AZANIA BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

THE POWER OF BEING UNDERSTOOD

TABLE OF CONTENTS

COPRORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

HEAD OFFICE

Mawasiliano Towers, 3rd Floor
Plot No 20 Sam Nujoma Road
P. O. Box 32089
Dar es Salaam
Tanzania.

REGISTERED OFFICE

Mawasiliano Towers, 3rd Floor
Plot No 20 Sam Nujoma Road
P. O. Box 32089
Dar es Salaam
Tanzania.

CORRESPONDENT BANKS

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

EBI SA Groupe Ecobank
Les Collines de L'Árche
Immeuble Concorde F
92057 Paris La Defense Cedex.

MAIN BANKER

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

LAWYERS

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

AUDITOR

RSM Eastern Africa
16th Floor, Golden Jubilee Towers
P. O. Box 79586
Dar es Salaam.

COMPANY SECRETARY

Mr. Geofrey N. Dimoso
Mawasiliano Towers
Plot No 20 Sam Nujoma Road
P. O. Box 32089
Dar es Salaam
Tanzania.

The directors present their report and audited financial statements for year ended 31 December 2015, which disclose the state of affairs of Azania Bank Limited ("the bank").

1. INCORPORATION

The bank is incorporated in Tanzania under the Tanzanian Companies Act, 2002 as a limited liability Company whose shares are not publicly traded.

2. VISION

To be a One Stop Financial Centre.

3. MISSION

To avail 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 2015.

5. BOARD OF DIRECTORS

The directors of the bank, who have served in office during the year, and to the date of this report, are as follows:

Name	Position	Age	Qualification/Discipline	Nationality	Date of appointment
Mr Yacoub M. Kidula	Chairman	54	MBA Finance	Tanzanian	15 May 2008
Mr Eliudi B. Sanga	Vice chairman	53	M.A Economics	Tanzanian	24 June 2010
Mr Gabriel J. Silayo	Member	46	M.A Economics	Tanzanian	15 June 2008
Mr Nathan E. Mnyawami*	Member	47	M.A Economics	Tanzanian	6 August 2009
Mr Ludovick S. Mrosso	Member	57	MBA, CPA(T)	Tanzanian	23 December 2010
Mr Arnold B. Kilewo	Member	76	LLB-London AMP-Harvard	Tanzanian	11 April 2011
Mr Charles Singili*	Member	57	CPA(T), B.com	Tanzanian	2 September 2005
Mrs Assumpta M. Mallya	Member	47	MBA	Tanzanian	14 March 2014
Mrs Juliana M. Sweke	Member	49	MBA, CPA(T)	Tanzanian	20 December 2014
Mr Andulile J. Mwakalyelye*	Member	57	M.A Economics	Tanzanian	24 March 2015

*Mr. Nathan E. Mnyawami served up to 23rd March 2015.
*Mr Charles Singili, who was the Managing Director served up to 23rd March 2015; and
*Mr Andulile Mwakalyelye was appointed as the Interim Managing Director on 24th March 2015.

The Company Secretary as at 31 December 2015 was Mr Geofrey N. Dimoso who also performs legal advisory activities for the bank as Director of Legal Services.

6. DIRECTORS' INTEREST

Mr Arnold B. Kilewo has interest in the share capital of the bank forming part of the minority shareholding. He holds 0.12% of the ordinary share capital.

7. SHARE CAPITAL STRUCTURE

As at 31 December 2015, the following shareholders held shares in Azania Bank Limited:

Ordinary Shares

Name of shareholder	Number of shares held	%
National Social Security Fund (NSSF)	8,218,778	34.77
PPF Pensions Fund (PPF)	7,110,318	30.08
Public Service Pension Fund (PSPF)	4,057,143	17.16
Local Authorities Pension Fund (LAPF)	3,351,228	14.18
East African Development Bank (EADB)	550,000	2.33
Minority shareholders (less than 1% each)	350,127	1.48
	23,637,594	**100.00**

Preference Shares

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

Convertible Loan Stock

Name of loan stockholder	TZS'000
Government Employees Pension Fund (GEPF)	**2,000,000**

8. CORPORATE GOVERNANCE

Azania Bank Limited has a board comprising eight Non-Executive Directors and one Executive Director. The Board chairman and six Non-Executive members of the Board represent Institutional shareholders while one director represents the minority shareholders.

The Board meets at least four times a year. The Board delegates the day-to-day management of the business to the Managing Director assisted by other members of senior management. Senior management facilitates the effective control of the bank's operational activities, acting as a medium of communication between different business units.

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 interest of the bank and reflect the commitment to maintain highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

During the year ended 31 December 2015, the Board held five (5) ordinary meetings and six (6) special meetings.

The bank is committed to the principles of effective corporate governance. The directors also recognise the importance of integrity, transparency and accountability. The Board has four sub-committees which ensure high standard of corporate governance throughout the bank.

8. CORPORATE GOVERNANCE (continued)

Board Audit Committee

The Committee meets on a quarterly basis. The main responsibilities of the Committee are to review financial information and monitor the effectiveness of management information and internal control systems. In addition, the Committee deliberates on the significant findings arising from internal and external audit and review exercise by the Banking Supervision Directorate of the Bank of Tanzania.

Members of the Committee as at the date of this report, all of whom have served throughout the year, were as follows:

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

The committee met six (6) times during the year.

Board Credit Committee

The 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.

Members of the Credit Committee as at the date of this report, all of whom have served throughout the year, were as follows:

Name	Position
Mrs Juliana M. Sweke	Chairman
Mr Gabriel J. Silayo	Member
Mr Nathan E. Mnyawami*	Member
Mr. Andulile Mwakalyelye	Member

- Mr. Nathan Mnyawami was the chairman to this committee up to 23rd March 2015.

The committee met three (3) times during the year.

Board Risk Management and Compliance Committee

The 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 committee met three (3) times during the year to discuss risk and compliance reports.

Members of the Committee as at the date of this report, all of whom have served throughout the year, were as follows:

Name	Position
Mr Gabriel J. Silayo	Chairman
Mr Nathan E. Mnyawami	Member
Mrs Juliana M. Sweke	Member
Mr. Andulile Mwakalyelye	Member

8. CORPORATE GOVERNANCE (continued)

Board Human Resources Committee

The Committee deals with all matters pertaining to employees' welfare including recruitment and remuneration. The committee met three (3) times during the year to discuss Human Resource matters and reports.

Members of the Human Resources Committee as at the date of this report, all of whom have served throughout the year, were as follows:

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

9. FUTURE DEVELOPMENTS

The future development plans centre on 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:

- Raise the capital by at least TZS 30 billion in order to increase the capacity of doing business and comply with the regulatory requirements;
- Upgrade the current core banking system; and
- Renovation of our main branch at Masdo and expansion of the Kariakoo branch.

10. DIVIDENDS

The Board of Directors does not propose payment of a dividend for year 2015 (2014: NIL).

11. PERFORMANCE FOR THE YEAR

The bank's results are set out on page 13 of the financial statements. During the year under review, the bank's performance dropped to a net loss of TZS 3,525 million. (2014: profit of TZS 2,339 million). The Bank performed well on net interest income and non-interest income which both grew by 20.1% and 19.5% respectively. However, the reported loss was largely attributable to the following four main items;

i. The increase in non-performing loans by TZS 3,360 million and, general provisions by TZS 650 million. The non-performing loans as at 31 December 2015 reached TZS 16,276 million up by 84%, compared with TZS 8,999 million recorded in 2014. The management has intensified the recovery efforts by dedicating al team in the Recovery Unit in order to reduce the non-performing loans.

ii. The write-off of TZS 1,270 million on account of clean up exercise of all old unrecoverable assets in the books of accounts. This is a one-off exercise, and is not expected to recur.

iii. The restructuring costs amounting to TZS 3,053 million, which were payments to senior management members whose contracts were terminated or changed to pave way to the new organization structure in order to strengthen the Bank performance.

iv. Salary increases to staff by 50% in year 2015 to align the Bank with the competitors in order to retain staff and attract new skill set in the Bank.

The interest income for year ended 31 December 2015 increased by 8.2% to close at TZS 39,602 million (2014: TZS 36,602 million). The growth was attributable to the improvement in yield of earning assets. The average earning assets in 2015 grew by 6.5% to close at TZS 258,849 million (2014: TZS 243,095 million) while yield on earning assets increased to 15.34% in year ended 31 December 2015 compared with 15.06% for the preceding year.

On the other hand, interest expense decreased by 1.9% in 2015 to TZS 19,424 million (2014: TZS 19,807 million) on account of improvement on cost of funds on deposits held. Average deposits for year under review increased by 4.2% to TZS 281,335 million (2014: TZS 269,958 million), while its corresponding cost of funds dropped to 6.55% (2014: 7.00%).

Non-interest income during the year reached TZS 8,945 million, an increase of 19.5% compared to TZS 7,487 million recorded in preceding year. The increase in non-interest income was driven by income from foreign exchange transactions which recorded a growth of 158% to TZS 2,590 million (2014:TZS 1,002 million); while fees and commission dropped to TZS 6,264 million in 2015, down by 3.1% in comparison to TZS 6,465 million reported in preceding year. The decrease in fees was on account of lower business volumes.

Operating expenses increased by 29% (2014: 0.9%) to TZS 25,543 million (2014; TZS 19,772 million) mainly due to the increase in personnel costs by 49.8%, equipment and maintenance costs by 23.7%, premises costs by 13.5% and depreciation /amortisation expenses by 24.9%. The increase in operating costs was largely due to the rise in staff salaries which were aligned to the cost of living; branch network expansion for equipment maintenance costs and amortisations, and organisation restructuring costs.

Net worth

As at 31 December 2015 total assets decreased by 2.2% (2014: increase of 12.9%) to TZS 330,261 million (2014: TZS 337,703 million). The decrease in total assets was largely due to the decline in investments in Government securities by 23.9% and loans and advances by 3.5%.

Loans and advances dropped to TZS 195,634 million (2014: TZS 202,694 million), while investments in Government securities dropped to TZS 23,841 million (2014: TZS 31,340 million). In contrast, cash and balances with Bank of Tanzania rose to TZS 62,783 million (2014: TZS 59,998 million) and the placements with banks closed at TZS 33,013 million (2014: TZS 29,730 million).

Customer deposits increased by 5.2% to TZS 257,482 million (2014: TZS 245,825 million) attributable to growth in customer base mainly due to branch network expansions and satisfactory service offered by the bank to customers. Revolving credit lines grew to TZS 14,500 million (2014: TZS 11,811 million). On the other hand, deposits from other banks decreased to TZS 19,716 million (2014; TZS 40,646 million) due to the improved liquidity position of the bank at the end of the year under review.

The shareholders' funds decreased by 10.2% (2014: increased by 7.1%) to TZS 31,948 million (2014: TZS 35,473 million) attributable to the loss recorded during the year. The bank's capital adequacy declined by 28% to TZS 21,196 million (2014: TZS 30,103 million). Apart from the loss for the year, the capital adequacy has been affected by the change in computation of provisions for bad debts in line with the Bank of Tanzania prudential guidelines. The basis for provisions has been changed, thus has increased the amount to be appropriated from retained earnings to a regulatory reserve. The regulatory reserve does not form part of the capital adequacy of the bank.

The change of provisions for bad debts is as following; which has been effective from year ending 31 December 2015:

	Percentage charge on outstanding balance		
Loans classification status	Old rate	New rate	Increase
Current	0.0%	1.0%	100%
Especially mentioned	5.0%	3.0%	-40.00%
Substandard	10.0%	20.0%	100.00%
Doubtful	-50.0%	50.0%	0.00%
Loss	100.0%	100.0%	0.00%

The core capital and total capital ratios as at 31 December 2015 stood at 10.21% and 12.03% (regulatory: 10% and 12%) respectively compared with 13.93% and 14.95% respectively reported in 2014.

12. KEY PERFORMANCE INDICATORS

	2015	2014
Return on equity	-10.84%	6.82%
Return on average assets	-1.09%	0.73%
Yield on earning assets	15.34%	15.06%
Cost of funds	6.55%	7.00%
Interest margin on earning assets	7.82%	6.91%
Non-interest income to gross income	35.62%	32.18%
Cost / income ratio	101.71%	84.97%
Gross loans to customer deposits	77.62%	83.55%
Gross loans to customers to total assets	60.54%	60.57%
Earning assets to total assets	76.48%	78.11%
Non-performing loans to gross loans to customers	8.14%	4.63%
Shareholders' funds to total assets	9.64%	10.50%
Growth on total assets	-2.24%	12.91%
Growth on gross loans to customers	-2.28%	1.76%
Growth on customer deposits	5.17%	3.29%
Core capital to Average Risk weighted Assets	10.21%	13.86%
Total capital to Average Risk Weight Assets	12.03%	14.87%

13. RISK MANAGEMENT AND INTERNAL CONTROL

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

a. The effectiveness and efficiency of operations;
b. The safeguarding of the bank's assets;
c. Compliance with applicable laws and regulations;
d. The reliability of the accounting records;
e. Business continuity under normal as well as adverse conditions; and
f. Responsible behaviours towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of the prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system, of internal control can provide absolute assurance against misstatement or losses, the bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2015 and is of the opinion that they meet accepted criteria.

The Board carries risk and internal control assessment through The Executive and Audit committees.

14. SOLVENCY

The Board of directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on going concern basis. The Board has reasonable expectation that the bank has adequate resources to continue in operational existence for the foreseeable future.

15. EMPLOYEE WELFARE

Management and Employees' Relationship

There were continued good relations between employees and management for year ended 31 December 2015. There were no unresolved complaints received by the management from employees during the year.

The bank is equal opportunity employer. It gives equal access to employment 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.

Staff training

During the year ended 31 December 2015, the bank spent TZS 237 million (2014; TZS 334 million) for staff training and has put aside a sum of TZS 250 million for year 2016 in order to improve employees' competencies and technical skills. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade and enhance development.

Medical assistance

All members of staff and up to maximum number of four beneficiaries (dependants) for each employee have medical insurance guaranteed by the bank. Currently, these services are provided by AAR Insurance (T) Ltd.

Financial assistance to staff

Loans are available to all confirmed employees depending on the assessment of and the discretion of the management as to the need and circumstances. Loans provided to staff include mortgage finance, personal, car loans, and salary advances. These loans are currently availed at a concessionary rate of 8%.

Employees benefit plan

The bank pays contributions to publicly administered pension plans on mandatory basis which qualifies to be a defined contribution plan. The bank obligations in respect of these contributions are limited to 15% of the employees' monthly gross salaries.

Gender parity

The bank had 270 employees during the year; 117 of these employees were female and 153 were male (2014: 117 female and 153 male).

16. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 38 to the financial statements.

17. POLITICAL AND CHARITABLE DONATIONS

The bank did not make any political or charitable donations during the year.

18. AUDITORS

During the year, RSM Eastern Africa were appointed as auditor of the bank, and have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of the external auditors of the bank for the financial year 2016 will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

....	....
Mr. Yacoub M. Kidula	Mrs. Assumpta M. Mallya
Chairman	**Director**

The Tanzanian Companies Act, 2002 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company and which enable them to ensure the financial statements comply with the Tanzanian Companies Act, 2002. The directors are also responsible for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

'The directors accept responsibility for the preparation and fair presentation of these financial statements, which are free from material misstatement whether due to fraud or error. They also accept responsibility for:

a) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
b) selecting and applying appropriate accounting policies; and
c) making accounting estimates and judgments that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company for the year ended 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Banking and Financial Institutions Act, 2006 and the requirements of the Tanzanian Companies Act, 2002.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

BY ORDER OF THE BOARD

Mkidula

………………………………..
Mr. Yacoub M. Kidula
Chairman

………………………………..
Mrs. Assumpta M. Mallya
Director

Report on other legal and regulatory requirements (continued)

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 purposes of our audit;
ii) the report of the directors is consistent with the financial statements;
iii) proper accounting records have been kept by the company, so far as appears from our examination of those records;
iv) the company's statement of financial position and comprehensive income are in agreement with the accounting records; and
v) information specified by law regarding directors' remuneration and transactions is appropriately disclosed.

Nihla Mazrui

For and on behalf of
RSM

29 April 2016

Dar es Salaam

Ref: 029/2016

AZANIA BANK LIMITED
STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 TZS'000	2014 TZS'000
Interest income	5	39,602,253	36,602,042
Interest expense	6	(19,424,181)	(19,807,296)
Net interest income		**20,178,072**	**16,794,746**
Impairment charges on loans and advances	7	(4,009,758)	(1,012,799)
Net interest income after impairment charges		**16,168,314**	**15,781,947**
Fee and commission income	8	6,264,008	6,464,855
Foreign exchange income	9	2,589,589	1,001,805
Other income	10	91,613	20,533
Total non-interest income		**8,945,210**	**7,487,193**
Personnel expenses	11	(13,393,056)	(8,938,819)
Premises maintenance costs	13	(2,830,093)	(2,493,263)
Equipment maintenance costs	14	(919,254)	(743,063)
Depreciation and amortisation	15	(1,504,478)	(1,204,355)
General and administrative expenses	16	(6,895,755)	(6,392,490)
Restructuring costs	12	(3,053,467)	-
		(28,596,103)	**(19,771,990)**
(Loss)/profit before income tax		**(3,482,579)**	**3,497,150**
Income tax expense	17	(42,377)	(1,157,955)
Net (loss)/profit for the year		**(3,524,956)**	**2,339,195**

AZANIA BANK LIMITED
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 TZS '000	2014 TZS '000
Assets			
Cash and balances with Bank of Tanzania	18	62,782,881	59,998,554
Loans and advances to banks	19	33,013,118	29,730,563
Loans and advances to customers	20	195,634,151	202,694,047
Equity investments available for sale	21.1	2,020,000	2,020,000
Government securities held to maturity	21.2	23,841,200	31,340,597
Intangible assets	22	538,720	505,785
Property and equipment	23	7,337,109	6,345,015
Income tax recoverable	24	-	676,449
Deferred tax asset	25	2,185,844	350,330
Other assets	26	2,908,688	4,041,828
Total assets		**330,261,711**	**337,703,168**
Liabilities			
Deposits from banks	27	19,715,953	40,646,455
Deposits from customers	28	257,481,634	244,825,547
Revolving credit lines	29	14,500,000	11,811,458
Convertible loan stock	31	2,000,000	2,200,000
Current tax liability	24	421,262	-
Other liabilities	30	4,194,818	2,746,708
Total liabilities		**298,313,667**	**302,230,168**
Equity			
Ordinary share capital	32	23,637,594	23,637,594
Preference share capital	32	69,444	69,444
Share premium	33	6,745,860	6,745,860
Accumulated losses / retained earnings		(4,744,649)	(251,617)
Fair value reserve	34	367,890	367,890
Regulatory reserve	35	5,871,905	4,903,829
Total equity		**31,948,044**	**35,473,000**
Total equity and liabilities		**330,261,711**	**337,703,168**

The financial statements on pages 13 to 58 were approved for issue by the Board of Directors on ....29.....April..............and signed on its behalf by:

Akidula
....
Mr. Yacoub M. Kidula
Board chairman

....
Mrs. Assumpta M. Mallya
Director

AZANIA BANK LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital TZS '000	Share premium TZS '000	Retained earnings (Accumulated losses) TZS '000	Fair value reserve TZS '000	Regulatory reserve TZS '000	Total TZS '000
At 1 January 2015							
As previously reported		23,707,038	6,745,860	2,601,114	367,890	2,051,098	35,473,000
Correction-prior years appropriation	35	-	-	(2,852,731)	-	2,852,731	-
As restated		**23,707,038**	**6,745,860**	**(251,617)**	**367,890**	**4,903,829**	**35,473,000**
Loss and comprehensive income for the year		-	-	(3,524,956)	-	-	(3,524,956)
Transfer to regulatory reserve		-	-	(968,076)	-	968,076	-
At 31 December 2015		**23,707,038**	**6,745,860**	**(4,744,649)**	**367,890**	**5,871,905**	**31,948,044**
At 1 January 2014		23,707,038	6,745,860	9,373	367,890	2,303,644	33,133,805
Profit and comprehensive income for the year		-	-	2,339,195	-	-	2,339,195
Transfer to regulatory reserve		-	-	(2,600,185)	-	2,600,185	-
At 31 December 2014		**23,707,038**	**6,745,860**	**(251,617)**	**367,890**	**4,903,829**	**35,473,000**

AZANIA BANK LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2015
STATEMENT OF CASHFLOWS

	Notes	2015 TZS'000	2014 TZS'000
Cash flows from operating activities			
(Loss)/profit before income tax		(3,482,579)	3,497,150
Adjustments for non-cash items:			
Impairment charges on loans and advances to customers		4,009,758	1,012,799
Amortisation of intangible assets	22	445,608	348,356
Depreciation of property and equipment	23	1,058,870	855,999
Loss in disposal of fixed assets		-	(2,375)
Cash flows from operating activities before changes in working capital items		**2,031,157**	**5,711,929**
Increase in loans to banks maturing after 3 months		(400,000)	-
Decrease/(increase) in loans and advances to customers		3,262,732	(2,994,767)
Decrease/(increase) in investments held to maturity maturing after 3 months		10,790,041	(13,997,447)
Decrease in Statutory Minimum Reserve		804,431	4,828,000
Decrease in other assets		1,133,140	529,991
(Decrease)/increase in deposits from customers		(8,622,291)	31,027,828
Increase in other liabilities		1,448,110	(33,032)
Tax paid		(644,899)	(675,000)
Net cash generated from operating activities		**9,802,922**	**24,397,502**
Cash flows from investing activities			
Purchase of property and equipment	23	(2,050,964)	(911,806)
Purchase of intangible assets	22	(478,543)	(437,970)
Net cash used in investing activities		**(2,529,507)**	**(1,349,776)**
Net cash used in financing activities			
Proceeds/(payments) from revolving credit lines		2,688,542	123,112
(Payments)/proceeds on loan stock		(200,000)	2,000,000
Net cash generated from financing activities		**2,488,542**	**2,123,112**
Cash and cash equivalent at the beginning of the year		58,119,247	32,936,409
Movement in cash and cash equivalents during the year:			
Net cash flows generated from operating activities		9,802,922	24,397,502
Net cash flows used in investing activities		(2,529,507)	(1,337,776)
Net cash flows generated from investing activities		2,488,542	2,123,112
Cash and cash equivalent at the end of the year	**36**	**67,881,204**	**58,119,247**

1 GENERAL INFORMATION

Azania Bank Limited is a limited liability company incorporated under the Tanzanian Companies Act, 2002 and is domiciled in the United Republic of Tanzania. It is licensed to operate as a bank under the Banking and Financial Institutions Act, 2006.

The financial statements for the year ended 31 December 2015 have been approved for issue by the Board of Directors on 29th April 2016. Neither the entity's owners nor others have the power to amend the financial statements after issue.

2 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 to all periods presented, unless otherwise stated.

a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board. The financial statements have been prepared under the historical cost convention, except for available for sale financial assets, financial assets which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise its judgment in the process of applying the bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(i) Standards adopted during the year
A number of amendments to standards and one interpretation became effective for the first time in the financial year beginning 1 January 2015 and have been adopted by the company. None of them has had an effect on the company's financial statements.

(ii) New and revised standards and interpretations which have been issued but are not yet effective
The company has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2015.

• Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014) – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. They are prospectively effective for annual periods beginning on or after 1 January 2016.

• IFRS 15 Revenue from Contracts with Customers (issued in May 2014) - The new standard, effective for annual periods beginning on or after 1 January 2018, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when syndication has been completed and the bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

d) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of the bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Tanzanian Shillings (TZS), which is the bank's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into Tanzanian Shillings using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of profit or loss.

e) Leases

The bank as a lessee

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and benefits. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease, unless another systematic basis is more representative of the time pattern in which the benefit is derived from the leased asset.

f) Employee benefits

The bank operates a defined contribution plan and Group endowment scheme.

A defined contribution plan is a plan under which the bank pays fixed contributions into a separate entity. The bank's contributions to the defined contribution scheme are charged to the profit or loss in the year to which they relate. The bank has no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Group endowment plan is a scheme entitlement for bank employees employed before 1st July 2014. Employees with more than 5 years in employment with the Bank are entitled for a specific percentage of basic salary for completed months of service on retirement age or voluntarily retiring at age of 55 years or retirement on restructuring and medical grounds. The contributions to this scheme are charged to the profit or loss in the year in which they relate.

g) Financial instruments

Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables, held-to-maturity and available-for-sale financial assets. The directors determine the classification of its financial assets at initial recognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial instruments (continued)

Financial assets (continued)

(i) Loans and receivables

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

(a) those that the bank intends to sell immediately or in the short term, which are classified as held for trading;
(b) those that the bank upon initial recognition designates as available-for-sale; or
(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortized cost using the effective interest method. Loans and receivables that are included in the statement of financial position are loans and advances to banks and loans and advances to customers.

(i) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the directors have the positive intention and ability to hold to maturity, other than:

(a) those that the bank upon initial recognition designates as at fair value through profit or loss;
(b) those that the bank designates as available-for-sale; and
(c) those that meet the definition of loans and receivables.

Held-to-maturity investments are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method.

(ii) Available-for-sale

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income and cumulated in a separate reserve in equity, revaluation reserve, until the financial asset is derecognised. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale is recognised in profit or loss.

Financial liabilities

The bank's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg and Reuters.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (continued)

Classes of financial instruments

The bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

Category (as defined by IAS 39)		Class (as determined by the bank)		Subclasses
Financial assets	Loans and receivables	Loans and advances to banks		
Financial assets	Loans and receivables	Loans and advances to customers	Loans to individuals (retail)	Overdrafts
Financial assets	Loans and receivables	Loans and advances to customers	Loans to individuals (retail)	Personal loans
Financial assets	Loans and receivables	Loans and advances to customers	Loans to individuals (retail)	Term loans
Financial assets	Loans and receivables	Loans and advances to customers	Loans to individuals (retail)	Mortgages
Financial assets	Loans and receivables	Loans and advances to customers	Loans to corporate entities	Corporate Customers
Financial assets	Loans and receivables	Loans and advances to customers	Loans to corporate entities	SMEs
Financial assets	Loans and receivables	Loans and advances to customers	Loans to corporate entities	Others
Financial assets	Held-to-maturity Investments	Investment securities - debt securities		Listed
Financial assets	Held-to-maturity Investments	Investment securities - debt securities		Unlisted
Financial assets	Available-for-sale financial assets	Investment securities - debt securities		Listed
Financial assets	Financial liabilities at amortised cost	Deposits from banks		
Financial assets	Financial liabilities at amortised cost	Deposits from customers	Retail customers	
Financial assets	Financial liabilities at amortised cost	Deposits from customers	Corporate customers	
Financial assets	Financial liabilities at amortised cost	Deposits from customers	SMEs	
Off-Statement of Financial Position financial instruments	Loan commitments			
Off-Statement of Financial Position financial instruments	Guarantees, acceptances and other financial facilities			

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial instruments (continued)

Impairment of financial assets

(i) Assets carried at amortised cost

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

The criteria that the bank uses to determine that there is objective evidence of an impairment loss include:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) adverse changes in the payment status of borrowers in the portfolio; and
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by the directors for each identified portfolio. In general, the periods used vary between 3 and 12 months; in exceptional cases, longer periods are warranted.

The bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Property and equipment (continued)

Depreciation is provided on the straight line basis so as to write down the cost of assets to their residual values over their useful economic lives, at the following rates: -

	Years
Leasehold improvements	10
Motor vehicles	5
Office furniture and fittings	6.67
Office equipment	5
Computer equipment	5

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

j) Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured

Directly incurred costs are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

l) Provisions

Provisions for restructuring costs and legal claims are recognised when: the bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

m) Income tax

Current income tax
The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of Tanzania Income Tax Act, The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax
Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

n) Dividend

Dividends on ordinary shares are charged to equity in the period in which they are declared.

o) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

p) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given.

Subsequent to initial recognition, the bank's liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the statement of financial position date, and the unamortised premium.

q) Dividend income

Dividends are recognised in profit or loss when the bank's right to receive payment is established.

r) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-Statement of Financial Position transactions and disclosed as contingent liabilities.

s) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

2 FINANCIAL RISK MANAGEMENT

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks 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, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the bank is exposed are financial risks; which includes credit risk, liquidity risk and market risk.

2.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the bank's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Managing Director and the Board of Directors.

3.1.1 Credit risk measurement

The bank uses models that have been developed to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the bank considers 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 derive 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 reporting date (the 'incurred loss model') rather than expected losses.

(i) Probability of default
The bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. They are validated, where appropriate, by comparison with externally available data. The bank's rating method comprises 5 rating levels for loans. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults.

The bank's internal ratings scale and mapping of external ratings as supplemented by the bank's own assessment through the use of internal rating tools are as follows:

Bank's internal ratings scale

Bank's rating	Description of the grade
1	Current
2	Special monitoring
3	Sub-standard
4	Doubtful
5	Loss

(ii) Exposure at default
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.

(iii) The likely recovery ratio
The likely recovery ratio on the defaulted obligations (the "loss given default") represents the bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

3.1.2 Risk limit control and mitigation policies

The bank manages limits and controls concentrations of credit risk wherever they are identified and in particular, to individual counter parties and groups, and to industries. 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, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved quarterly by the Board of Directors.**FINANCIAL RISK MANAGEMENT (CONTINUED)**

3.1.2 Risk limit control and mitigation policies (continued)

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-Statement of Financial Position exposures and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily. Exposure to credit risk is also 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.

Some other specific control and mitigation measures are outlined below.

(a) Collateral
The bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets and guarantees. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral are as follows:

- mortgages over properties;
- charges over business assets such as premises inventory and accounts receivables; and
- guarantees by directors and related companies.

(b) Credit-related commitments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the bank on behalf of a customer authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

The internal and external rating systems described in Note 3.1.1 focus on expected credit losses – that is, taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment allowance shown in the statement of financial position at year-end is derived from each of the four internal rating grades. However, the largest component of the impairment allowance comes from the default grade.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2015		2014	
	Loans and advances to customers TZS'000	**Loans and advances to banks TZS'000**	**Loans and advances to customers TZS'000**	**Loan and advances to banks TZS'000**
Neither past due nor impaired	180,154,437	33,013,118	192,717,818	29,730,563
Past due but not impaired	3,436,859	-	2,822,655	-
Impaired	16,276,478	-	8,999,771	-
Gross loans and advances	**199,867,774**	**33,013,118**	**204,540,244**	**29,730,563**
Less: allowance for impairment	(4,233,623)	-	(1,846,197)	-
Net loans and advances	**195,634,151**	**33,013,118**	**202,694,047**	**29,730,563**
Portfolio allowance	649,648	-	-	-
Individually impaired	3,583,975	-	1,846,197	-
Total	4,233,623	-	1,846,197	-

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.3 Impairment and provisioning policies (continued)

The table below shows the percentage of the Bank's on- and off-Statement of Financial Position items, like financial guarantees, loan commitments and other credit related obligations, relating to loans and advances and the associated impairment allowance for each of the bank's internal rating categories.

	31 December 2015		31 December 2014	
Bank's rating	**Credit risk exposure (%)**	**Impairment allowance (%)**	**Credit risk exposure (%)**	**Impairment allowance (%)**
1. Current	90.14	0.32	94.22	0.00
2. Special monitoring	1.72	0.01	1.38	0.07
3. Sub-standard	3.89	0.80	1.16	0.12
4. Doubtful	1.83	0.46	0.78	0.39
5. Loss	2.42	0.54	2.46	1.77
	100.00	**2.13**	**100.00**	**2.35**

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Financial instruments whose carrying amounts do not represent maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 3.1.5.

13.27% of the total maximum exposure is derived from loans to banks (2014: 11.4%), 77.48% loans to customers (2014: 76.6%); and investments in government securities represent 9.4% (2014: 12.0%).

The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 91.86% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2014: 95.6%); and

- 90.14% of the loans and advances to customers is considered to be performing which are not impaired (2014: 94.2%).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the bank.

	Loans and advances to customers (TZS'000)					
	Individual (retail) customers		Corporate entities			
31 December 2015	**Overdraft**	**Term loans**	**Overdraft**	**Term loan**	**Total loans and advances to customers**	**Total loans and advances to Banks**
Grades						
Standard (current)	9,795,013	101,451,919	13,487,147	55,420,358	180,154,437	33,013,118
Especially mentioned	156,945	3,063,810	216,104	528,322	3,436,859	-
Total	**9,951,958**	**104,515,729**	**13,703,251**	**55,948,680**	**183,591,296**	**33,013,118**
31 December 2014						
Grades						
Standard (current)	17,867,940	6,735,145	125,460,255	42,654,478	192,717,818	29,730,563
Especially mentioned	821,792	309,766	1,262,028	429,069	2,822,655	-
Total	**18,689,732**	**7,044,911**	**126,722,283**	**43,083,547**	**195,540,473**	**29,730,563**

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Individual /retails		Corporate entities		
	Overdrafts TZS'000	Term loans TZS'000	Overdrafts TZS'000	Term loans TZS'000	Total TZS'000
31 December 2015					
Past due up to 30 days	22,290	1,223,966	300,423	416,128	1,962,807
Past due 30 - 60 days	306,541	470,756	115,548	160,050	1,052,895
Past due 60 - 90 days	122,616	188,302	46,219	64,020	421,157
Total	**451,447**	**1,883,024**	**462,190**	**640,198**	**3,436,859**
31 December 2014					
Past due up to 30 days	534,165	820,319	201,348	278,895	1,834,727
Past due 30 - 60 days	205,448	315,507	77,442	107,268	705,665
Past due 60 - 90 days	82,179	126,203	30,977	42,907	282,266
Total	**821,792**	**1,262,029**	**309,767**	**429,070**	**2,822,658**

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(c) Loans and advances individually impaired

Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is TZS 13,573million (2014: TZS 9,226 million). The breakdown of the gross amount of impaired loans and advances by class, are as follows: (Amounts are in TZS'000).

	Individual /retails		Corporate entities		
	Overdrafts TZS'000	**Term loans TZS'000**	**Overdrafts TZS'000**	**Term loans TZS'000**	**Total TZS'000**
31 December 2015	1,904,259	5,988,424	3,271,300	5,112,495	**16,276,478**
31 December 2014	1,676,457	4,993,634	631,924	1,697,756	**8,999,771**

Loans and advances to banks

There were no impaired loans and advances to banks.

3.1.6 Concentration of risks of financial assets with credit risk exposure

(a) *Geographical sectors*

The following table breaks down the bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2015. For this table, the bank has allocated exposures to regions based on the country of domicile of its counter parties.

	Tanzania TZS '000	**Europe TZS '000**	**Others TZS '000**	**Total TZS '000**
Amounts due from banks	31,714,021	1,299,097	-	33,013,118
Investments (available for sale and held to maturity)	25,588,552	-	-	25,588,552
Loans and advances to customers:				
Loans to individuals:				
- Overdrafts	11,856,217	-	-	11,856,217
- Term loans	125,307,450	-	-	125,307,450
Loans to corporate entities:				
- Overdraft	16,325,302	-	-	16,325,302
- Term loans	46,378,805	-	-	46,378,805
Other assets	1,121,068	-	-	1,121,068
As at 31 December 2015	**258,291,415**	**1,299,097**	**-**	**259,590,572**
As at 31 December 2014	**236,451,645**	**1,143,674**	**-**	**237,595,319**

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

(b) Industry sectors

The following table breaks down the bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of its counter parties.

	Financial institutions TZS'000	Manufacturing TZS'000	Trading and commercial TZS'000	Transport and communication TZS'000	Individuals TZS'000	Others TZS'000	Total TZS'000
Loans to banks	33,013,118	-	-	-	-	-	33,013,118
Investments	23,841,200	-	-	-	-	2,020,000	25,861,200
Loans to Individuals							
-Overdrafts	-	-	-	-	11,856,217	-	11,856,217
-Term loans	-	-	-	-	125,307,450	-	125,307,450
Loans to Corporate entities							
-Overdrafts	-	-	16,325,302	-	-	-	16,325,302
-Term loans	-	3,463,515	41,173,944	385,762	-	1,355,584	46,378,805
Other assets	-	-	-	-	-	1,121,068	1,121,068
As at 31 December 2015	**56,854,318**	**3,463,515**	**57,499,246**	**385,762**	**137,163,667**	**4,496,652**	**259,863,160**
As at 31 December 2014	**101,069,714**	**4,363,867**	**44,817,697**	**481,922**	**104,366,201**	**1,386,794**	**261,792,644**

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Market risk

The bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates. The bank separates exposures to market risk into either trading or non-trading portfolios. The market risks arising from trading and non-trading activities are concentrated in the bank's treasury department and monitored regularly. Regular reports are submitted to the Board of Directors and heads of department.

3.1.1 Sensitivity analysis

(a) Foreign exchange risk

The bank monitors foreign exchange exposure on daily basis. As at 31 December 2015, the bank had significant exposures on United States dollars and GBP. If Tanzanian Shillings had weakened/strengthened by 10% against United States dollar with all variables held constant, the post-tax loss would have been higher/lower by TZS 123 million (2014: profit lower/higher by TZS 121 million). If Tanzanian Shillings had weakened/strengthened by 10% against GBP, with all variables held constant, the post-tax loss would have been lower/higher by TZS 28 million (2014: profit higher/lower by TZS 22 million).

(b) Interest rate risk

The interest rates for most of the financial assets and liabilities bearing interest are fixed therefore the impact of the market changes will not be significant to the bank.

3.1.2 Foreign exchange risk

The bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the bank's exposure to foreign currency exchange rate risk at 31 December 2015. Included in the table are the bank's financial instruments at carrying amounts, categorised by currency.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.2 Foreign exchange risk (continued)

At 31 December 2015	TZS	USD	GBP	EURO	Others	Total
Assets						
Cash and balances with Bank of Tanzania	56,033,351	5,733,903	201,864	813,631	132	62,782,881
Loans and advances to banks	8,201,556	23,044,383	331,882	1,435,297	-	33,013,118
Investments	25,861,200	-	-	-	-	25,861,200
Loans and advances to customers	176,494,720	18,992,713	-	146,718	-	195,634,151
Other assets	10,061,673	2,543,113	364,223	200	1,152	12,970,361
Total assets	**276,652,497**	**50,314,112**	**897,969**	**2,395,846**	**1,284**	**330,261,711**
Liabilities						
Deposits from banks	12,870,190	6,845,763	-	-	-	19,715,953
Deposits from customers	210,467,400	44,413,171	257,901	2,343,159	-	257,481,632
Revolving credit lines	14,500,000	-	-	-	-	14,500,000
Convertible loan stock	2,000,000	-	-	-	-	2,000,000
Other liabilities	4,588,446	12,874	13,638	1,122	-	4,616,080
Total liabilities	**244,426,036**	**51,271,539**	**271,808**	**2,344,281**	**-**	**298,313,665**
Net balance sheet position	**32,226,459**	**(957,693)**	**626,430**	**51,565**	**(1,283)**	**31,948,044**
Credit commitments	**7,561,188**	**-**	**-**	**-**	**-**	**7,561,188**
At 31 December 2014						
Total assets	299,787,504	35,655,048	1,688,916	571,454	246	337,703,168
Total liabilities	263,936,643	37,118,677	709,803	465,045	246	302,230,168
Net balance sheet position	35,850,861	**(1,463,629)**	**979,113**	**106,409**	**246**	35,473,000

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by bank.

The table below summarises the bank's exposure to interest rate risks. It includes the bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not bear any interest rate risk on off Statement of Financial Position items.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk

3.2.3 Interest rate risk (continued)	Up to 1 month	1 –3 months	3– 12 months	1 –5 years	Non-interest bearing	Total
At 31 December 2015	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Assets						
Cash and balances with Bank of Tanzania	-	-	-	-	62,782,881	62,782,881
Loans to banks	21,360,000	-	400,000	-	11,253,118	33,013,118
Investments	-	3,290,644	13,672,927	6,877,629	2,020,000	25,861,200
Loans and advances to customers	2,520,039	7,017,463	29,548,152	124,897,795	31,650,702	195,634,151
Other assets	-	-	-	-	1,121,068	1,121,068
Total assets	**23,880,039**	**10,308,107**	**43,621,079**	**131,775,424**	**108,827,769**	**318,412,418**
Liabilities						
Deposits from banks	15,445,453	4,270,500	-	-	-	19,715,953
Deposits from customers	30,348,047	31,909,419	56,793,281	65,771,500	72,659,385	257,481,632
Revolving credit lines	-	-	-	14,500,000	-	14,500,000
Convertible loan stock	-	-	2,000,000	-	-	2,000,000
Other liabilities	-	-	-	-	4,616,080	4,616,080
Total liabilities	45,793,500	36,179,919	58,793,281	80,271,500	77,275,465	298,313,665
Interest repricing gap	**(21,913,461)**	**(25,871,812)**	**(15,172,202)**	**51,503,924**	**31,552,304**	**20,098,753**
As at 31 December 2014						
Total assets	12,833,277	11,081,750	36,979,544	145,663,505	131,140,092	337,703,168
Total liabilities	166,041,845	40,429,852	76,174,668	9,873,958	9,709,845	302,230,168
Total interest repricing gap	**(153,208,568)**	**(29,348,102)**	**(39,195,124)**	**135,789,547**	**121,430,247**	**35,473,000**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3.3.1 Liquidity risk management process

The bank's liquidity management process, as carried out within the bank and monitored by a separate Treasury team, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting normally take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The bank also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by a separate Bank Treasury team to maintain a wide diversification by currency, geography, provider, product and term.

3.3.3 Non derivative financial assets and liabilities

The table below summarises the assets and liabilities according to when they are expected to be recovered.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial assets and liabilities (continued)

At 31 December 2015	1-3 months TZS'000	3-6 months TZS'000	6- 12 months TZS'000	1-5 years TZS'000	More than 5 years TZS'000	Total TZS'000
Assets						
Cash and balances with Bank of Tanzania	31,977,442	-	-	30,805,439	-	62,782,881
Loans and advances to banks	32,613,118	-	400,000	-	-	33,013,118
Loans and advances to customers	2,520,039	7,017,463	29,548,152	50,886,333	105,662,164	195,634,151
Investments	-	3,290,644	13,672,927	6,877,629	2,020,000	25,861,200
Other assets	713,095	-	-	-	12,257,266	12,970,361
Total financial assets	**67,823,694**	**10,308,107**	**43,621,079**	**88,569,401**	**119,939,430**	**330,261,711**
Deposits from banks	15,445,453	4,270,500	-	-	-	19,715,953
Deposits from customers	46,751,996	48,313,369	73,197,231	82,175,450	7,043,588	257,481,634
Revolving credit lines	-	-	-	14,500,000	-	14,500,000
Convertible loan stock	-	-	2,000,000	-	-	2,000,000
Other liabilities	4,616,080	-	-	-	-	4,616,080
Total financial liabilities	66,813,529	52,583,869	75,197,231	96,675,450	7,043,588	298,313,667
Net liquidity gap	**1,010,165**	**(42,275,762)**	**(31,576,152)**	**(8,106,049)**	**112,895,842**	**31,948,044**
As at 31 December 2014						
Total assets	49,925,000	23,408,566	100,340,451	147,696,026	16,333,125	337,703,168
Total liabilities	166,041,845	50,139,693	76,174,668	9,873,958	4	302,230,168
Net liquidity gap	**(116,116,845)**	**(26,731,127)**	**24,165,783**	**137,822,068**	**16,333,121**	**35,473,000**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (continued)

3.3.4 Off-Balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities.

(b) Capital commitments

Capital commitments for the acquisition of equipment are summarized in the table below:

As at 31 December 2015	No later than 1 year TZS'000	1 – 5 years TZS'000	Over 5 years TZS'000	Total TZS'000
Loan commitments	6,223,988	-	-	6,223,988
Letters of credit and guarantees	1,337,200	-	-	1,337,200
Total	**7,561,188**	-	-	**7,561,188**
As at 31 December 2014				
Loan commitments	6,223,988	-	-	6,223,988
Letters of credit and guarantees	10,862,162	-	-	10,862,162
Total	**10,862,162**	-	-	**10,862,162**

3.4 Fair value of financial assets and liabilities

(a) Financial instruments at amortised costs

The bank does not have a good basis for calculating the fair value of the other financial instruments. However, its overall assessment is that their fair values would not be significantly different from the amortised cost at which they are stated because the majorities are short term.

(b) Financial instruments measured at fair value

i) Determination of fair value

The bank establishes fair value for treasury bonds designated as available for sale using valuation technique that takes into market prices at the Statement of Financial Position date. The current market information is available in Bank of Tanzania website.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (continued)

(b) Financial instruments measured at fair value (continued)

ii) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3.5 Capital management

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

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

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

The BoT requires each bank or banking group to:

(a) hold the minimum level of the regulatory capital of TZS 15 billion, and

(b) maintain a ratio of core capital to the risk-weighted asset (the 'Basel ratio') and total capital to risk weighted assets at or above 10% as 12% respectively.

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. Prepaid expenses, intangible assets and deferred charges are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Capital management (continued)

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 counterpart, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the bank for the year ended 31 December 2015 and year ended 31 December 2014. During those two years, the bank complied with all of the externally imposed capital requirements to which they are subject.

	2015 TZS'000	2014 TZS'000
Tier 1 Capital		
Ordinary shares	23,637,594	23,637,594
Share premium	6,745,860	6,745,860
Retained profit/(loss)	(4,744,649)	(251,617)
Less: Prepaid expenses	(1,787,620)	(2,095,269)
Intangible assets	(538,720)	(505,783)
Deferred tax asset	(2,185,844)	(350,330)
Total qualifying Tier 1 capital	**21,126,621**	**30,102,630**
Tier 2 Capital		
Subordinated debt	2,000,000	2,200,000
General provisions	1,773,141	-
	3,773,141	**2,200,000**
Total qualifying Tier 1 capital	**24,899,762**	**32,302,630**
On-Statement of Financial Position	200,773,778	209,402,614
Off-Statement of Financial Position	6,207,743	6,661,182
Total Average Risk Weighted assets	**206,981,521**	**216,063,796**
Core capital adequacy ratio	10.21%	13.93%
Total capital adequacy ratio	12.03%	14.95%

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies.

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit and loss account, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows in an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Property and equipment

Critical estimates are made by the directors in determining depreciation rates for premises and equipment and their residual values. The rates are set out in note 2(i) above.

c) Held to maturity investments

The bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. The classification requires significant judgment. In making this judgement, 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 category as available for sale. The investments would therefore be measured at fair value and not amortised cost.

d) Impairment of available-for-sale equity investments

The bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the bank evaluates among other factors, the volatility in share price. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

e) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

	2015 TZS'000	2014 TZS'000
5. INTEREST INCOME		
Loans to banks	994,158	620,750
Loans and advances to customers	35,203,044	33,606,019
Investment in Government securities	3,405,051	2,375,273
	39,602,253	**36,602,042**
6. INTEREST EXPENSE		
Deposit from banks	5,908,103	3,631,446
Deposits from customers	11,613,090	14,749,486
Revolving credit lines	1,902,988	1,426,364
	19,424,181	**19,807,296**
7. IMPAIRMENT CHARGES		
Increase in impairment		
-Specific impairment	3,360,110	1,012,799
-Portfolio impairment	649,648	-
	4,009,758	**1,012,799**
8. FEE AND COMMISSION INCOME		
Loan arrangement fees	1,487,333	1,735,564
Letters of credit and guarantees	426,519	236,931
Non-life insurance	87,139	-
Funds transfer	413,856	384,131
Ledger fees	1,085,523	746,914
Cash withdrawal fees	889,964	257,534
M-Pesa/Tigo Pesa commissions	484,700	352,280
Security perfection commissions	253,862	404,234
Others	1,135,112	2,347,267
	6,264,008	**6,464,855**
9. FOREIGN EXCHANGE INCOME		
Foreign exchange commission	4,280,597	1,126,507
Net revaluation gains	(1,691,008)	(124,702)
	2,589,589	**1,001,805**
10. OTHER INCOME		
Recoveries from bad debts	91,613	18,347
Others	-	2,186
	91,613	**20,533**

11. PERSONNEL EXPENSES

	2015 TZS'000	2014 TZS'000
Wages and salaries	9,157,934	5,863,390
Social security contributions	1,930,167	1,351,476
Leave travel	803,043	477,809
Medical benefits	338,869	284,393
Workers compensation fund	38,397	-
Skills and development levy	531,943	293,169
Training expenses	237,169	334,127
Staff relocation	49,820	5,330
Uniforms	124,350	68,000
Other staff costs	181,364	261,125
	13,393,056	**8,938,819**

In February 2015, staff salaries increased by an average of 50% to align the Bank pay to the market in order to retain and attract new skill set.

12. RESTRUCTURING COSTS

Terminal benefits	2,900,967	-
Consultancy costs on the above	152,500	-
	3,053,467	-

13. PREMISES & MAINTENANCE COSTS

Office rent	1,983,693	1,725,795
Utility charges	603,975	557,944
Office cleaning	187,944	145,231
Office parking	29,843	22,151
Maintenance and renovations	24,638	42,142
	2,830,093	**2,493,263**

14. EQUIPMENT MAINTENANCE COSTS

Generators	156,775	140,767
Motor vehicles	154,194	198,324
Computer equipment	344,753	251,602
Other office equipment & furniture	263,532	152,370
	919,254	**743,063**

15. DEPRECIATION AND AMORTISATION

Depreciation of property and equipment	1,058,870	855,999
Amortisation of intangible assets	445,608	348,356
	1,504,478	**1,204,355**

16. GENERAL AND ADMINISTRATIVE EXPENSES

	2015 TZS'000	2014 TZS'000
Auditors' remuneration	66,714	54,000
Consumables	54,709	70,876
Burial support	10,100	19,050
Subscription	56,998	108,046
Insurance costs	229,888	218,664
Deposit insurance fund	409,499	378,610
Directors fees	49,080	49,500
Stationary and printing	488,097	551,098
Advertising and promotion	455,301	491,734
Security costs	922,282	756,090
Swift expenses	24,516	49,125
Communication & postage	917,388	692,906
Travelling expenses	429,714	690,961
ATM expenses	603,637	183,280
Tax consultancy fees	17,260	7,731
Legal and other professional fees	221,328	509,890
Business entertainment	31,684	69,908
Bank charges	88,511	110,842
Business licence	10,600	8,900
City service levy	113,259	99,089
Write-offs	1,278,359	881,794
Other costs	416,831	390,396
	6,895,755	**6,392,490**

17. INCOME TAX EXPENSE

The tax charge for the year is arrived at as follows

	2015 TZS'000	2014 TZS'000
Current income tax		
- Current year	336,283	1,183,416
- Prior year	1,541,608	-
Deferred income tax		
- Current year	(1,835,514)	-
- Prior year	-	(25,461)
	42,377	**1,157,955**

17. INCOME TAX EXPENSE (CONTINUED)

	2015 TZS'000	2014 TZS'000
The tax on the bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:		
Operating profit /(loss) before tax	(3,482,579)	2,332,325
Tax calculated at a tax rate of 30%	(1,044,774)	699,698
Tax effect of:		
Depreciation on non- qualifying assets	-	(320,015)
Expenditure permanently disallowed	352,708	452,968
Current income tax – prior years	1,541,608	-
Undercharge of prior year deferred tax	(807,165)	325,304
	42,377	**1,157,955**

18. CASH AND BALANCES WITH BANK OF TANZANIA

Cash in hand	29,067,310	23,925,814
Balances with the Bank of Tanzania:		
- Statutory Minimum Reserve (SMR)	30,805,439	31,609,870
- Current account	2,910,132	4,462,870
	62,782,881	**59,998,554**

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

19. LOANS AND ADVANCES TO BANKS

	2015 TZS'000	2014 TZS'000
Items in course of collection	8,107,932	2,332,800
Bank balances	3,075,916	3,666,854
Placements	21,829,270	23,730,909
	33,013,118	**29,730,563**
Maturities within 3 months	32,613,118	29,730,563
Maturities after 3 months	400,000	-
	33,013,118	**29,730,563**

Placements with other banks are not secured and earn interest on normal market interest rates. As at 31 December 2015, placements with other banks earned an average of 12% for local currency and 3.91% for USD placements (2014: 15.2% and 3.8%)

	2015 TZS'000	2014 TZS'000
20. LOANS AND ADVANCES TO CUSTOMERS		
Individual loans:		
-Overdrafts	11,856,217	11,084,329
-Personal loans	14,274,975	14,719,886
-Consumer loans	65,026,629	72,592,372
-Mortgage	39,014,859	38,463,379
	130,172,680	**136,859,966**
Corporate /SMEs loans:		
-Overdrafts	16,325,302	15,693,910
-Term loans	43,560,654	41,913,629
	59,885,956	**57,607,539**
Staff loans	6,990,987	7,153,147
Interest receivable	6,553,491	5,683,429
Interest in suspense	(3,735,340)	(2,763,837)
Advances to customers (gross)	**199,867,774**	**204,540,244**
Less: Allowances for impairment on loans and advances	(4,233,623)	(1,846,197)
Net loans and advances	**195,634,151**	**202,694,047**

The interest in suspense relates to impairment amount of the interest accrued on impaired loans. Movements in provisions for impairment of loans and advances during the year is as follows:

	Specific impairment TZS'000	Portfolio impairment TZS'000	TOTAL TZS'000
2015			
At 1 January 2015	1,846,197	-	1,846,197
Increase in provision	3,360,110	649,648	4,009,758
Charge off during the year	(1,622,332)	-	(1,622,332)
At 31 December	**3,583,975**	**649,648**	**4,233,623**
2014			
At 1 January2014	1,706,037	-	1,706,037
Increase in provision	1,012,799	-	1,012,799
Charge off during the year	(872,639)	-	(872,639)
At 31 December 2014	**1,846,197**	-	**1,846,197**

21. INVESTMENTS IN GOVERNMENT SECURITIES

	2015 TZS'000	2014 TZS'000
21.1 Equity investment –available for sale		
TMRC Investment	2,000,000	2,000,000
Umoja Switch	20,000	20,000
	2,020,000	**2,020,000**

Tanzania Mortgage Refinance Company (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 the primary mortgage lenders' (PMLs) mortgage portfolio. Azania Bank Limited, one of the founding member, subscribed and injected TZS 2,000 million.

21.2 Government securities – held to maturity	**2015 TZS'000**	**2014 TZS'000**
Treasury bills and bonds maturing within 3 months	3,290,644	-
Treasury bills and bonds maturing after 3 months	20,550,556	31,340,597
	23,841,200	**31,340,597**

22. INTANGIBLE ASSETS

Computer software		
Net book amount at start of the year	505,785	528,668
Additions	478,543	437,970
Amortisation for the year	(445,608)	(348,356)
Adjustment	-	(112,497)
Net book amount at end of year	**538,720**	**505,785**

Intangible assets include the core banking system (Flexcube), and application software.

23. PROPERTY AND EQUIPMENT

	Leasehold Improvements TZS'000	Motor vehicles TZS'000	Office furniture & equipment TZS'000	Office computers TZS'000	Capital work in progress TZS'000	Total TZS'000
Cost						
At 1 January 2015	3,707,831	437,000	2,103,427	582,803	403,025	7,234,086
Additions	1,037,651	455,404	450,076	107,833	-	2,050,964
Transfers	-	-	-	41,318	(41,318)	-
At 31 December 2015	**4,745,482**	**892,404**	**2,553,503**	**731,954**	**361,707**	**9,285,050**
Cost at 1 January 2014	3,680,524	452,000	1,672,615	532,141	-	6,337,280
Additions	27,307	-	430,812	50,662	403,025	911,806
Disposal	-	(15,000)	-	-		(15,000)
At 31 December 2014	**3,707,831**	**437,000**	**2,103,427**	**582,803**	**403,025**	**7,234,086**
Accumulated depreciation						
At 1 January 2015	385,584	90,542	296,085	116,360	-	888,571
Charge for the year	424,846	148,120	336,869	149,035	-	1,058,870
Adjustment	-		-	-	-	
At 31 December 2015	**810,430**	**238,662**	**632,954**	**265,395**	**-**	**1,947,441**
At 1 January 2014	15,857	3,142	9,639	4,434	-	33,072
Charge for the year	369,727	87,900	286,446	111,926	-	855,999
Disposal	-	(500)	-	-	-	(500)
At 31 December 2014	**385,584**	**90,542**	**296,085**	**116,360**	**-**	**888,571**
Net book value						
At 31 December 2015	**3,935,052**	**653,242**	**1,920,549**	**466,559**	**361,707**	**7,337,109**
At 31 December 2014	**3,322,247**	**345,958**	**1,807,342**	**466,443**	**403,025**	**6,345,015**

24. INCOME TAX RECOVERABLE/ (LIABILITY)

	2015 TZS'000	2014 TZS'000
At 1 January	(676,449)	(1,036,524)
Current tax charge –current year	336,283	1,183,416
-Prior year	1,541,608	-
Adjustment	(135,281)	(148,341)
Tax paid during the year	(644,899)	(675,000)
At 31 December	**421,262**	**(676,449)**

25. DEFERRED TAX ASSET

	2015 TZS' 000	2014 TZS' 000
At 1 January	(350,330)	(324,869)
Credit during the year	(1,834,514)	(25,461)
At 31 December	**(2,185,844)**	**(350,330)**

Deferred tax is calculated using the enacted tax rate of 30% except for capital gains, for which enacted rate is of 5% is used (2014: 30% and 5%).

Deferred tax assets and liabilities, and the deferred tax charge/(credit) in the profit and loss account and the comprehensive income (restated) are attributable to the following items:

	At 1 January	Credited to comprehensive income	At 31 December
Year ended 31 December 2015	**2015**	**2015**	**2015**
	TZS '000	**TZS '000**	**TZS '000**
Deferred income tax asset			
Property, plant and equipment	(350,330)	(318,662)	(668,992)
Provision for liabilities	-	(1,516,852)	(1,516,852)
Net deferred tax asset	(350,330)	(1,835,514)	(2,185,844)
Year ended 31 December 2014			
Deferred income tax asset			
Property, plant and equipment	(324,869)	(25,461)	(350,330)
Net deferred tax asset	(324,869)	(25,461)	(350,330)

	2015 TZS'000	2014 TZS'000
26. OTHER ASSETS		
Sundry receivable	394,545	1,191,212
Prepaid expenses	1,787,620	2,095,269
Sundry debtors	726,523	957,289
Provisions	-	(201,941)
	2,908,688	**4,041,828**
- Current	1,121,068	1,946,559
- Non-current	1,787,620	2,095,269
	2,908,688	**4,041,828**

27. DEPOSITS FROM BANKS

	2015 TZS'000	2014 TZS'000
Fixed deposits	19,105,200	39,609,000
Interest payable	610,753	1,037,455
	19,715,953	**40,646,455**
Current	**19,715,953**	**40,646,455**

28. DEPOSITS FROM CUSTOMERS

	2015 TZS'000	2014 TZS'000
Current accounts	65,615,799	54,613,144
Savings accounts	88,624,053	90,832,858
Term deposits	96,198,194	99,379,545
Other deposits	7,043,588	-
	257,481,634	**244,825,547**
Maturities of customer deposits		
Payable within 90 days	95,065,365	85,471,698
Payable after 90 days and within one year	73,197,231	55,345,345
Payable after one year	89,219,038	104,008,504
	257,481,634	**244,825,547**

29. REVOLVING CREDIT LINES

	2015 TZS'000	2014 TZS'000
Tanzania Mortgage Refinancing Company (TMRC)	12,000,000	9,200,000
Oiko Credit	-	800,000
National Social Security Fund	-	311,458
Government Employees Pension Fund (GEPF)	2,500,000	1,500,000
	14,500,000	**11,811,458**

29. REVOLVING CREDIT LINES (CONTINUED)

During the year, the bank secured additional credit line from TMRC of TZS 1.7 billion for a tenor of 10 years at 11.5% and TZS 1.0 billion from GEPF for 4 years at a rate of 15.75%. The interest for all the above credit lines is repayable on semi-annual basis.

30. OTHER LIABILITIES

	2015 TZS'000	2014 TZS'000
Letters of credit and guarantees	25,216	1,027,319
Accrued expenses	743,298	115,096
Credit outstanding –recoveries	360,003	264,406
Other liabilities	1,552,304	694,509
Withholding tax	210,134	164,959
Statutory deductions	236,979	275,626
Bankers' cheque	244,334	204,793
Provision – Group Endowment Scheme	822,550	-
	4,194,818	**2,746,708**

31. CONVERTIBLE LOAN STOCK

	2015	2014
Parastatal Pension Fund	-	200,000
Government Employees Pension Fund	2,000,000	2,000,000
Current	**2,000,000**	**2,200,000**

The loan stock was issued for the purpose of raising finance to develop the operation of Azania Bank Limited and can be converted into shares at nominal value. The bank secured a loan stock from Government Employees Fund on 19 November 2014 for the period of five years at a rate of 16.75% per annum. The loan is subordinated and the lender has an option to convert the loan into ordinary shares on maturity.

32. SHARE CAPITAL

	2015 TZS'000	2014 TZS'000
Authorised:		
100,000,000 ordinary shares of TZS 1, 000 each	100,000,000	100,000,000
15,000,000 convertible loan stock of TZS 1,000 each	15,000,000	15,000,000
1,000,000 Non-cumulative irredeemable preference shares	1,000,000	1,000,000
	116,000,000	**116,000,000**
Issued:		
23,637,594 ordinary shares of TZS 1,000 each	23,637,594	23,637,594
69,444 Non-cumulative irredeemable preference shares	69,444	69,444
	23,707,038	**23,707,038**

33. SHARE PREMIUM

	2015	2014
Shares issued	**6,745,860**	**6,745,860**

The share premium arose in 2013 on issue of 10,798,235 shares.

37. CONTINGENT LIABILITIES AND COMMITMETS (CONTINUED)

	2015 TZS'000	2014 TZS'000
Unutilised facilities and other commitments	6,223,988	-
Guarantees	1,337,200	10,862,162
	7,561,188	**10,862,162**

b) Legal claims contingency

As at 31 December 2015, the bank was a defendant in several law suits. The plaintiffs are claiming damages and interest thereon for the alleged loss caused by the bank due to breach of contracts and loss of business. The directors are of the opinion that no significant liabilities will arise from these claims.

c) Operating lease commitments

The bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2015 TZS'000	2014 TZS'000
No later than one year	2,281,247	1,431,186
Later than one year and no later than five years	6,843,741	5,724,745
Later than five years	5,713,317	1,414,927
	14,838,305	**8,570,858**

38. RELATED PARTY TRANSACTIONS

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

(a) Deposit liabilities from related parties

	2015 TZS'000	2014 TZS'000
National Social Security Fund (NSSF)	1,001,730	2,001,573
Parastatal Pension Fund (PPF)	5,044,279	13,030,288
Local Authorities Pension Fund (LAPF)	-	3,500,000
	6,046,009	**18,531,861**

(b) Loans from related parties

Parastatal Pension Fund (PPF)	-	200,000
	-	**200,000**

38. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Loans to key management personnel

	2015 TZS'000	2014 TZS'000
As at 1 January	2,360,802	1,890,020
New loans issued during the year	266,633	1,050,350
Repayments during the year	(2,361,712)	(579,568)
	265,723	**2,360,802**

(d) Key management personnel compensation

	2015 TZS'000	2014 TZS'000
Salaries and other short-term benefits	1,593,661	721,024
Directors' fees	49,500	54,500
	1,643,161	**775,524**

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 a 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 8% for all staff loans with exception of Education loans which are interest free.

39. SUBSEQUENT EVENTS

In the opinion of the directors, there were no events after 31 December 2015 which requires an adjustment in the financial statements (2014: Nil).