AZANIA BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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AZANIA BANK LIMITED

CORPORATE 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.

COMPANY SECRETARY

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

AUDITORS

KPMG
2nd Floor, The Luminary
Haile Selassie Road, Masaki
P. O. Box 1160
Dar es Salaam, Tanzania.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and audited financial statements for year ended 31 December 2016, 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 2016.

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	Date resigned
Prof. Godius Kahyarara	Chairman	51	PhD-Economics	Tanzanian	21 Feb 2017	
Mr Yacoub M. Kidula*	Chairman	57	MBA Finance	Tanzanian	15 May 2008	01 Aug 2016
Mr Eliudi B. Sanga	Vice chairman	56	M.A Economics	Tanzanian	24 June 2010	
Mr. Gabriel J. Silayo*	Member	47	MA.A Economics	Tanzanian	15 June 2008	30 June 2016
Mr Aboud H. Mwinyi	Member	39	MSC-Scotland	Tanzanian	1 July 2016	
Mr Julius KAM Mganga	Member	55	MSC, ADA	Tanzanian	1 March 2016	
Mr Ludovick S. Mrosso	Member	59	MBA, CPA(T)	Tanzanian	23 December 2010	
Mr Arnold B. Kilewo	Member	78	LLB-London AMP-Harvard	Tanzanian	11 April 2011	
Mrs Assumpta M. Mallya	Member	48	MBA	Tanzanian	14 March 2014	
Mrs Juliana M. Sweke	Member	51	MBA, CPA(T)	Tanzanian	20 December 2014	
Mr. Andulile J. Mwakalyelye*	Member	58	–M.A Economics	Tanzanian	24 March 2015	30 April 2016

*Mr Yacoub M. Kidula completed his tenure to serve in the Board in August 2016 and Prof. Godius Kahyarara was appointed to replace him on 21st February 2017

* Mr. Gabriel J. Silayo ended his tenure in the Board on 31 October 2016 and Mr. Aboud H. Mwinyi was appointed to replace him.

* Mr. Andulile J. Mwakalyelye completed his contract with the Bank as the Interim Managing Director and Mr Geofrey N. Dimoso was appointed as the Acting Managing Director on 1st May 2016.

The Company Secretary as at 31 December 2016 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 2016, 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**

In December 2016, the Local Authorities Pension Fund (LAPF) injected TZS 3.0 billion as an advance to the agreed additional capital of TZS 30.0 billion to be shared among the Institutional shareholders.

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.

8. CORPORATE GOVERNANCE (Continued)

During the year ended 31 December 2016, the Board held three (3) 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.

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 who served during the year, were as follows:

Name	Position	Date resigned
Mr Eliudi B. Sanga	Chairman	
Mr Arnold B. Kilewo	Member	
Mr Ludovick S. Mrosso	Member	
Mrs Assumpta M. Mallya	Member	
Mr. Julius KAM Mganga	Member	

The committee met four times in regular meetings in a 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 who served during the year, were as follows:

Name	Position	Date resigned
Mrs Juliana M. Sweke	Chairman	
Mr Aboud H. Mwinyi	Member	
Mr Gabriel J. Silayo	Member	31 October 2016
Mr. Andulile J. Mwakalyelye	Member	30th April 2016

The committee met four times in a 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 two (2) times during the year to discuss risk and compliance reports.

8. CORPORATE GOVERNANCE (Continued)

Members of the Committee who served during the year, were as follows:

Name	Position	Date resigned
Mrs Juliana M. Sweke	Chairman	
Mr Aboud H. Mwinyi	Member	
Mr Gabriel J. Silayo	Member	31 October 2016
Mr. Andulile J. Mwakalyelye	Member	30th April 2016

Board Human Resources Committee

The Committee deals with all matters pertaining to employees' welfare including recruitment and remuneration. The committee met two (2) times during the year to discuss Human Resource matters and reports.

Members of the Human Resources Committee who served during the year, were as follows:

Name	Position	Date resigned
Mr Eliudi B. Sanga	Chairman	
Mr Arnold B. Kilewo	Member	
Mr Ludovick S. Mrosso	Member	
Mrs Assumpta M. Mallya	Member	
Mr Julius KAM. Mganga	Member	

9. FUTURE DEVELOPMENTS

The future development plans centre on improving efficiency, control and 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
- Complete the on-going renovation of our main branch at Masdo along Samora Avenue and expansion of the Kariakoo branch.
- Turn around the Bank to profit making financial institution

10. DIVIDENDS

The Board of Directors does not propose payment of a dividend for year 2016 (2015: NIL).

11. PERFORMANCE FOR THE YEAR

The bank's results are set out on page 17 of the financial statements. During the year under review, the bank recorded a net loss of TZS 3,222 million. (2015: loss of TZS 3,525 million). The Bank performance was affected by the significant increase of loans impairment charges to TZS 8,655 million (2015: TZS 4,010 million), and the decrease in non-funded income by 15.3% to TZS 7,576 million (2015: TZS 8,945 million). However, the net interest income improved during the year by 24.2% to TZS 25,060 million (2015: TZS 20,178 million).

11. PERFORMANCE FOR THE YEAR (Continued)

The interest income for year ended 31 December 2016 increased by 9.8% to close at TZS 43,474 million (2015: TZS 39,602 million). The increase is largely attributable to growth on interest income from bank placements and government securities which rose by 73.6% and 68.3% to TZS 1,726 million (2015: TZS 994 million) and TZS 5,730 million (2015: TZS 3,405 million) respectively. The improvement was a result of both; increase in investments volumes and better yields on investments.

Interest income from loans and advances increased slightly by 2.3% to TZS 36,016 million (2015: TZS 35,203 million). The slight growth was affected by deterioration on the quality of loan portfolio.

On the other hand, interest expense decreased by 5.2% in 2016 to TZS 18,413 million (2015: TZS 19,424 million) on account of decrease in interest bearing deposits by 4.7% to TZS 176,963 million (2015: TZS 185,964 million).

The average cost of funds for the year under review decreased slightly to by 6.51% (2015: 6.55%).

Non-interest income during the year decreased to TZS 7,576 million, a drop by 15.3% of 19.5% compared to TZS 8,945 million recorded in preceding year. The decrease is notable on foreign exchange income which closed at TZS 613 million, recording a decrease by 76.3% when compared to TZS 2,590 million for year 2015. The decrease was a result of lower business volumes on foreign exchange transactions due to few customer base with foreign transactions.

Fees and commissions rose slightly by 1.7% to TZS 6,370 million (2015: TZS 6,264 million) and other income increased six times to TZS 594 million compared to TZS 91 million reported in 2015. The increase in other income resulted from recovery from charged off accounts.

Operating expenses decreased slightly to TZS 27,768 million (2015: TZS 28,596 million), a increase by 2.9%. Notable increases are on personnel costs by 8.4% due to proper accounting and actuarial valuation of group staff endowment scheme and increase in headcount from 270 in 2015 to 284; premises costs grew by 6.3%, equipment maintenance costs by 41.9%, general and administrative costs grew by 8.7% while depreciation expenses recorded a decrease by 3.9% due to having the Core Banking System fully depreciated by 2015.

Net worth

As at 31 December 2016 total assets increased by 3.4% (2015: decrease of 2.2%) to TZS 341,508 million (2015: TZS 330,261 million). The increase in total assets is notable on investments in government securities which doubled to TZS 48,748 million (2015: 23,841) and the placements with banks rose by 57.1% to TZS 51,862 million (TZS 33,013 million).

Net loans and advances dropped to TZS 169,728 million (2015: TZS 195,634 million), and cash and balances with bank of Tanzania declined to TZS 50,237 million (TZS: 62,782 million).

The increase in total assets were largely supported by the growth in bank deposits by 161.3% to TZS 51,508 (2015: TZS 19,716 million) and the injection of new capital by LAPF of TZS 3,000 million in December 2016.

Customer deposits shrank by 8.5% to TZS 236,380 million (2015: TZS 258,379 million) attributable to decrease in customers deposit holding in current and saving accounts, mainly impacted by the government decision to transfer all deposits of public institutions from commercial banks to Bank of Tanzania

11. PERFORMANCE FOR THE YEAR (Continued)

Net worth (Continued)

The shareholders' funds decreased by 1.5% (2015: decreased by 10.2%) to TZS 31,465 million (2015: TZS 31,948 million) as a result of loss recorded during the year. The core capital and total capital ratios as at 31 December 2016 stood at 9.65% and 11.04% (regulatory: 10% and 12%) compared with 10.21% and 12.03% respectively reported in 2015.

12. KEY PERFORMANCE INDICATORS

	2016	2015
Return on equity	(11.16%)	(10.84%)
Return on average assets	(0.96%)	(1.09%)
Yield on earning assets	17.22%	15.34%
Cost of funds	6.51%	6.55%
Interest margin on earning assets	9.65%	7.82%
Non-interest income to gross income	31.59%	35.62%
Cost / income ratio	85.08%	98.19%
Gross loans to customer deposits	76.13%	77.62%
Gross loans to customers to total assets	52.79%	60.54%
Earning assets to total assets	79.31%	76.48%
Non-performing loans to gross loans to customers	13.13%	8.14%
Shareholders' funds to total assets	8.90%	9.64%
Growth on total assets	3.21%	(2.24%)
Growth on gross loans and advances	(9.96%)	(2.28%)
Growth on customer deposits	(8.51%)	5.17%

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 2016 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 2016. 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 2016, the bank spent TZS 105 million (2015: TZS 237 million) for staff training and has put aside a sum of TZS 300 million for year 2017 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 284 (2015: 270) employees during the year; 137 of these employees were female and 147 were male (2015: 117 female and 153 male).

18. AUDITORS

During the year, KPMG 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 2017 will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

Prof. Godius Kahyarara
Board chairman

29 march 2017

AZANIA BANK LIMITED

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

The directors are responsible for the preparation of financial statements that give a true and fair view of Azania Bank Limited comprising the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002 as well as the Banking and Financial Institutions Act, 2006.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Bank to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements

The financial statements of Azania Bank Limited, as identified in the first paragraph, were approved by the board of directors on ..29.....day of..march.... 2017 and signed by:

____

Prof. Godius Kahyarara
Board chairman

AZANIA BANK LIMITED

DECLARATION OF THE HEAD OF FINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance/Accounting responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors/Governing Body/Management to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I **Ernest A. Mtokoma** being the Head of Finance of Azania Bank Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2016 ,have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements of Azania Bank Limited comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by: ....

Position: **Head of Finance**

NBAA Membership No.: ACPA 852

Date: ......29TH......March 2017

KPMG
Certified Public Accountants
2nd Floor, The Luminary
Haile Selassie Road, Masaki
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Dar es Salaam, Tanzania

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Internet www.kpmg.com/eastafrica

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AZANIA BANK LIMITED

Report on the financial statements

Opinion

We have audited the financial statements of Azania Bank Limited ("the Bank"), set out on pages 17 to 69 which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Azania Bank Limited as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AZANIA BANK LIMITED (CONTINUED)

Key Audit Matters (Continued)

Impairment loss on loans and advances to customers

Refer to Note 5f, Note 11 and Note 24

Description of the key audit matter	How the matter was addressed in our audit
Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. They are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant loans. The calculation of both collective and individual impairment allowances is inherently judgemental for any bank. Collective impairment allowances are calculated using models which approximate the impact of current economic and credit conditions on large portfolios of loans. The inputs to these models are subject to management judgement and model overlays are often required. For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that loan. The audit was focused on impairment due to the materiality of the balances and the subjective nature of the calculation.	We tested the controls management has established to support their portfolio and specific impairment calculations. For specific impairment charges on individual loans this included controls over the compilation and review of the credit watch list, credit file review processes, approval of external collateral valuation vendors and review of controls over the approval of significant individual impairments. We also independently considered appropriateness of management's judgements in respect of calculation methodologies and segmentation, economic factors and judgemental overlays, period of historical loss rates used, loss emergence periods, interest rates for impaired loans and the valuation of recovery assets and collateral. For specific allowances we independently assessed the appropriateness of provisioning methodologies and policies for a sample of loans across the portfolio selected on the basis of risk. An independent view was formed on the levels of provisions booked based on the detailed loan and counterparty information in the credit file. Calculations within a sample of discounted cash flow models were performed.

Other Information

The directors are responsible for the other information. The other information comprises the Report of the Board of Directors, Statement of directors' responsibilities and Declaration of the Head of Finance. The other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

KPMG

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AZANIA BANK LIMITED (CONTINUED)

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

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006, and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair view.

KPMG

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AZANIA BANK LIMITED (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the Companies Act, 2002 we report that:

- in our opinion, proper accounting records have been kept by Azania Bank Limited;
- the individual accounts are in agreement with the accounting records of the Bank; and
- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

As required by Banking and Financial Institutions Act, 2006 and its regulations we report that:

- Based on our audit, the Bank had not complied with the minimum capital requirements as required by sections 16 and 17 of the Banking and Financial Institutions Act, 2006 and the Bank of Tanzania Capital Adequacy Regulations issued in 2011.

- One (1) facility worth TZS 5.08 billion had not complied with the single borrowers limit requirements as required by section 6 of the Concentration of Credit and Other Exposure Limits Regulations, 2014

- Except for the matters noted above, nothing has come to my attention that causes me to believe that the Group and Bank has not complied with the Banking and Financial Institutions Act, 2006 and its regulations.

KPMG
Certified Public Accountants (T)

Signed by: M. Salim Bashir
Dar es Salaam

29 March 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 TZS'000	2015 TZS'000
Interest income	9	43,474,115	39,602,253
Interest expense	10	(18,413,394)	(19,424,181)
Net interest income		**25,060,721**	**20,178,072**
Impairment charges on loans and advances	11	(8,654,693)	(4,009,758)
Net interest income after impairment charges		**16,406,028**	**16,168,314**
Fee and commission income	12	6,369,563	6,264,008
Foreign exchange income	13	612,757	2,589,589
Other income	14	593,795	91,613
Total non-interest income		**7,576,115**	**8,945,210**
Personnel expenses	15	(14,516,141)	(13,393,056)
Restructuring costs	16	-	(3,053,467)
Premises maintenance costs	17	(3,008,881)	(2,830,093)
Equipment maintenance costs	18	(1,304,246)	(919,254)
Depreciation and amortisation	19	(1,446,548)	(1,504,478)
General and administrative costs	20	(7,492,652)	(6,895,755)
		(27,768,468)	**(28,596,103**
Loss before income tax		**(3,786,325)**	**(3,482,579)**
Income tax credit /(expense)	21	563,845	(42,377)
Net loss for the year		**(3,222,480)**	**(3,524,956)**
Other comprehensive income			
Re-measurements of defined benefit liability	43	(1,656,393)	-
Gain on valuation of available for sale investments	25.1	1,244,000	-
Tax thereon		123,718	-
Net other comprehensive loss		(288,675)	-
Total comprehensive loss for the year		**(3,511,155)**	**(3,524,956)**

The Notes on pages 21 to 69 form an integral part of these financial statements.

Auditors' report on pages 13 – 16.

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 TZS '000	2015 TZS '000
Assets			
Cash and balances with Bank of Tanzania	22	50,266,650	62,782,881
Loans and advances to banks	23	51,862,039	33,013,118
Loans and advances to customers	24	169,727,957	195,634,151
Equity investments available for sale	25.1	3,264,000	2,020,000
Government securities held to maturity	25.2	48,747,840	23,841,200
Intangible assets	26	950,991	538,720
Property and equipment	27	7,151,621	7,337,109
Deferred tax asset	29	4,201,278	2,185,844
Other assets	30	5,336,201	2,908,688
Total assets		**341,508,577**	**330,261,711**
Liabilities			
Deposits from banks	31	51,507,970	19,715,953
Deposits from customers	32	236,379,918	258,051,356
Revolving credit lines	33	14,787,616	14,787,616
Convertible loan stock	35	2,039,781	2,039,781
Current tax liability	28	112,609	421,262
Other liabilities	34	2,824,366	2,475,149
Staff endowment scheme	43	2,391,428	822,550
Total liabilities		**310,043,688**	**298,313,667**
Equity			
Ordinary share capital	36	23,637,594	23,637,594
Advance towards share capital	36	3,028,000	-
Preference share capital	36	69,444	69,444
Share premium	37	6,745,860	6,745,860
Accumulated losses		(8,155,383)	(4,744,649)
Fair value reserve	38	367,890	367,890
Available for sale reserve		870,800	-
General provision reserve	39	1,503,254	1,773,141
Regulatory reserve	39	3,397,430	4,098,764
Total equity		**31,464,889**	**31,948,044**
Total equity and liabilities		**341,508,577**	**330,261,711**

The financial statements on pages 17 to 69 were approved for issue by the Board of Directors on ...29 march 2017.......and signed on its behalf by:

Prof. Godius Kahyarara
Board chairman

The Notes on pages 21 to 69 form an integral part of these financial statements.
Auditors' report on pages 13 – 16.

AZANIA BANK LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital TZS '000	Preference share capital TZS '000	Advance towards share capital TZS'000	Share premium TZS '000	Accumulated losses TZS '000	Fair value reserve TZS '000	Available for sale reserve TZS'000	General provision reserve TZS,000	Regulatory reserve TZS '000	Total TZS '000
At 1 January 2015	**23,637,594**	**69,444**	**-**	**6,745,860**	**(251,617)**	**367,890**	**-**	**-**	**4,903,829**	**35,473,000**
Loss for the year	-	-	-	-	(3,524,956)	-	-	-	-	(3,524,956)
Other comprehensive income	-	-	-	-	-	-	-	-		-
	-	-	-	-	**(3,524,956)**	-	-	-	-	**(3,524,956)**
Transfer to regulatory reserve	-	-	-	-	(968,076)	-	-	1,773,141	(805,065)	-
At 31 December 2015	**23,637,594**	**69,444**	**-**	**6,745,860**	**(4,744,649)**	**367,890**	**-**	**1,773,141**	**4,098,764**	**31,948,044**
At 1 January 2016	**23,637,594**	**69,444**		**6,745,860**	**(4,744,649)**	**367,890**	**-**	**1,773,141**	**4,098,764**	**31,948,044**
Loss for the year	-	-		-	(3,222,480)	-	-		-	(3,222,480)
Other comprehensive income										
Re measurement of group endowment scheme net of tax	-	-	-	-	(1,159,475)	-	-	-	-	(1,159,475)
Fair value gain on AFS investments net of tax	-	-	-	-		-	870,800	-	-	870,800
Total comprehensive income	-	-	-	-	(4,381,955)	-	870,800	-	-	(3,511,155)
Advance towards equity	-	-	3,028,000	-	-	-		-	-	3,028,000
Transfer to regulatory reserve	-	-	-	-	971,221	-	-	(269,887)	(701,334)	-
At 31 December 2016	**23,637,594**	**69,444**	**3,028,000**	**6,745,860**	**(8,155,383)**	**367,890**	**870,800**	**1,503,254**	**3,397,430**	**31,464,889**

The Notes on pages 21 to 69 form an integral part of these financial statements.
Auditors' report on pages 13 – 16.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 TZS'000	2015 TZS'000
Cash flows from operating activities			
Loss before income tax		(3,786,325)	(3,482,579)
Adjustments for:			
Impairment charges on loans and advances to customers	11	8,654,693	4,009,758
Amortisation of intangible assets	26	9,453	445,608
Depreciation of property and equipment	27	1,437,095	1,058,870
Gain on sale of property and equipment		(2,941)	-
Net change on re-measurement of defined obligation liability		442,493	-
		6,754,468	2,031,657
Changes in:			
- Loans to banks maturing after 3 months		(1,783,430)	(400,000)
- Loans and advances to customers		17,251,501	3,262,732
- Investments held to maturity maturing after 3 months		(10,694,313)	10,790,041
- Statutory Minimum Reserve		(412,899)	804,431
- Other assets		(2,427,513)	1,133,140
- Deposits from customers		10,120,579	(8,622,291)
- Other liabilities		349,217	1,448,110
Cash generated from operating activities		19,157,610	10,447,820
Settlement of defined benefit obligation	43	(530,008)	-
Tax paid		(1,636,524)	(644,899)
Net cash generated from operating activities		**16,991,078**	**9,802,921**
Cash flows from investing activities			
Proceeds from sale of property and equipment		39,683	-
Purchase of property and equipment	27	(1,682,437)	(2,050,964)
Purchase of intangible assets	26	(27,636)	(478,543)
Net cash used in investing activities		**(1,670,390)**	**(2,529,507)**
Cash flows from financing activities			
Proceeds from equity		3,028,000	-
Proceeds from revolving credit lines		-	2,688,542
Payments on convertible loan stock		-	(200,000)
Net cash generated from financing activities		**3,028,000**	**2,488,542**
Net decrease in cash and cash equivalent		18,348,688	9,761,956
Cash and cash equivalent at 1 January		67,881,204	58,119,248
Cash and cash equivalent at 31 December	40	**86,229,892**	**67,881,204**

The Notes on pages 21 to 69 form an integral part of these financial statements.

Auditors' report on pages 13 – 16.

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.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS).

3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Tanzania Shillings (TZS), which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4 USE OF JUDGEMENTS AND ESTIMATES

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 7.

5 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) Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments are recognised in profit or loss on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of the financial instrument and allocating the interest income or expense over the relevant period. In terms of the effective interest rate, is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or where appropriate a shorter period to net carrying amount of the financial asset or financial liability.

b) 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.

c) Foreign currency translation

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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Leases

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and benefits. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between finance expense and the reductions of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of liability.

e) Employee benefits

Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

The Bank has Group endowment plan, a defined benefit plan which provide entitlement for bank employees employed before 1 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 Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments

□ Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

□ Classification

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.

(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:

- those that the bank intends to sell immediately or in the short term, which are classified as held for trading;
- those that the bank upon initial recognition designates as available-for-sale; or
- 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.

(ii) 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:

- those that the bank upon initial recognition designates as at fair value through profit or loss;
- those that the bank designates as available-for-sale; and
- 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.

(iii) 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (Continued)

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.

□ Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

□ Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the reporting dates.

For unlisted debt instruments, the bank uses international developed models for valuation purposes. Some of the inputs to these models may not be market observable and before estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the bank holds.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (Continued)

Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, related controls and procedures applied, the directors believe that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value.

- Reclassification of financial assets

The bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) 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:

<table>
<tr><th colspan="2">Category (as defined by IAS 39)</th><th colspan="2">Class (as determined by the bank)</th><th>Subclasses</th></tr>
<tr><td rowspan="18">Financial assets</td><td rowspan="10">Loans and receivables</td><td colspan="2">Loans and advances to banks</td><td></td></tr>
<tr><td rowspan="9">Loans and advances to customers</td><td rowspan="4">Loans to individuals (retail)</td><td>Overdrafts</td></tr>
<tr><td>Personal loans</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Mortgages</td></tr>
<tr><td rowspan="5">Loans to corporate entities</td><td>Corporate Customers</td></tr>
<tr><td>SMEs</td></tr>
<tr><td>Others</td></tr>
<tr><td></td></tr>
<tr><td></td></tr>
<tr><td rowspan="2">Held-to-maturity Investments</td><td rowspan="2">Investment securities - debt securities</td><td rowspan="2"></td><td>Listed</td></tr>
<tr><td>Unlisted</td></tr>
<tr><td>Available-for-sale financial assets</td><td>Investment securities - debt securities</td><td></td><td>Listed</td></tr>
<tr><td rowspan="5">Financial liabilities at amortised cost</td><td colspan="2">Deposits from banks</td><td></td></tr>
<tr><td rowspan="4">Deposits from customers</td><td>Retail customers</td><td></td></tr>
<tr><td>Corporate customers</td><td></td></tr>
<tr><td>SMEs</td><td></td></tr>
<tr><td></td><td></td></tr>
<tr><td rowspan="2">Off-Statement of Financial Position financial instruments</td><td colspan="3">Loan commitments</td><td></td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial facilities</td><td colspan="2"></td></tr>
</table>

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) 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:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (Continued)

□ Impairment of financial assets (continued)

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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in 'Net gains/ (losses) on investment securities'.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

(i) Assets classified as available-for-sale
In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

□ Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with central bank, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition that are subject to insignificant risk of change in fair value and are used by the Bank in management of its short term commitments.

i) Property and equipment

- Recognition and measurement

Items of property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

- Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Bank. Recurrence repairs and maintenance are expensed as incurred.

- Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as stated:

	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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

j) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets other than the Deferred tax asset and to determine whether there is any indication of impairments. If any such indications exist, then the assets' recoverable amount is estimated. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units - CGU). 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.

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. Value in use is based on estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

l) 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.

m) Dividend

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

5 SUMMARY OF SIGNIFICATN ACCOUNTING POLICIES (CONTINUED)

n) 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.

o) Regulatory reserve and General provision reserve

The reserve comprises of an amount set aside to cover provision for loan losses required to comply with the requirements of Bank of Tanzania prudential guidelines. This reserve is not available for distribution. The General provision reserve is available for the purpose of determination of regulatory total capital of the Bank.

p) Dividend income

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

q) 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.

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.

6 NEW AND REVISED STANDARDS AND INTERPRETATIONS WHICH HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

At the date of authorisation of the financial statements for the year ended 31 December 2016, the following relevant Standards were in issue but not yet effective:

New standard or amendments	Effective for annual periods beginning on or after
• Disclosure Initiative (Amendments to IAS 7)	1 January 2017
• Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments	1 January 2018
• IFRS 16 leases	1 January 2019

All Standards and Interpretations will be adopted at their effective date except for those Standards and Interpretations that are not applicable to the Bank). The directors are in the process of assessing the impact of these new standards some of which may have significant impact on the Bank.

Disclosure Initiative (Amendments to IAS 7)

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing reconciliation between the opening and closing balances for liabilities arising from financing activities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

6 NEW AND REVISED STANDARDS AND INTERPRETATIONS WHICH HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE (CONTINUED)

IFRS 15 Revenue from contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have a significant impact on the Bank, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Bank is currently in the process of performing a more detailed assessment of the impact of this standard on the Bank and will provide more information in the year ended 31 December 2017 financial statements.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will have a significant impact on the Bank, which will include changes in the measurement bases of the Bank's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Bank.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The Bank have begun assessing the potential impact on the financial statements resulting from the application of IFRS 16. This standard will most likely have a significant impact on the Bank, which will include bringing almost all leases on the statement of financial position.

7 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 5(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.

8 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk, market and operational risks. 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 most important risks include credit risk, liquidity risk, and market risk. These risks are explained in the following paragraphs.

8.1 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.

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.

8.1.1 Credit risk measurement

The Bank assesses the probability of default of customer or counterparty using internal rating scale tailored to the various categories of counter party. The rating scale has been developed internally and combines data analysis with credit officer judgment and is validated, where appropriate, by comparison with externally available information. Customers of the Bank are segmented into five rating classes

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 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

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.1 Credit risk (continued)

8.1.2 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.

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.

8.1.3 Impairment and provisioning policies

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired.

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.1 Credit risk (continued)

The impairment allowance recognised in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the impairment allowance is composed largely of the bottom two grades.

The Bank's policy requires the review of individual financial assets regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

The table below shows the percentage of the Bank's loans and advances and the associated impairment allowance for each of the bank's internal rating categories.

	31 December 2016		31 December 2015	
Bank's rating	**Credit risk exposure (%)**	**Impairment allowance (%)**	**Credit risk exposure (%)**	**Impairment allowance (%)**
1. Current	81.92	0.32	90.14	0.32
2. Special monitoring	4.95	0.02	1.72	0.01
3. Sub-standard	5.54	2.17	3.89	0.80
4. Doubtful	2.85	0.90	1.83	0.46
5. Loss	4.74	2.15	2.42	0.54
	100.00	**5.56**	**100.00**	**2.13**

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 8.1.5.

19.18% of the total maximum exposure is derived from loans to banks (2015: 13.27%), 62.78% loans to customers (2015: 77.48%); and investments in government securities represent 18.03% (2015: 9.40%).

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:

- 86.90% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2015: 91.86%); and
- 81.92% of the loans and advances to customers are considered to be performing which are neither past due nor impaired (2015: 90.14%).

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.1 Credit risk (continued)

The tables below summarise the loans and advances grading and the respective provision

	2016		2015	
	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	146,765,274	51,862,039	180,154,437	33,013,118
Past due but not impaired	9,085,514	-	3,436,859	-
Impaired	24,102869	-	16,276,478	-
Gross loans and advances	**179,953,657**	**51,862,039**	**199,867,774**	**33,013,118**
Less: allowance for impairment	(10,225,700)	-	(4,233,623)	-
Net loans and advances	**169,727,957**	**51,862,039**	**195,634,151**	**33,013,118**
Portfolio allowance	622,821	-	649,648	-
Individually impaired	9,602,879	-	3,583,975	-
Total	**10,225,700**	-	**4,233,623**	-

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.1 Credit risk (continued)

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)				Total loans and advances to customers	Total loans and advances to Banks
	Individual (retail) customers		Corporate entities			
31 December 2016	**Overdraft**	**Term loans**	**Overdraft**	**Term loan**		
Grades						
Standard (current)	8,428,557	76,757,763	14,351,327	47,216,833	146,754,480	51,861,186
Especially mentioned	356,636	9,382,027	607,245	1,750,400	9,096,308	-
Total	**8,785,193**	**86,139,790**	**14,958,572**	**48,967,233**	**155,850,788**	**51,861,186**
31 December 2015						
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**

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.1 Credit risk (continued)

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	Term loans	Overdrafts	Term loans	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
31 December 2016					
Past due up to 30 days	209,003	400,013	323,455	978,822	1,911,293
Past due 30 - 60 days	123,098	2,329,526	182,112	1,314,422	3,949,158
Past due 60 - 90 days	24,535	6,652,488	101,678	446,362	7,225,063
Total	**356,636**	**9,382,027**	**607,245**	**2,739,606**	**13,085,514**
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**

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.

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.1 Credit risk (continued)

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is TZS 13,573million (2015: 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	**Term loans**	**Overdrafts**	**Term loans**	**Total**
	TZS'000	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
31 December 2016	767,084	2,667,967	7,514,833	13,152,985	**24,102,869**
31 December 2015	1,904,259	5,988,424	3,271,300	5,112,495	**16,276,478**

There were no impaired loans and advances to banks.

8.1.4 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 2016. 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	50,264,863	1,597,176	-	51,862,039
Investments (available for sale and held to maturity)	50,727,840	-	-	50,727,840
Loans and advances to customers:				
Loans to individuals:				
- Overdrafts	11,838,553	-	-	11,838,553
- Term loans	94,929,129	-	-	94,929,129
Loans to corporate entities:				
- Overdraft	20,060,816	-	-	20,060,816
- Term loans	38,400,315	-	-	38,400,315
Other assets	324,837	-	-	324,837
As at 31 December 2016	**266,546,353**	**1,597,176**	**-**	**268,143,529**
As at 31 December 2015	**258,291,415**	**1,299,097**	**-**	**259,590,572**

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.1 Credit risk (continued)

8.1.5 Concentration of risks of financial assets with credit risk exposure

(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	51,862,039	-	-	-	-	-	51,862,039
Investments	48,747,840	-	-	-	-	2,020,000	50,767,840
Loans to Individuals							
-Overdrafts	-	-	-	-	11,838,553	-	11,838,553
-Term loans	-	-	-	-	94,889,129	-	94,889,129
Loans to Corporate entities							
-Overdrafts	-	-	20,060,816	-	-	-	20,060,816
-Term loans	-	1,443,518	33,615,451	2,385,762	-	955,584	38,400,315
Other assets	-	-	-	-	-	324,837	324,837
At 31 December 2016	**100,609,879**	**1,443,518**	**53,676,267**	**2,385,762**	**106,727,682**	**3,300,421**	**268,143,529**
At 31 December 2015	**56,854,318**	**3,463,515**	**57,499,246**	**385,762**	**137,163,667**	**4,496,652**	**259,863,160**

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.2 Market risk

Market risk' is the risk that changes in market prices – e.g. interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) – will affect the Bank's income or the value of its holdings of financial instruments. 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. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk. 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.

8.2.1 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 2016. Included in the table are the bank's financial instruments at carrying amounts, categorised by currency.

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.1 Market risk

8.2.1 Foreign exchange risk (continued)

	TZS	USD	GBP	EURO	Others	Total
At 31 December 2016						
Assets						
Cash and balances with Bank of Tanzania	42,656,860	7,342,430	60,046	207,177	137	50,266,650
Loans and advances to banks	21,106,508	26,565,679	292,577	3,897,275	-	51,862,039
Investments	52,011,840	-	-	-	-	52,011,840
Loans and advances to customers	150,773,579	18,833,481	-	120,897	-	169,727,957
Other assets	17,666,824	212,399	-	678	-	17879,901
Total assets	**284,215,611**	**52,953,989**	**352,623**	**4,226,027**	**137**	**341,748,387**
Liabilities						
Deposits from banks	35,197,690	14,787,952	267,404	1,254,924	-	51,507,970
Deposits from customers	194,735,238	38,720,576	80,354	2,843,749	1	236,379,918
Revolving credit lines	14,787,616	-	-	-	-	14,787,616
Convertible loan stock	2,039,781	-	-	-	-	2,039,781
Other liabilities	5,568,888	245,372	3,355	8,557	-	5,826,172
Total liabilities	**252,329,213**	**53,753,900**	**351,113**	**4,107,230**	**1**	**310,541,457**
Net balance sheet position	**31,886,398**	**(799,911)**	**1,510**	**118,797**	**136**	**31,206,930**
Credit commitments	**12,033,711**	**-**	**-**	**-**	**-**	**12,033,711**
At 31 December 2015						
Total assets	266,590,824	50,314,112	897,969	2,395,846	1,283	320,200,034
Total liabilities	244,004,774	51,271,805	271,539	2,344,281	0	297,892,399
Net balance sheet position	22,586,050	-957,693	626,430	51,565	1,283	22,307,635

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.1 Market risk

8.2.1 Foreign exchange risk (continued)

Sensitivity analysis
As at 31 December 2016, 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 81 million (2015: TZS 123 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 0.15 million (2015: profit higher/lower by TZS 28 million).

8.2.2 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.

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.2 Market risk

8.2.2 Interest rate risk (continued)

	Up to 1 month TZS'000	1 –3 months TZS'000	3– 12 months TZS'000	1 –5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
At 31 December 2016						
Assets						
Cash and balances with Bank of Tanzania	-	-	-	-	50,266,650	50,266,650
Loans to banks	35,254,616	6,550,290	2,183,430	-	7,873,703	51,862,039
Investments	463,485	17,039,486	16,825,684	10,740,000	6,943,185	52,011,840
Loans and advances to customers	6,710,448	13,420,896	60,394,032	65,099,712	24,102,869	169,727,957
Other assets	-	-	-	-	17,879,901	17,879,901
Total assets	**42,428,549**	**37,010,672**	**79,403,146**	**75,839,712**	**107,066,308**	**341,748,387**
Liabilities						
Deposits from banks	27,937,970	23,570,000		-	-	51,507,970
Deposits from customers	28,888,531	19,971,673	44,956,939	80,483,816	62,078,959	236,379,918
Revolving credit lines	2,500,000	-	-	12,000,000	287,616	14,787,616
Convertible loan stock	-	-	-	2,000,000	39,781	2,039,781
Other liabilities	-	-	-	-	5,215,794	5,215,794
Total liabilities	**59,326,501**	**43,541,673**	**44,956,939**	**94,483,816**	**67,622,150**	**309,931,079**
Interest repricing gap	**(16,897,952)**	**(6,531,001)**	**34,446,207**	**(18,644,104)**	**39,444,158**	**31,817,308**
As at 31 December 2015						
Total assets	23,880,039	10,308,107	43,621,079	131,775,424	108,827,769	318,412,418
Total liabilities	45,793,500	36,179,919	58,793,281	80,271,500	77,275,465	298,313,665
Total interest repricing gap	**(21,913,461)**	**(25,871,812)**	**(15,172,202)**	**51,503,924**	**31,552,304**	**20,098,753**

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.2 Market risk

8.2.2 Interest rate risk (continued)

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.

8.3 Liquidity risk

Liquidity risk' is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

8.3.1 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.

8.3.2 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.

8.3.3 Non derivative financial assets and liabilities

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

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.3 Liquidity risk (continued)

	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
At 31 December 2016						
Assets						
Cash and balances with Bank of Tanzania	19,048,312	-	31,218,338	-	-	50,266,650
Loans and advances to banks	45,310,792	6,550,290	957	-	-	51,862,039
Loans and advances to customers	6,715,448	13,420,896	40,262,688	100,656,720	8,672,205	169,727,957
Investments	15,286,781	4,045,912	12,779,772	16,635,375	-	48,747,840
Other assets	324,837	-	-	-	542,266	867,103
Total financial assets	86,686,170	24,017,098	84,261,755	117,292,095	9,214,471	321,471,589
Deposits from banks	27,937,970	23,570,000		-	-	51,507,970
Deposits from customers	38,201,548	29,284,690	54,269,956	89,796,833	24,826,891	236,379,918
Revolving credit lines	2,611,456	215,941	-	11,960,219	-	14,787,616
Convertible loan stock	-	39,781	-	2,000,000	-	2,039,781
Other liabilities	1,933,886	113,460	-	-	2,391,428	4,438,774
Total financial liabilities	**70,684,860**	**53,223,872**	**54,269,956**	**103,757,052**	**27,218,319**	**309,154,059**
Net liquidity gap	16,001,310	(29,206,774)	29,991,799	13,535,043	(18,003,848)	12,317,530
As at 31 December 2015						
Total assets	67,823,694	10,308,107	43,621,079	88,569,401	119,939,430	330,261,711
Total 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**

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.3 Liquidity risk (continued)

8.3.4 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:

	No later than 1 year	1 – 5 years	Over 5 years	Total
As at 31 December 2016	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
Loan commitments	6,440,367	-	-	6,440,367
Letters of credit and guarantees	5,593,344	-	-	5,593,344
Total	**12,033,711**	**-**	**-**	**12,033,711**
As at 31 December 2015				
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**

8.4 Fair value of financial assets and liabilities

(a) Financial instruments at amortised costs

The carrying amounts of financial assets and financial liabilities not measured at fair value is a reasonable approximation of fair values because of the short term nature of the financial assets and financial liabilities or they reprice in the short run.

(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.

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.4 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).

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments not measured at fair value. The carrying amounts of financial assets and financial liabilities not measured at fair value is a reasonable approximation of fair values because of the short term nature of the financial assets and financial liabilities or they reprice in the short run.

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.4 Fair value of financial assets and liabilities (continued)

	Accounts classification				Fair value			
	Held to maturity	Loans and receivables	Other amortised cost	Total carrying amount	Level 1	Level 2	Level 3	Tota fair value
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS'000	TZS '000	TZS '00
At 31 December 2016								
Financial assets								
Cash and balances with Bank of Tanzania	-	50,266,650	-	50,266,650	-	50,266,650	-	50,266,65
Placements with other banks	-	-	51,862,039	51,862,039	-	51,862,039	-	51,862,03
Government securities	48,747,840	-	-	48,747,840	-	47,889,618	-	47,889,61
Loans and advances to customers (net)	-	169,727,957	-	169,727,957	-	169,727,957	-	169,727,95
Total financial assets	**48,747,840**	**219,994,607**	**51,862,039**	**320,604,486**	**-**	**319,746,264**	**-**	**319,746,26**
Financial liabilities								
Deposits from other banks	-	-	51,507,970	51,507,970	-	51,507,970	-	51,507,97
Deposits from customers	-	-	236,379,918	236,379,918	-	236,379,918	-	236,379,91
Revolving credit lines	-	-	14,787,616	14,787,616	-	14,787,616	-	14,787,61
Convertible loan stock	-	-	2,039,781	2,039,781	-	2,039,781	-	2,039,78
Total financial liabilities	**-**	**-**	**304,715,285**	**304,715,285**	**-**	**304,715,285**	**-**	**304,715,28**

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.4 Fair value of financial assets and liabilities (continued)

	Accounts classification				Fair value			
	Held to maturity	**Loans and receivables**	**Other amortised cost**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Tota fair value**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS'000**	**TZS '000**	**TZS '00**
At 31 December 2015								
Financial assets								
Cash and balances with Bank of Tanzania	-	62,782,881		-	-	62,782,881	-	62,782,88
Placements with other banks	-	-	33,013,118	33,013,118	-	33,013,118	-	33,013,11
Government securities	23,841,200	-	-	23,841,200	-	23,841,200	-	23,841,20
Loans and advances to customers (net)	-	195,634,151	-	195,634,151	-	195,634,151	-	195,634,15
Total financial assets	**23,841,200**	**258,417,032**	**33,013,118**	**252,488,469**	-	**315,271,350**	-	**315,271,35**
Financial liabilities					-		-	
Deposits from other banks	-	-	19,715,953	19,715,953	-	19,715,953	-	19,715,95
Deposits from customers	-	-	258,378,753	258,378,753	-	258,378,753	-	258,378,75
Revolving credit lines	-	-	14,787,616	14,787,616	-	14,787,616	-	14,787,61
Convertible loan stock	-	-	2,039,781	2,039,781	-	2,039,781	-	2,039,78
Total financial liabilities	-	-	**294,922,103**	**294,922,103**	-	**294,922,103**	-	**294,922,10**

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.5 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.

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 2016 and year ended 31 December 2015. During the year under review, the bank did not comply with the capital adequacy ratio, and the single borrowers limit.

8 FINANCIAL RISK MANAGEMENT (CONTINUED)

8.5 Capital management (continued)

		2016 TZS'000	2015 TZS'000
Tier 1 Capital			
Ordinary shares		23,637,594	23,637,594
Preference shares		69,444	69,444
Advance towards equity		3,028,000	-
Share premium		6,745,860	6,745,860
Accumulated losses		(8,155,383)	(4,744,649)
Less: Prepaid expenses		(1,451,269)	(1,787,620)
Intangible assets		(950,991)	(538,720)
Deferred tax asset		(4,201,278)	(2,185,844)
Total qualifying Tier 1 capital		**18,721,977**	**21,196,065**
Tier 2 Capital			
Subordinated debt		1,200,000	2,000,000
General provisions		1,503,254	1,773,141
		2,703,254	**3,773,141**
Total qualifying Tier 1 capital		**21,425,231**	**24,899,762**
On-balance sheet		182,750,812	200,773,778
Off-balance sheet		11,345,923	6,207,743
Total Average Risk Weighted assets		**194,096,735**	**206,981,521**
Core capital adequacy ratio	(Required: 10%)	9.65%	10.21%
Total capital adequacy ratio	(Required: 12%)	11.04%	12.03%

	2016 TZS'000	2015 TZS'000
9 INTEREST INCOME		
Loans to banks	1,727,076	994,158
Loans and advances to customers	36,016,466	35,203,044
Investment in Government securities	5,730,573	3,405,051
	43,474,115	**39,602,253**
10 INTEREST EXPENSE		
Deposit from banks	4,747,569	5,908,103
Deposits from customers	11,620,470	11,613,090
Revolving credit lines	2,045,355	1,902,988
	18,413,394	**19,424,181**
11 IMPAIRMENT CHARGES		
Increase in impairment		
-Specific impairment	7,374,790	3,360,110
-Portfolio impairment	(26,827)	649,648
Write- off	1,306,730	-
	8,654,693	**4,009,758**
12 FEE AND COMMISSION INCOME		
Loan arrangement fees	888,695	1,487,333
Letters of credit and guarantees	233,323	426,519
Non-life insurance	151,582	87,139
Funds transfer	422,122	413,856
Ledger fees	976,676	1,085,523
Cash withdrawal fees	1,621,113	889,964
M-Pesa/Tigo Pesa commissions	836,862	484,700
Security perfection commissions	174,830	253,862
Others	1,064,360	1,135,112
	6,369,563	**6,264,008**
13 FOREIGN EXCHANGE INCOME		
Foreign exchange commission	1,113,576	4,280,597
Net revaluation losses	(500,819)	(1,691,008)
	612,757	**2,589,589**
14 OTHER INCOME		
Recoveries from bad debts	**593,795**	**91,613**

	2016 TZS'000	2015 TZS'000
15 PERSONNEL EXPENSES		
Wages and salaries	9,847,800	9,157,934
Social security contributions	1,356,911	1,930,167
Leave travel	849,177	803,043
Medical benefits	490,677	338,869
Workers compensation fund	101,834	38,397
Skills and development levy	502,932	531,943
Training expenses	105,081	237,169
Staff relocation	35,798	49,820
Uniforms	32,049	124,350
Group staff endowment scheme (Note 43)	442,493	-
Staff loan fair value benefits	419,582	-
Other staff costs	331,807	181,364
	14,516,141	**13,393,056**

	2016 TZS'000	2015 TZS'000
16 RESTRUCTURING COSTS		
Terminal benefits	-	2,900,967
Consultancy costs on the above	-	152,500
	-	**3,053,467**

	2016 TZS'000	2015 TZS'000
17 PREMISES & MAINTENANCE COSTS		
Office rent	2,107,083	1,983,693
Utility charges	637,639	603,975
Office cleaning	238,921	187,944
Office parking	25,238	29,843
Maintenance and renovations	-	24,638
	3,008,881	**2,830,093**

	2016 TZS'000	2015 TZS'000
18 EQUIPMENT MAINTENANCE COSTS		
Generators	118,217	156,775
Motor vehicles	169,762	154,194
Computer equipment	371,199	344,753
Other office equipment & furniture	645,068	263,532
	1,304,246	**919,254**

	2016 TZS'000	2015 TZS'000
19 DEPRECIATION AND AMORTISATION		
Depreciation of property and equipment	1,437,095	1,058,870
Amortisation of intangible assets	9,453	445,608
	1,446,548	**1,504,478**

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2016 TZS'000	2015 TZS'000
Auditors' remuneration	93,946	66,714
Consumables	100,615	54,709
Burial support	5,500	10,100
Subscription	51,053	56,998
Insurance costs	393,275	229,888
Deposit insurance fund	435,082	409,499
Directors fees	53,947	49,080
Stationary and printing	466,772	488,097
Advertising and promotion	409,769	455,301
Security costs	1,348,504	922,282
Swift expenses	24,384	24,516
Communication & postage	869,837	917,388
Travelling expenses	561,226	429,714
ATM expenses	586,747	603,637
Tax consultancy fees	13,542	17,260
Legal and other professional fees	206,635	221,328
Business entertainment	111,051	31,684
Bank charges	64,058	88,511
Business licence	33,433	10,600
City service levy	67,216	113,259
Provisions for sundry debtors	542,267	-
Written off assets	569,906	1,278,359
Other costs	483,887	416,831
	7,492,652	**6,895,755**

21 INCOME TAX EXPENSE

The tax charge for the year is arrived at as follows		
Current income tax		
- Current year	1,146,996	336,283
- Prior year	180,875	1,541,608
Deferred income tax		
- Current year	(1,891,716)	(1,835,514)
	(563,845)	**42,377**

21 INCOME TAX EXPENSE (Continued)

The tax on the bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:	2016 TZS'000	2015 TZS'000
Operating profit /(loss) before tax	**(3,786,325)**	**(3,482,579)**
Tax calculated at a tax rate of 30%	(1,135,898)	(1,044,774)
Tax effect of:		
Expenditure permanently disallowed	155,856	352,708
Current income tax – prior years	180,875	1,541,608
Under provision / (over provision) of prior year deferred tax	235,322	(807,165)
	(563,845)	**42,377**

22 CASH AND BALANCES WITH BANK OF TANZANIA

Cash in hand	17,199,608	29,067,310
Balances with the Bank of Tanzania:		
- Statutory Minimum Reserve (SMR)	31,218,338	30,805,439
- Current account	1,848,704	2,910,132
	50,266,650	**62,782,881**

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.

23 LOANS AND ADVANCES TO BANKS

Items in course of collection	3,806,806	7,823,223
Bank balances	2,687,064	3,075,867
Placements	45,088,336	21,760,000
Accrued interest receivable	279,833	354,028
	51,862,039	**33,013,118**
Maturities within 3 months	49,677,609	32,613,118
Maturities after 3 months	2,183,430	400,000
	51,862,039	**33,013,118**

Placements with other banks are not secured and earn interest on normal market interest rates. As at 31 December 2016, placements with other banks earned an average of 16.94% for local currency and 4.55% for USD placements (2015: 12.0% and 3.9%)

24 LOANS AND ADVANCES TO CUSTOMERS

	2016 TZS'000	2015 TZS'000
Individual loans:		
-Overdrafts	11,838,553	11,856,217
-Personal loans	12,041,970	14,274,975
-Consumer loans	53,330,088	65,026,629
-Mortgage	29,517,071	39,014,859
	106,727,682	**130,172,68**
Corporate /SMEs loans:		
-Overdrafts	20,060,816	16,325,302
-Term loans	38,400,315	43,560,654
	58,461,131	**59,885,956**
Staff loans	8,520,852	6,990,987
Interest receivable	9,664,533	6,553,491
Interest in suspense	(3,420,541)	(3,735,340
Advances to customers (gross)	**179,953,657**	**199,867,774**
Less: Allowances for impairment on loans and advances	(10,225,700)	(4,233,623)
Net loans and advances	**169,727,957**	**195,634,151**

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
2016			
At 1 January 2016	3,583,975	649,648	4,233,623
Increase in provision	7,374,790	(26,827)	7,347,963
Charge off during the year	(1,355,886)	-	(1,355,886)
At 31 December	**9,602,879**	**622,821**	**10,225,700**
2015			
At 1 January2015	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 2015	**3,583,975**	**649,648**	**4,233,623**

25 INVESTMENTS IN GOVERNMENT SECURITIES

	2016 TZS'000	2015 TZS'000
25.1 Equity investment –available for sale		
TMRC Investment	2,000,000	2,000,000
Umoja Switch	20,000	20,000
Gain on TMRC share valuation	1,244,000	-
	3,264,000	**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.

	2016 TZS'000	2015 TZS'000
25.2 Government securities – held to maturity		
Treasury bills and bonds maturing within 3 months	17,502,971	3,290,644
Treasury bills and bonds maturing after 3 months	31,244,869	20,550,556
	48,747,840	**23,841,200**

26 INTANGIBLE ASSETS

Computer software		
Net book amount at start of the year	538,720	505,785
Additions	27,636	478,543
Transfer from work in progress	394,088	-
Amortisation for the year	(9,453)	(445,608)
Net book amount at end of year	**950,991**	**538,720**

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

27 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						
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
Disposal	-	-	-	41,318	(41,318)	-
At 31 December 2015	**4,745,482**	**892,404**	**2,553,503**	**731,954**	**361,707**	**9,285,050**
At 1 January 2016	**4,745,482**	**892,404**	**2,553,503**	**731,954**	**361,707**	**9,285,050**
Additions	170,706	152,668	407,273	201,099	750,691	1,682,437
Transfer to Intangible assets	-	-	-	-	(394,088)	(394,088)
Disposals	-	(37,000)	(15,383)	(7,527)	-	(59,910)
At 31 December 2016	**4,916,188**	**1,008,072**	**2,945,393**	**925,526**	**718,310**	**10,513,489**
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
At 31 December 2015	**810,430**	**238,662**	**632,954**	**265,395**	**-**	**1,947,441**
At 1 January 2016	**810,430**	**238,662**	**632,954**	**265,395**	**-**	**1,947,441**
Charge for the year	482,247	184,535	667,788	102,525	-	1,437,095
Disposals	-	(16,033)	(3,961)	(3,174)	-	(23,168)
At 31 December 2016	**1,292,677**	**407,664**	**1,296,781**	**364,746**	**-**	**3,361,868**
Net Book Value						
At 31 December 2016	**3,623,511**	**600,408**	**1,648,612**	**560,780**	**718,310**	**7,151,621**
At 31 December 2015	**3,935,052**	**653,242**	**1,920,549**	**466,559**	**361,707**	**7,337,109**

28 INCOME TAX RECOVERABLE/ (LIABILITY)

	2016 TZS'000	2015 TZS'000
At 1 January	421,262	(676,449)
Current tax charge –current year	1,146,996	336,283
-Prior year	180,875	1,541,608
Adjustment	-	(135,281)
Tax paid during the year	(1,636,524)	(644,899)
At 31 December	**112,609**	**421,262**

29 DEFERRED TAX ASSET

Deferred tax is calculated, in full, on all temporary differences under the liability method using a tax rate of 30% (2015: 30%). Below is the movement of the deferred tax account.

	Net balance at 1 January TZS '000	Recognized in Other comprehensive income TZS '000	Recognized in profit or loss TZS '000	Net balance at 31 December TZS '000
2016				
Arising from:				
Property and equipment	668,992	-	(42,357)	626,635
General provisions	108,000	-	275,215	383,215
Provision for loan losses	1,408,852	-	1,658,858	3,067,710
Available for sale investments	-	(373,200)		(373,200)
Defined benefit liability	-	496,918	-	496,918
	2,185,844	**123,718**	**1,891,716**	**4,201,278**
2015				
Arising from:				
Property and equipment	350,330	-	318,662	668,992
General provisions	-	-	(108,000)	108,000
Provision for loan losses	-	-	1,408,852	1,408,852
Defined benefit liability	-	-	-	-
Net deferred tax (liability) /asset	**350,330**	**-**	**1,835,514**	**2,185,844**

	2016 TZS'000	2015 TZS'000
30 OTHER ASSETS		
Prepaid expenses	1,451,269	1,787,620
Sundry debtors	867,104	1,121,068
Staff loan fair value benefits	3,560,095	-
Less: Provisions on sundry debtors	(542,267)	-
	5,336,201	**2,908,688**
- Current	324,837	1,121,068
- Non-current	5,011,364	1,787,620
	5,336,201	**2,908,688**

31 DEPOSITS FROM BANKS

Fixed deposits	51,330,481	19,105,200
Interest payable	177,489	610,753
	51,507,970	**19,715,953**
Maturing within 30 days	28,037,970	19,715,953
Maturing after 30 days and with 90 days	23,570,000	-
Total	**51,507,970**	**19,715,953**

32 DEPOSITS FROM CUSTOMERS

Current accounts	52,153,429	65,615,799
Savings accounts	80,458,816	88,624,053
Term deposits	96,497,201	96,742,700
Other deposits	7,270,472	7,068,804
	236,379,918	**258,051,356**
Maturities of customer deposits		
Payable within 90 days	55,984,851	85,144,301
Payable after 90 days and within one year	83,554,646	55,345,345
Payable after one year	96,840,421	117,561,710
	236,379,918	**258,051,356**

33 REVOLVING CREDIT LINES

Tanzania Mortgage Refinancing Company (TMRC)	12,203,575	12,203,575
Government Employees Pension Fund (GEPF)	2,584,041	2,584,041
	14,787,616	**14,787,616**

The average interest rates for these revolving credit lines were 11.74% and 15.00% for Tanzania Mortgage Refinancing Company and Government Employees Pension Fund respectively.

34 OTHER LIABILITIES	2016 TZS'000	2015 TZS'000
Accrued expenses	602,205	743,298
Credit outstanding –recoveries from charged off accounts	169,060	360,003
Other liabilities	700,630	680,401
Withholding tax	328,457	210,134
Statutory deductions	434,316	236,979
Bankers' cheque	128,010	244,334
Mobile banking payables	181,586	-
Deferred loan fees	280,102	-
	2,824,366	**2,475,149**

35 CONVERTIBLE LOAN STOCK

Government Employees Pension Fund	2,000,000	2,000,000
Interest payable	39,781	39,781
Current	**2,039,781**	**2,039,781**

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 2015 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.

36 SHARE CAPITAL	2016 TZS'000	2015 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**

Advance toward share Capital

The shareholders, in their Annual General meeting held in July 2016 committed to inject TZS 30.0 billion as additional capital. As at 31 December 2016, TZS 3.0 billion had been received, and the remaining balance will be paid in 2017.

37 SHARE PREMIUM

Shares issued	**6,745,860**	**6,745,860**

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

38 FAIR VALUE RESERVE

	2016 TZS '000	2015 TZS '000
At 1 January		
At 31 December	**367,890**	**367,890**

The fair value reserve represents revaluation of property and equipment carried at revalued amount.

39 REGULATORY RESERVE

	Specific TZS'000	General TZS'000	Total TZS'000
At 1 January 2015	2,051,098	-	2,051,098
Prior year understatement	2,852,731	-	2,852,731
Appropriation from retained earnings	(805,065)	1,773,141	968,076
At 31 December 2015	**4,098,764**	**1,773,141**	**5,871,905**
At 1 January 2016	4,098,764	1,773,141	5,871,905
Appropriation from /(to) retained earnings	(701,334)	(269,887)	(971,221)
At 31 December 2016	**3,397,430**	**1,503,254**	**4,900,684**

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

40 CASH AND CASH EQUIVALENTS

	2016 TZS'000	2015 TZS'000
Cash balances	17,199,608	29,067,310
Balances with Bank of Tanzania	1,848,704	2,910,132
Balances with other banks (maturities of 3 months or less)	49,678,609	32,613,118
Treasury bills maturing less than 3 months	17,502,971	3,290,644
	86,229,892	**67,881,204**

41 CONTINGENT LIABILITIES AND COMMITMENTS

a) Loan commitment, guarantees and other facilities

At 31 December 2016, the bank had the contractual amount of the banks off Statement of Financial Position financial instruments that commit it to extend credit to customers, guarantees and letters of credit as follows:

	2016 TZS'000	2015 TZS'000
Unutilised facilities and other commitments	5,593,344	6,223,988
Guarantees and letters of credit	6,440,367	1,337,200
	12,033,711	**7,561,188**

b) Legal claims contingency

As at 31 December 2016, 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:

	2016 TZS'000	2015 TZS'000
No later than one year	2,431,833	2,281,247
Later than one year and no later than five years	9,726,532	6,843,741
Later than five years	10,659,165	5,713,317
	22,817,530	**14,838,305**

42 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

	2016 TZS'000	2015 TZS'000
National Social Security Fund (NSSF)	11,636,309	1,001,730
Parastatal Pension Fund (PPF)	6,851,352	5,044,279
	18,487,661	**6,046,009**

42 RELATED PARTY TRANSACTIONS (Continued)

(b) Loans from related parties

	2016 TZS'000	2015 TZS'000
Government Employees Pension Fund (GEPF)	2,039,781	2,039,781
	2,039,781	**2,039,781**

(c) Loans to key management personnel

	2016 TZS'000	2015 TZS'000
As at 1 January	265,723	2,360,802
New loans issued during the year	496,212	266,633
Repayments during the year	(212,251)	(2,361,712)
	549,684	**265,723**

(d) Key management personnel compensation

	2016 TZS'000	2015 TZS'000
Salaries and other short-term benefits	1,107,047	1,593,661
Directors' fees	53,947	49,500
	1,160,994	**1,643,161**

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.

43 SFAFF ENDOWMENT SCHEME

During the year 2016, the Group Staff endowment benefits were adjusted based on the actuarial valuation to reflect the liability to the bank for the period under review. As a result of the actuarial valuation, the defined benefit obligation increased by TZS 1,569 million (2015: TZS 2,901 million). The corresponding past service credit was recognised in the profit and loss for year 2016.

Movement in the Defined Group Staff benefit obligation

	2016 TZS'000	2015 TZS'000
Balance as at 1 January	**822,550**	**275,626**
Included in profit and loss		
• Current service cost	186,011	2,990,967
• Interest cost	256,482	-
Total charge to profit and loss	442,493	2,900,967
Included in other comprehensive income		
• Loss arising in actuarial valuation	1,656,393	-
Payments during the year	(530,008)	(2,354,043)
Balance as at 31 December	**2,391,428**	822,550

43 SFAFF ENDOWMENT SCHEME (Continued)

Actuarial assumptions
The following are the principal actuarial assumptions at the reporting date expressed as weighted average:

	2016 TZS' 000	2015 TZS' 000
Discount rate	15%	17%
Salary increase	7%	7%
Compulsory retirement age	60	60

Sensitivity analysis
The actuarial liability estimated at 31 December 2016 is sensitive to the financial assumptions used. A 1% per annum. reduction in the discount rate will increase the actuarial liability estimated at 31 December 2016 by around 13% (with all other assumptions remaining the same). If the discount rate is increased by 1% per annum then there is an opposite effect of roughly the same magnitude to the actuarial liability. Alternatively, a 1% per annum increase in the salary increase assumption will increase the actuarial liability estimated at 31 December 2016 by around 15% (with all other assumptions remaining the same). If the salary increase assumption is reduced by 1% per annum then there is an opposite effect of roughly the same magnitude to the actuarial liability.

44 SUBSEQUENT EVENTS

In the opinion of the directors, there were no events after 31 December 2016 which requires an adjustment in the financial statements (2015: Nil).

45 COMPARATIVES

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