	-	-	-	-	-	-	-
	88,738,326	**1,702,301**	**10,724,120**	**46,774,125**	**4,981,548**	**496,158**	**-**	**2,303,622**	**132,791,072**	**288,511,270**

34 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 2013 and 2012 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 2014						
Assets						
Cash balances	23,925,814	-	-	-	-	23,925,814
Balances with Bank of Tanzania	36,072,740	-	-	-	-	36,072,740
Balance with other banks	29,730,563	-	-	-	-	29,730,563
Financial instruments held to maturity	1,951,750	4,911,038	4,101,750	5,952,900	16,443,160	33,360,598
Loans and advances	12,838,277	11,081,750	6,442,203	30,537,342	141,621,676	202,521,247
Other assets (excluding prepayments)		-	-	-	1,946,560	1,946,560
Financial assets	**104,519,144**	**15,992,788**	**10,543,953**	**36,490,242**	**160,011,396**	**327,557,522**
Liabilities						
Due to customers	166,041,845	45,192,988	53,875,152	20,362,016	-	285,472,002
Revolving credit facilities	-	-	237,500	1,700,000	9,873,958	11,811,458
Other liabilities	2,746,704	-	-	-	-	2,746,704
Total Liabilities	**168,788,549**	**45,192,988**	**54,112,652**	**22,062,016**	**9,873,958**	**300,030,164**
Net Liquidity gap	**(64,269,405)**	**(29,200,200)**	**(43,568,700)**	**14,428,225**	**150,137,438**	**27,527,358**
Cummulative gap	**(64,269,405)**	**(93,469,605)**	**(137,038,305)**	**(122,610,080)**	**27,527,358**	**-**

34 RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

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'	Total TZS '000'
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)	1,946,560	-	-	-	-	1,946,560
Financial assets	**92,583,917**	**17,111,599**	**4,513,897**	**20,931,441**	**152,934,707**	**288,075,561**
Liabilities						
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	**(47,906,426)**	**(22,333,301)**	**(59,599,650)**	**6,150,752**	**143,344,883**	**19,656,258**
Cummulative gap	**(47,906,426)**	**(70,239,727)**	**(129,839,377)**	**(123,688,625)**	**19,656,258**	**-**

34 RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The table below shows analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	Less than 12 months TZS '000'	Over 12 months TZS '000'	Total TZS '000'
As at 31 December 2014			
Assets			
Cash balances	23,925,814	-	23,925,814
Balances with Bank of Tanzania	36,072,740	-	36,072,740
Balance with other banks	29,730,563	-	29,730,563
Financial instruments held to maturity	19,773,717	13,586,880	33,360,598
Loans and advances	64,171,183	138,350,065	202,521,247
Property and equipment	-	3,022,768	3,022,768
Leasehold improvement	-	3,322,247	3,322,247
Intangible assets	-	505,783	505,783
Tax recoverable	-	591,393	591,393
Other assets	-	4,041,829	4,041,829
Total assets	**173,674,017**	**163,420,966**	**337,094,983**
Liabilities			
Due to banks			-
Due to customers	285,472,002	-	285,472,002
Revolving credit facilities	1,937,500	9,873,958	11,811,458
Other liabilities	2,746,704	-	2,746,704
Taxation payable	-	-	-
Loan stock (convertible)	-	2,200,000	2,200,000
Deferred tax liability	-	-	-
Total liabilities	**290,156,206**	**12,073,958**	**302,230,164**
Net (equity & Reserves)	**(116,482,189)**	**151,347,007**	**34,864,818**
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**

34 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.

34 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 '000).

As at 31 December 2014	TZS	USD	EURO	GBP	KES	Total
Financial assets						
Cash balances	19,021,838	3,448,929	1,291,731	127,546	246	23,890,290
Balances with Bank of Tanzania	33,278,717	2,794,023	-	-	-	36,072,740
Balance with other banks	8,884,286	20,140,662	286,576	419,038	-	29,730,563
Items in the course of collection	2,096,288	-	-	3,997	-	2,100,285
Loans and advances (net)	193,286,504	9,122,909	109,931	1,902	-	202,521,247
Other assets	4,076,710	148,525	678	18,970	-	4,244,882
Total	**260,644,343**	**35,655,048**	**1,688,916**	**571,454**	**246**	**298,560,007**
Financial liabilities						
Due to customers	247,178,477	37,118,677	709,803	465,045	-	285,472,002
Revolving credit facilities	11,811,458	-	-	-	-	11,811,458
Other liabilities	2,746,704	-	-	-	-	2,746,704
Total	**261,736,639**	**37,118,677**	**709,803**	**465,045**	**-**	**300,030,164**
Net financial position	**(1,092,296)**	**(1,463,629)**	**979,113**	**106,409**	**246**	**(1,470,157)**

34 RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Foreign currency exchange risk (Continued)

As at 31 December 2013	TZS	USD	EURO	GBP	KES	Total
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	4,571,820	119,131	31,412	32,818	-	4,755,182
Total	**238,398,054**	**32,641,343**	**1,143,674**	**406,786**	**381**	**272,590,238**
Financial liabilities						
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

34 RISK MANAGEMENT (CONTINUED)

(d) Off-Statement of financial position items

(a) Loan commitments
The dates of the contractual amounts of the Bank's off-statement of financial position financial instruments that commit it to extend credit to customers and other facilities, are summarised in the table below.

(b) Financial guarantees and other financial facilities
Financial guarantees are included below based on the earliest contractual maturity date.

(c) *Capital commitments*
These relate to the acquisition of property and equipment.

	(Amounts are in TZS)			
At 31 December 2014	**No later than 1 year**	**1 – 5 years**	**Over 5 years**	**Total**
Outstanding letters of credit, guarantees and indemnities	10,862,162	-	-	10,862,162
At 31 December 2013				
Outstanding letters of credit, guarantees and indemnities	18,601,410	-	-	18,601,410

34 RISK MANAGEMENT (CONTINUED)

(f) 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:

(i) To comply with the capital requirements set by the Bank of Tanzania (BOT);

(ii) 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

(iii) 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, for supervisory purposes. The required information is filed with the Central Bank on a quarterly basis.

BoT requires the Bank to:

(i) hold minimum level of Core Capital of TZS 15 billion;

(b) maintain a ratio of core capital to risk-weighted assets plus risk-weighted off-statement of financial position assets (the 'Basel ratio') at or above the required minimum of 10%; and

(c) and maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-statement of financial position items.

The Bank's regulatory capital as managed by its Treasury department is divided into two tiers:

Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Intangible assets, deferred tax assets and prepaid expenses are deducted in arriving at Tier 1 capital; and

Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of a 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-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2014 and 31 December 2013. During those two periods, the Bank complied with all of the externally imposed capital requirements.

34 RISK MANAGEMENT (CONTINUED)

(f) Capital management (continued)

	2014 TZS	2013 TZS
Tier 1 capital		
Share capital	23,707,038	23,707,038
Share premium	6,745,860	6,745,860
Retained earnings	2,601,117	9,373
Prepaid expenses	(2,095,269)	(2,685,675)
Deferred income tax asset	(350,330)	(324,869)
Intangible assets	(505,783)	(528,667)
Total qualifying Tier 1 capital	**30,102,633**	**26,923,060**
Tier 2 capital		
Subordinated debt	2,200,000	200,000
Total qualifying Tier 2 capital	**2,200,000**	**200,000**
Total regulatory capital	**32,302,633**	**27,123,060**
Risk-weighted assets		
On-statement of financial position	209,402,614	199,435,288
Off-statement of financial position	6,661,182	6,979,586
Total risk-weighted assets	**216,063,796**	**206,414,874**

	Required ratio	Bank's ratio 2014	Bank's ratio 2013
	%	%	%
Tier 1 capital	10	**13.93%**	**13.04%**
Tier 1 + Tier 2 capital	12	**14.95%**	**13.14%**

There has been no changes in the Bank's capital management objectives and policies in the years ended 31 December 2014 and 2013.

34 RISK MANAGEMENT (CONTINUED)

(e) Fair value of financial assets and liabilities

Financial instruments not measured at fair value

The fair value of financial assets and liabilities not measured at fair value approximates the carrying amounts as explained below:

(i) *Cash and balances with banks, loans and advances due from customers and banks, and other financial assets and liabilities*

These have short term maturities and/or are at market interest rates. The estimated fair value of these instruments is based on discounted cash flows using prevailing market interest rates which is approximately the same as the carrying amounts.

(ii) *Deposits due to banks and customers*

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand and this approximates to the carrying amounts of these deposits.

The estimated fair value of interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates offered on similar deposits. Since the Bank's deposits are at market rates, the carrying amounts are a reasonable approximation of fair value.

(iii) *Government securities*

The fair value for held-to-maturity government securities is based on market prices. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. The Bank invests only in treasury bills with maturities of 91 days. The carrying amount of these investment securities is a reasonable approximation of fair value due to the short term nature of the instruments.

(v) *Off-statement of financial position financial instruments*

The estimated fair values of these instruments are based on market prices for similar facilities. Since the Bank's off-statement of financial position instruments are at market rates, their carrying amounts approximate the fair values.

35 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:

	2014	2013
	TZS'000	TZS'000
Within one year	1,431,186	1,387,660
After one year but not more than five years	5,724,745	5,550,639
More than five years	1,414,927	3,250,716
Total	**8,570,858**	**10,189,015**

36 EVENTS AFTER REPORTING DATE

There is no significant event after the reporting date which occurred and necessitates disclosure in or adjustment of the financial statements.