

**AZANIA BANK LIMITED**  
**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**AZANIA BANK LIMITED**

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FOR THE YEAR ENDED 31 DECEMBER 2017**

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**AZANIA BANK LIMITED**

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**CORPORATE INFORMATION**

**HEAD OFFICE**

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

**REGISTERED OFFICE**

Mawasiliano Towers, 3<sup>rd</sup> 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  
3<sup>rd</sup> Floor  
New York, NY 10010-3603, USA.

**MAIN BANKER**

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

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

**COMPANY SECRETARY**

Mr. Charles C Mugila  
Mawasiliano Towers  
Plot No 20 Sam Nujoma Road  
P. O. Box 32089  
Dar es Salaam, Tanzania.

**AUDITORS**

Ernst & Young  
Certified Public Accountants  
Tan House Tower, 4<sup>th</sup> Floor,  
Plot No.34/1-Ursino South,  
P. O. Box 2475  
Dar es Salaam, Tanzania.

## **AZANIA BANK LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017**

The Directors have pleasure to present this report and audited financial statements for year ended 31 December 2017, which disclose the state of affairs of Azania Bank Limited ("the bank"). These financial statements can be amended by the Board of Directors and regulatory bodies if found to be misleading after they have been issued to the public. These financial statements for the year ended 31<sup>st</sup> December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 28<sup>th</sup> March 2018.

#### **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. The Bank is licensed by Bank of Tanzania under the Banking and Financial Institutions Act, 2006.

#### **2. VISION**

The vision of Azania Bank Limited is 'To be a One Stop Financial Centre'.

#### **3. MISSION**

The mission of Azania Bank Limited is: 'A customer centred bank of choice availing freedom of access to a range of quality financial products and services while enhancing shareholders value using appropriate technology, competent and dedicated staff'.

#### **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 2017.

#### **5. BOARD OF DIRECTORS**

Azania Bank Limited has a board comprising of nine Non-Executive Directors and one Executive Director. The Board chairman and five Non-Executive members of the Board represent Institutional shareholders, two are Independent directors 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 senior management team. 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 sets a standard in a manner that actions of directors and employees are in the best interest of the Bank and reflect the commitment to maintain highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

During the year ended 31 December 2017, the Board held four (4) ordinary meetings and seven (7) extraordinary 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 of Directors has four sub-committees which ensure high standard of corporate governance throughout the Bank.

**AZANIA BANK LIMITED**

**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**5. BOARD OF DIRECTORS (Continued)**

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

S/n	Name	Position	Age	Qualification/Discipline	Nationality	Date of appointment	Date resigned
1	Prof. Godius Kahyarara	Chairman	52	PhD-Economics	Tanzanian	21 Feb 2017	
2	Mr Eliudi B. Sanga	Vice chairman	57	M.A Economics	Tanzanian	24 June 2010	
3	Mr Aboud H. Mwinyi	Member	40	MSc	Tanzanian	1 July 2016	June, 2017
4	Mr Julius KAM Mganga	Member	56	MSC, ADA	Tanzanian	1 March 2016	
5	Mr Arnold B. Kilewo	Member	79	LLB,AMP	Tanzanian	11 April 2011	
6	Mrs Assumpta M. Mallya	Member	49	MBA	Tanzanian	14 March 2014	
7	Mrs Juliana M. Sweke	Member	52	MBA, CPA(T)	Tanzanian	20 December 2014	May, 2017
8	Mr. Alphonse Tikyeba	Member	54	CPA(T)	Tanzanian	4 <sup>th</sup> October, 2016	
9	Mr. Lushelo Njeje	Member	39	MBA	Tanzanian	10 <sup>th</sup> November 2016	
10	Mr. Charles Itembe	Member	45	MA Economics	Tanzanian	1 <sup>st</sup> April, 2017	
11	Mr. Rashid K. Mchatta	Member	47	MSc.	Tanzanian	25 <sup>th</sup> September, 2017	
12	Mr. Felix M. Maagi	Member	47	MBA, CPA(T)	Tanzanian	25 <sup>th</sup> September, 2017	

\*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. Mwakalyeye completed his contract with the Bank as the Interim Managing Director and Mr Geoffrey N. Dimoso was appointed as the Acting Managing Director on 1<sup>st</sup> May 2016.

About Mwinyi resigned and was replaced by Lushelo Njeje

Charles Itembe replaced Geoffrey Dimoso as a Managing Director

Rashid K. Mchatta and Felix M. Maagi were appointed as independent directors

During the year Mr Geoffrey N. Dimoso served a Bank in capacity of Company Secretary until 22<sup>nd</sup> December 2017. The Company Secretary as at 31 December 2017 was Mr Charles Mugila who is also performing legal services activities for the bank as Director of Legal Services.

## AZANIA BANK LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

#### 6. CORPORATE GOVERNANCE

The Board is committed to the principles of good corporate governance and recognize the importance of integrity, competency, responsibility, fairness, transparency and accountability as well as the need to conduct the business in accordance with the generally accepted best business practices. In so doing the Directors therefore confirm that:

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the Bank and monitor executive management;
- The positions of Chairman and Managing Director are held by different people;
- The Chairman of the Board of Directors is non-executive;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and monitoring of the institution performance;
- The Board is not involved in day to day operations of the Bank the task which is vested to management team under Managing Director

The Board has formed Committees which act on behalf of the Board in specific areas to direct the Bank effectively and accelerate the decision-making process.

##### Board Audit Committee

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 findings by the Banking Supervision Directorate of the Bank of Tanzania. There is no member from the committee who resigned during the year. The Committee meets at least four times a year.

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

Name	Position	Qualifications
Mr Eliudi B. Sanga	Chairman	M.A Economics
Mr Arnold B. Kilewo	Member	LLB,AMP
Mr. Julius KAM Mganga	Member	MSC, ADA
Mr. Alphonse Tikyebe	Member	CPA(T)
Mr. Rashid K. Mchatta	Member	MSc.
Mr. Felix M. Maagi	Member	MBA, CPA(T)

The committee met four times in a year.

##### Board Credit Committee

The Committee is responsible for the review of the bank's overall lending policy, conducting independent loan reviews, review of lending limits and is responsible for the overall management of credit risk.

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

Name	Position	Date resigned	Qualifications
Mrs Juliana M. Sweke	Chairperson	May, 2017	MBA, CPA(T)
Mr Aboud H. Mwinyi	Member	June, 2017	MSc
Mrs Assumpta N. Mallya	Chairperson		MBA
Mr. Lusheshelo Njeje	Member		MBA

The committee met four times in a year.

## AZANIA BANK LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

#### 6. CORPORATE GOVERNANCE (Continued)

##### Board Risk Management and Compliance Committee

The Committee assists the Board in fulfilling its primary responsibilities by establishing and implementing the Risk Management framework of the Bank. The Risk Management framework focuses on risk management process entailing risk identification, evaluation, measurement and monitoring.

The committee met four (4) times during the year to discuss risk and compliance reports.

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

Name	Position	Date resigned	Qualifications
Mrs Juliana M. Sweke	Chairman	May, 2017	MBA, CPA(T)
Mr Aboud H. Mwinyi	Member	June, 2017	MSc
Mrs. Assumpta N. Mallya	Chairperson		MBA
Mr. Luseshelo Njeje	Member		MBA

##### Board Human Resources Committee

The Committee deals with all matters pertaining to employees' welfare including recruitment and remuneration. The committee met four (4) times during the year to discuss Human Resource matters and reports. There is no member from the committee who resigned during the year.

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

Name	Position	Qualifications
Mr Eliudi B. Sanga	Chairman	M.A Economics
Mr Arnold B. Kilewo	Member	LLB,AMP
Mr Julius KAM. Mganga	Member	MSC, ADA
Mr. Alphonse Tikyeba	Member	CPA(T)

#### 7. REMUNATION OF BOARD OF DIRECTORS

The Directors fee together with any other payments to the Board members is usually approved by the Annual General Meeting. During the year under review, the Directors fees paid to Board members was TZS 70 million (2016: TZS 54 million). Other expenses incurred by the Board together with management compensation are disclosed on note 41 - Related party disclosures.

#### 8. DIRECTORS' INTEREST

Mr Arnold B. Kilewo has interest in the share capital of the bank forming part of the minority shareholding. He holds 0.04% of the ordinary share capital.

#### 9. MANAGEMENT OF THE BANK

The Board of Directors is entrusted with supervision of the bank and the day-to-day management is under the Managing Director who is assisted by Directors and Head of independent unit. As of 31st December 2017, organisational structure of the Bank comprised of the following independent departments/units:

## AZANIA BANK LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

#### 9. MANAGEMENT OF THE BANK (Continued)

##### Departments

- Business Development
- Treasury and Capital Market
- Credit
- Finance and Planning
- Legal services
- Operations
- Information and Communication Technology
- Internal Audit
- Risk Management and compliance

Managing Director reports to the Board of Directors and in turn all Directors reports to the Managing Director except the Director Internal Auditor who functionally reports to the Board Audit Committee and administratively to the Managing Director. During the year the Bank made transformation in terms of organizational structure with focus on performance improvement aiming to aligning the bank towards achieving its strategic objectives. During the year under review three new departments; Credit department, Information and Communication Technology department as well as Treasury and Capital Market department were formed with aim of improving bank business services, efficiencies and productivity.

#### 10. SHARE HOLDERS AND CAPITAL STRUCTURE

As at 31 December 2017, the following shareholders held shares in Azania Bank Limited:

##### 10.1 Ordinary Shares

Name of shareholder	Number of shares held	Percentage Shareholding
National Social Security Fund (NSSF)	21,383,262	35.86
PPF Pensions Fund (PPF)	18,512,512	31.05
Public Service Pension Fund (PSPF)	8,890,188	14.91
LAPF Pension Fund (LAPF)	9,304,282	15.60
East African Development Bank (EADB)	931,812	1.56
Minority shareholders (less than 1% each)	607,899	1.02
<b>Total</b>	<b>59,629,954</b>	<b>100</b>

During the year ended 31st December 2017, the Bank received TZS 26,218,500,000 being a fresh capital injection from four major shareholders. The National Social Security Fund (NSSF) injected TZS 10,840,500,000, the PPF Pension Fund (PPF) injected TZS 9,378,000,000, Public Services Pension Fund (PSPF) injected TZS 4,000,000,000 and the LAPF Pension Fund (LAPF) injected TZS 2,000,000,000 (December 2016: TZS 3,000,000,000). The capital injection is an implementation of the resolution of the Annual General meeting held on July 2016 where shareholders committed to inject TZS 30,000 million as additional capital.

Furthermore, during the year 6,745,860 shares under share premium were allocated ordinary share capital.



## AZANIA BANK LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

#### 10. SHARE CAPITAL STRUCTURE (Continued)

##### 10.2 Preference Shares (Non-cumulative)

Name of shareholder	Number of shares held	Percentage shareholding
National Social Security Fund (NSSF)	55,555	80
PPF Pension Fund (PPF)	13,889	20
	<b>69,444</b>	<b>100.</b>

Shareholders of these preference shares are entitled to dividend and are given first priority over holders of ordinary shares when dividend is declared and paid. These preference shares do not accumulate dividend for the year the bank has not declared or paid dividend. Shareholders receive dividend only when declared and paid.

##### 10.3 Convertible Loan Stock

Name of loan stockholder	TZS'000
Government Employees Pension Fund (GEPF)	<b>2,000,000</b>

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

#### 11. ACCOUNTING POLICIES

The accounting policies used in the preparation of the accounts are set on Note 6 to the financial statements and they are in line with the International Financial Reporting Standards (IFRS).

#### 12. PERFORMANCE FOR THE YEAR

The Bank's results are set out on page 21-24 of the financial statements. The comparative is based on the 2016 restated financial results. During the year under review, the Bank recorded a net profit of TZS 1,808 million (2016: A loss of TZS 6,039 million). The Bank performance improvement was mainly attributed to the additional investments on loans and advances, Government securities and interbank placements that led to growth of interest income. Furthermore, containment of costs of funding led to decrease in interest expenses hence improved interest margin.

The interest income for the year ended 31 December 2017 increased by 6.1% to close at TZS 41,901 million (2016: TZS 39,513 million). The increase was mainly attributable to growth on interest income from held to maturity (government securities) investments of TZS 9,100 million (2016: TZS 5,731 million) and interbank placements which was TZS 2,859 (TZS 1,727 million). The improvement was a result of increased in short term investments volumes as yields continued to decrease during the year.

On the other hand, interest expenses decreased by 8.5% in 2017 to TZS 16,845 million (2016: TZS 18,413 million) mainly due to deliberate action of negotiating lower on interest rates on deposits taking advantage of downward trend of market interest rates.

## AZANIA BANK LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

#### 12. PERFORMANCE FOR THE YEAR (Continued)

Non-interest income during the year increased to TZS 8,213 million, an increase of 8.4% as compared to TZS 7,576 million recorded in preceding year. The increase is notable on foreign exchange income which closed at TZS 1,539 million, recording an increase by 151.2% when compared to TZS 613 million for year 2016. The increase was a result of volatility in foreign exchange market that created business opportunities on both transactional and position.

Fees and commissions rose slightly by 4% to TZS 6,622 million (2016: TZS 6,370 million) whereas other income decreased significantly by 91.2% to TZS 52 million (2016: TZS 594 million). The decrease in other income resulted from lower recovery from charged off loan facilities.

Operating expenses increased by 10% to TZS 30,443 million (2016: TZS 28,020 million). Notable increases are on personnel costs by 12.5% due to recruitments made by the bank during the year where number of staff increased from 276 in 2016 to 293; premises costs grew by 12.4%, equipment maintenance costs by 10.3%, general and administrative costs increased by 2.3% while depreciation expenses recorded an increase by 21.6% due to realignment of amortization expenses of core banking system which had amortization write-back (credit) in year 2016 as was amortized in excess in year 2015.

#### 13. FINANCIAL POSITION

As at 31 December 2017 total assets were TZS 390,009 million (2016: 338,827 million) showing a growth of 15%. The increase in total assets is notable on investments in held to maturity (government securities) investments to TZS 77,615 million (2016: 48,748 million) signifying 59.2% growth as well as loans and advances which grew to TZS 186,703 million (2016: TZS 169,327 million) signifying 10.3% growth.

Customer deposits increased by 14.8% to TZS 271,370 (2016: TZS 236,380 million). The increase was attributed to growth in corporate business leading to increase in current accounts by 106% and increase in saving accounts by 6%.

The shareholders' fund increased by 91.1% to TZS 57,881 million (2016: TZS 30,058 million). Such growth of equity was driven by TZS 26,219 million being capital injection from shareholders as well as profit made during the period. During the year the bank recorded a net profit of TZS 1,808 million (2016: net loss of TZS 6,039 million). The core capital and total capital ratios as at 31 December 2017 stood at 19.95% and 21.60% respectively (2016: 9.16% and 10.88% respectively). The minimum regulatory requirement for core capital and total capital ratios is 10.0% and 12.0% respectively.

## AZANIA BANK LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

#### 14. KEY PERFORMANCE INDICATORS

Indicator	Definition and Formula	2017	RESTATE D2016	2016
Return on Equity	Net Profit/Average Total Equity	3.4%	(18.85)%	(10.2)%
Return on Assets	Profit Before Tax/Average Total Assets	0.41%	(1.72)%	(1.0)%
Non-interest income to Gross income	Non-Interest Income/(Interest + non-interest Income)	16.39%	1609%	15%
Interest Expense to Interest Income	Interest Expense/Interest Income	40.20%	46.60%	42%
Operating expenses to gross income	Operating Expenses/(interest + non-interest income)	60.93%	58.96%	90%
Non-interest expense to gross income	Non-interest expenses (including provisions)/(Interest + non-interest income)	61.62%	77.35%	54%
Non-performing loans to total advances	Non-Performing Loans / Gross Loans	12.29%	13.1%	13.1%
Loans to total assets	Net Loans/Total Assets	48.0%	50%	51%
Growth of Loans and Advances	(Current –prev. year net loans)/prev. year Net Loans	10.3%	(13.5)%	(10.0)%
Growth of Assets	(Current –prev. year Total Assets)/prev. year Total Assets	15.02%	3.41%	3.41%
Tier 1 Capital	Core Capital/Risk Weighted Assets (incl. Off B. sheet)	19.33%	8.24%	9.05%

#### 15. CASHFLOW AND LIQUIDITY MANAGEMENT

During the year under review the investments of the Bank were financed by shareholders capital as well as deposits from public. The Bank received fresh equity of TZS 26,219 million from institutions shareholders as implied in section 10 of this directors' report. Furthermore, the Bank mobilized deposits amounting TZS 22,201 million from the public which were used for investment in various business avenues. Operations of the Bank were financed by proceeds collected from business investments. The cash flows of the Bank was stable to continue supporting business operations and additional investments. Liquidity management of the Bank is of high importance more details on liquidity risk management are given in note 43.

#### 16. FUTURE DEVELOPMENT PLAN

Following transformation and capitalization during the year the Bank has redefined accordingly to support the Government agenda of transforming the nation to industry economy by 2025. The bank has devolved five year strategic plan in line with the National Five Year Development Plan 2016/17-2020/21.

The Bank is focusing on promoting financial inclusion by offering financial services to the market cutting across from retail to corporate clients. As pioneer of mortgage business the Bank also remain determined to offer these products in an affordable manner. The Bank will make investments to upgrade its core banking system and other peripheral systems to improve efficiency in service delivery.

## **AZANIA BANK LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **17. 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:

- The effectiveness and efficiency of operations;
- The safeguarding of the bank's assets;
- Compliance with applicable laws and regulations;
- The reliability of the accounting records;
- Business continuity under normal as well as adverse conditions; and
- 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 2017 and is of the opinion that they meet accepted criteria.

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

#### **18. SERIOUS JUDICIAL MATTER**

As at the end of the reporting period the Bank did not have any uncertain issue warranting reporting.

#### **19. 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.

#### **20. EMPLOYEE WELFARE**

##### **Management and Employees' Relationship**

There were continuous good relations between employees and management for year ended 31 December 2017. There were no unresolved complaints received by the management from employees during the year.

##### **The Bank is an equal opportunity employer**

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.

## AZANIA BANK LIMITED

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

#### 20. EMPLOYEE WELFARE (CONTINUED)

##### Staff training

During the year ended 31 December 2017, the Bank spent TZS 199 million (2016: TZS 105 million) for staff training. To show the commitment to improve staff performance the Bank has budgeted sum of TZS 700 million for the year 2018 that will be utilized to train staff 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.

##### Medical facilities

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.

##### 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 basic salaries.

##### Workers compensation fund

This is a social security scheme established by the Government responsible for compensating workers who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment. Under this arrangement, the bank contributes to the fund 1% of the monthly wage bill it has paid to its staff for which all the dues were settled by end of December 2017.

##### Gender parity

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind.

As at 31 December 2017 the Bank had the following distribution of employees by gender.

Gender	2017	2016
Male	151	146
Female	142	130
<b>Total</b>	<b>293</b>	<b>276</b>

**AZANIA BANK LIMITED**

**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**21. RELATED PARTY TRANSACTIONS**

All related party transactions and balances as at 31st December 2017 are disclosed in Note 41 to the financial statements.

**22. POLITICAL AND CHARITABLE DONATIONS**

The Bank did not make any political donations during the year. However, charitable donations amounting to TZS 37 million (2016: TZS 51 million) were made to various charitable organisations as part of the Bank's Corporate Social Responsibility activities.

**23. CORPORATE SOCIAL RESPONSIBILITY**


The Bank has been engaging in various activities to improve wellbeing of the society in which it operates. This activity demonstrates the Bank's commitments to serve the society by ensuring that the community in which the Bank operates benefits with its presence.

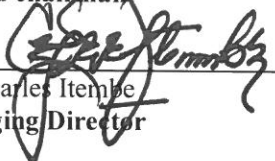
During the year under review the Bank sponsored Tanzanian youths to attend students' festival in Russia by TZS 18 million. Furthermore, the Bank donated TZS 1.5 million to KCMC during cancer week. The Bank has set aside fund to continue participating in social activities with aim of improving wellbeing of community in which it is operating.

**24. AUDITORS**

During the year, Ernst and Young 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 2018 will be put to the Annual General Meeting.

**BY ORDER OF THE BOARD**

  
\_\_\_\_\_  
Prof. Godius Kahyarara  
Board chairman

  
\_\_\_\_\_  
Mr. Charles Itembe  
Managing Director

29<sup>TH</sup> MARCH 2018

29<sup>TH</sup> MARCH 2018

**AZANIA BANK LIMITED**

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

The Companies Act, 2002 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. The financial statements have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act, 2002. The Directors are of the opinion that the financial statements present fairly, in all material respects, the state of the financial affairs of the Bank and of its financial results in accordance with International Financial Reporting Standards the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.


The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement. To enable the Directors to meet these responsibilities they set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Bank and all employees are required to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Bank is on identifying, assessing, managing and monitoring all known risks across the Bank. While operating risk cannot be fully eliminated, the Bank endeavours to minimise it by ensuring the appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.


The Directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

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

**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~~... 2018 and signed by:

  
Prof. Godius Kahyarara  
Board chairman

  
Mr. Charles Itembe  
Managing Director

**AZANIA BANK LIMITED**

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

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 **Togolani E. Mramba** being the Director of Finance of Azania Bank Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2017, 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: **Director of Finance and Planning**

NBAA Membership No.: ACPA 964

Date: **29<sup>th</sup>** .....March 2018



**INDEPENDENT AUDITOR'S REPORT**  
*To the shareholders of Azania Bank Limited*

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**Opinion**

We have audited the financial statements of Azania Bank Limited (the Bank) set out on pages 21 to 84, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

**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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provided the basis for our audit opinion on the accompanying financial statements.

**INDEPENDENT AUDITOR'S REPORT**  
*To the shareholders of Azania Bank Limited*

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**Opinion**

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**INDEPENDENT AUDITOR'S REPORT (Continued)**  
*to the shareholders of Azania Bank Limited*

**Key Audit Matters (Continued)**

No.	Key audit matter	How our audit addressed the key audit matter
1.	<p><b>Credit risk and impairment of loans and advances to customers</b></p>	
	<p>Impairment is a subjective area due to the level of judgment applied by management in determining provisions.</p> <p>The Bank is required to calculate impairment of loans and advances to customers in accordance with both the Bank of Tanzania regulations and IFRSs.</p> <p>We focused on the identification of impairment events, which differs based upon the type of lending product and customer. Judgment is required to determine whether a loss has been incurred.</p> <p>We also focused on the measurement of impairment, including the assessment of whether historical experience is appropriate when assessing the likelihood of incurred losses in respect to loans.</p> <p>Judgement is applied in determining the appropriate parameters and assumptions used to calculate impairment. For example, the assumption of customers that will default, the valuation of collateral for secured lending and the estimated future cash flows of loans.</p> <p>We also considered the disclosures on credit risk and impairment included in notes 6(g) and 22 to be important to the users' understanding of the financial statements.</p>	<ul style="list-style-type: none"> <li>• Our audit procedures included the assessment of key controls over the approval, recording and monitoring of loans and advances.</li> <li>• We evaluated the methodologies, inputs and assumptions used by the Bank in calculating collectively assessed impairment losses, and on sample basis, assessed the adequacy of impairment allowances for individually assessed loans and advances for both IFRS and Bank of Tanzania impairment allowances.</li> <li>• We compared the Bank's assumptions for impairment allowances to externally available industry, financial and economic data and our own assessments in relation to key inputs. As part of this, we assessed the Bank's estimates and assumptions used including the consistency of judgement applied in the determination of the amount and timing of expected future cash flows, and consideration of economic factors and historical default rates.</li> <li>• On sample basis, we evaluated whether the Bank's assumptions on the realizable value of collateral, was based on up to date valuations and available market information.</li> <li>• We evaluated whether the Bank's computations for the regulatory impairment allowances were based on the Bank of Tanzania regulations. This included assessing whether the classification of loans and the percentages applied were in accordance with the Bank of Tanzania regulations.</li> <li>• We also assessed whether the financial statements disclosures in Notes 43 appropriately reflect the Bank's exposure to credit risk.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT (Continued)**  
*to the shareholders of*

**Azania Bank Limited**

**Key Audit Matters (Continued)**

2.	<b>Compliance with tax and banking laws and regulations</b>
<p>Operating in the banking sector presents increased regulatory risks due to the need to comply with multiple regulatory and legislative requirements, including legislation relating to banking and tax.</p> <p>We focused on compliance with tax and banking laws and regulations because breaches of compliance could have a significant effect on the results and financial position of the Bank.</p> <p>Tax focus areas included compliance with changes in tax laws effective during the year and the financial reporting implication of open tax assessments.</p> <p>Assessing the likely outcome and quantification of tax exposures was one of the judgmental areas our audit was focused on.</p> <p>Bank of Tanzania regulations require external auditors of banks to specifically report on the Bank's capital adequacy and this was a key focus area in relation to compliance with banking laws and regulations.</p> <p>We also considered the risk that the income tax disclosures in Note 18 and Note 26 and the capital adequacy disclosures in Note 40 to the financial statements are not complete, as they are significant to the understanding of the Bank's income tax position and capital management.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing of key controls over the identification, evaluation and measurement of potential obligations arising from legal and regulatory matters.</li> <li>• Involving our tax specialists where appropriate to analyse the assumptions used to determine provisions for tax matters based on their knowledge and experience of local regulations and practices.</li> <li>• Inspecting reports on open tax assessments done by the Bank's tax consultants and in-house legal counsel and where appropriate, the Bank's external legal advisers, and appropriate documentation considered necessary to understand the position and conclusions made by the Bank. We also obtained external confirmations from legal counsel on significant litigation.</li> <li>• Considering the exposure to breaches of legislation by making appropriate enquiry of the Bank's management in relation to compliance with laws and regulations and the existence and status of any significant regulatory and legal matters.</li> <li>• Inspecting correspondence with tax authorities and the central bank, central bank audit and inspection reports from the central bank and the tax authority and compliance logs to identify actual and potential noncompliance with laws and regulations that could materially affect the Bank's financial statements.</li> <li>• Evaluating whether the capital adequacy ratios of the Bank disclosed in Note 40 to the financial statements were computed in accordance with the Bank of Tanzania regulations.</li> <li>• Where significant matters were identified, we considered whether an obligation exists, the appropriateness of provisioning and/or disclosure based on the facts and circumstances available.</li> <li>• Using our experience of local practices we assessed the judgements made by the Bank in arriving at any potential provisions and contingencies relating to compliance with tax and banking laws and regulations.</li> <li>• Furthermore, we assessed the adequacy of the Bank's disclosures in Note 18 and 26 in respect of income tax.</li> </ul>

**INDEPENDENT AUDITOR'S REPORT (Continued)**  
**to the shareholders of Azania Bank Limited**

**Other Information included in the Bank's 2017 Director's Report**

Other information consists of the information included in the Directors' Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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, and we have nothing to report in this regard.

**Responsibilities of the Directors for the Financial Statements**

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

In preparing the financial statements, the 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 the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Bank's financial reporting process.

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

As part of an audit in accordance with ISAs, we exercise professional 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.

**INDEPENDENT AUDITOR'S REPORT (Continued)**  
*to the shareholders of Azania Bank Limited*

**Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the 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 auditor's 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**

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

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

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books;

**INDEPENDENT AUDITOR'S REPORT (Continued)**  
*to the shareholders of*

**Azania Bank Limited**


**Report on other legal and regulatory requirements (Continued)**

- The Directors' Report is consistent with the financial statements;
- Information specified by law regarding directors' remuneration and transactions with the Bank is disclosed; and
- The Bank's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

As required by the Banking and Financial Institutions (External Auditors) Regulations, 2015 of Tanzania, we report to you, based on our audit, that;

- In our opinion, the capital adequacy ratios as presented in Note 40 to the financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2015 of Tanzania.

The engagement partner on the audit resulting in this independent auditor's report is Neema Kiure-Mssusa.

  
**Ernst & Young**  
**Certified Public Accountants**  
**Dar es Salaam**

Signed by: Neema Kiure Mssusa (Partner)



Date: 29/03/ 2018

**AZANIA BANK LIMITED**

**STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	NOTES	2017 TZS'000	2016 TZS'000 RESTATED*
Interest income	7	41,900,918	39,513,094
Interest expense	8	(16,845,381)	(18,413,394)
<b>Net interest income</b>		<b>25,055,537</b>	<b>21,099,700</b>
Impairment charge on loans and advance	9	(344,180)	(8,654,693)
<b>Net interest after impairment charge</b>		<b>24,711,357</b>	<b>12,445,007</b>
Fees and commissions income	10	6,622,078	6,369,563
Foreign exchange income	11	1,539,082	612,757
Other income	12	52,102	593,795
<b>Total non-interest income</b>		<b>8,213,262</b>	<b>7,576,115</b>
Personnel expenses	13	(15,861,735)	(14,096,559)
Premises maintenance costs	14	(3,381,185)	(3,008,881)
Equipment maintenance costs	15	(1,438,182)	(1,304,246)
Depreciation and amortization	16	(1,759,057)	(1,446,548)
General and administrative expenses	17	(8,002,710)	(8,164,131)
		<b>(30,442,869)</b>	<b>(28,020,365)</b>
<b>Profit / (loss) before tax</b>		<b>2,481,750</b>	<b>(7,999,243)</b>
<b>Income tax expense/(credit)</b>	18	<b>(673,961)</b>	<b>1,960,468</b>
<b>Net profit /( loss) for the year</b>		<b>1,807,789</b>	<b>(6,038,775)</b>
Re-measurements of defined benefit liability		(413,890)	357,137
Gain on fair value of available for sale assets		127,380	1,244,000
Tax thereon		85,953	(480,341)
Net other comprehensive loss		(200,557)	1,120,796
<b>Total comprehensive profit (loss) for the year</b>		<b>1,607,232</b>	<b>(4,917,979)</b>

The accounting policies and Notes on pages 25 to 84 form part of, and should be read in conjunction with, these financial statements.

\* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to Note 22 for details.



**AZANIA BANK LIMITED**

**STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	NOTES	2017 TZS'000	2016 TZS'000 RESTATED*	2016 TZS'000 1 JANUARY
<b>Assets</b>				
Cash and balances with the Bank of Tanzania	19	48,017,101	50,266,650	62,782,881
Loans and advances to banks	20	57,690,007	51,862,039	33,013,118
Government Investments Held to maturity	21	77,614,959	48,747,840	23,841,200
Loans and advances to customers	22	186,703,462	169,327,030	195,634,151
Available for sale investments	23	3,391,380	3,264,000	2,020,000
Property and equipment	24	7,278,806	7,151,621	6,993,993
Intangible assets	25	694,351	950,991	881,836
Current tax asset	26	1,210,800	1,151,266	-
Deferred tax asset	27	4,657,214	4,329,489	2,185,844
Other assets	28	2,750,724	1,776,104	2,908,688
<b>Total assets</b>		<b>390,008,803</b>	<b>338,827,030</b>	<b>330,261,711</b>
<b>Liabilities</b>				
Deposits from banks	29	38,718,867	51,507,970	19,715,953
Deposits from customers	30	271,369,531	236,379,918	257,481,634
Revolving credit lines	31	14,777,101	14,787,616	14,500,000
Convertible loan stock	32	2,039,781	2,039,781	2,000,000
Current tax liability	26	-	-	421,261
Payables and Accruals	33	3,266,209	2,824,364	3,372,269
Group Endowment Scheme	34	1,956,459	1,229,317	822,550
<b>Total liabilities</b>		<b>332,127,948</b>	<b>308,768,966</b>	<b>298,313,667</b>
Ordinary share capital	35	59,629,954	23,637,594	23,637,594
Advance towards Equity	35	-	3,028,000	-
Preference share capital	35	69,444	69,444	69,444
Share premium	36	-	6,745,860	6,745,860
Accumulated losses		(8,892,717)	(9,812,203)	(4,744,649)
Revaluation reserve	37	364,948	367,890	367,890
Defined Benefit Scheme	35	(39,727)	249,996	-
Available for sale reserve	35	959,966	870,800	-
General provision reserve	35	1,693,036	1,503,254	1,773,141
Regulatory reserve	38	4,095,951	3,397,430	4,098,764
<b>Total equity</b>		<b>57,880,855</b>	<b>30,058,065</b>	<b>31,948,044</b>
<b>Total liabilities and equity</b>		<b>390,008,803</b>	<b>338,827,030</b>	<b>330,261,711</b>

The financial statements on pages 21 to 84 were approved for issue by the Board of Directors on 29TH MARCH 2018 and signed on its behalf by:

Prof. Godius Kahyarara  
Board chairman

Mr. Charles Itembe  
Managing Director

The accounting policies and notes on pages 25 to 84 form part of, and should be read in conjunction with, these financial statements.

\* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to Note 22 for details.

**AZANIA BANK LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Ordinary share capital TZS'000	Preference share capital	Advance share capital	Share premium TZS'000	(Accumulated losses) TZS'000	Available for sale reserve TZS'000	Revaluation Reserve TZS'000	Defined Benefit Scheme TZS'000	Regulatory reserve TZS'000	Total TZS'000
As at 1 January 2017	23,637,594	69,444	3,028,000	6,745,860	(9,634,390)	870,800	367,890	249,996	4,900,684	30,235,878
Additions during the year	35,992,360	-	(3,028,000)	(6,745,860)	-	-	-	-	-	26,218,500
Profit during the year	-	-	-	-	1,807,789	89,166	-	-	-	1,896,955
Defined benefit liability	-	-	-	-	-	-	-	(289,723)	-	(289,723)
Transfer to regulatory reserve	-	-	-	-	(888,303)	-	-	-	888,303	-
Realized profit on disposal of revalued assets	-	-	-	-	-	-	(2,942)	-	-	(2,942)
<b>As at 31 December 2017</b>	<b>59,629,954</b>	<b>69,444</b>	<b>-</b>	<b>-</b>	<b>(8,892,717)</b>	<b>959,966</b>	<b>364,948</b>	<b>(39,727)</b>	<b>5,788,987</b>	<b>57,880,855</b>
As at 1 January 2016	23,637,594	69,444	-	6,745,860	(4,744,649)	-	367,890	-	5,871,905	31,948,044
Additions during the year	-	-	3,028,000	-	-	-	-	-	-	3,028,000
Profit during the year, restated	-	-	-	-	(6,038,775)	870,800	-	-	-	(5,167,975)
Defined benefit liability	-	-	-	-	-	-	-	-	-	-
Transfer to regulatory reserve	-	-	-	-	971,221	-	-	249,996	(971,221)	249,996
<b>As at 31 December 2016</b>	<b>23,637,594</b>	<b>69,444</b>	<b>3,028,000</b>	<b>6,745,860</b>	<b>(9,812,203)</b>	<b>870,800</b>	<b>367,890</b>	<b>249,996</b>	<b>4,900,684</b>	<b>30,058,065</b>

The accounting policies and Notes on pages 25 to 84 form part of, and should be read in conjunction with, these financial statements.

**AZANIA BANK LIMITED**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	NOTES	2017 TZS'000	2016 TZS'000 RESTATED
<b>Cash flows from operating activities</b>			
(Loss)/profit before income tax		2,481,750	(7,999,243)
Adjustments for non-cash items:			
Impairment charges on loans and advances to customers		344,180	7,347,963
Amortization of intangible assets	25	274,516	9,453
Depreciation of property and equipment	24	1,484,541	1,437,095
<b>Cash flows from operating activities before changes in working capital items</b>		<b>4,584,987</b>	<b>795,268</b>
Increase in loans to banks maturing after 3 months		(816,570)	(1,783,430)
Decrease/(increase) in loans and advances to customers		(13,759,590)	18,558,231
Decrease/(increase) in investments held to maturity maturing after 3 months		(9,503,922)	(10,694,313)
Increase in Statutory Minimum Reserve		(13,235,523)	(412,899)
Decrease/(increase) in other assets		380,973	(2,054,313)
(Decrease)/increase in deposits		22,200,510	9,793,182
Decrease/(increase) in other liabilities		(1,339,831)	261,702
Tax paid		(1,363,194)	(1,636,524)
<b>Net cash generated from operating activities</b>		<b>(12,852,160)</b>	<b>12,826,904</b>
Purchase of property and equipment	24	(1,616,976)	(1,645,696)
Purchase of intangible assets	25	(12,626)	(27,636)
<b>Net cash used in investing activities</b>		<b>(1,629,602)</b>	<b>(1,673,332)</b>
Net cash used in financing activities			
Proceeds/(payments) from revolving credit lines		(10,515)	287,616
Proceeds from new equity		26,218,500	3,028,000
Proceeds on issue of loan stock		-	39,781
<b>Net cash generated from financing activities</b>		<b>26,207,985</b>	<b>3,355,397</b>
<b>Cash and cash equivalent at the beginning of the year</b>		<b>82,390,173</b>	<b>67,881,204</b>
Movement in cash and cash equivalents during the year:			
Net cash flows generated from operating activities		(12,943,747)	12,826,904
Net cash flows used in investing activities		(1,629,602)	(1,673,332)
Net cash flows generated from investing activities		26,207,985	3,355,397
<b>Cash and cash equivalent at the end of the year</b>	39	<b>94,116,396</b>	<b>82,390,173</b>

The accounting policies and Notes on pages 25 to 84 form part of, and should be read in conjunction with, these financial statements.

## **AZANIA BANK LIMITED**

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

#### **1. GENERAL INFORMATION**

Azania Bank Limited is a limited liability company incorporated in Tanzania under the 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 and is regulated by the Bank of Tanzania. The registered office of the bank is:

Mwasiliano Towers, 3<sup>rd</sup> Floor  
Plot No. 20 Sam Nujoma Road  
P. O. Box 32089  
Dar es Salaam  
Tanzania.

#### **2. BASIS OF PREPARATION**

##### **i. Compliance statement**

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and accordance with the requirements of the Companies Act, 2002.

##### **ii. Basis of measurement.**

The financial statements have been prepared on the historical cost basis except for available-for-sale financial assets which are measured at fair value.

##### **iii. Presentation of financial statements**

The presentation of financial position is broadly in order of liquidity. Information regarding recoverability or settlement after reporting period is disclosed in the notes.

#### **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 their judgment in the process of applying the bank's accounting policies. There are areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements

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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2017 is included in the following notes:

- Note 22 - impairment of financial assets
- Note 41 - determination of fair value of financial instruments
- Note 27 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used;

## AZANIA BANK LIMITED

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

#### 4. USE OF JUDGEMENTS AND ESTIMATES (Continued)

- Note 34 – measurement of employment benefit obligation; key actuarial assumptions
- Note 44 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;

#### 5. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

##### *(i) New and amended standards and interpretations*

The accounting policies adopted by the Bank are consistent with those used in the previous period. The new and amended standards and interpretations that became effective on and after 1<sup>st</sup> January 2017 did not have significant impact on the accounting policies, financial position or performance of the Bank.

The nature of each amendment is described below:

##### ***Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative***

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). Reference is made on the statement of cash flows where there is section showing the adjustments of the effect of forex on cash and cash equivalents.

##### ***Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses***

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

##### **Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12**

The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

##### *(ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank.*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Bank. The Bank's assessment of the impact of these new standards and interpretations is set out below.

##### ***IFRS 9 Financial Instruments***

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

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

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

**5. NEW STANDARDS, AMMENDMENTS AND INTERPRETATIONS (Continued)**

*(ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (Continued)*

***Impairment***

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

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

Exposures would be divided into 3 stages as follows:

- Stage 1: Exposures for which a significant increase in credit risk has not occurred since origination. For these exposures a 12 month expected credit loss will be recognized.
- Stage 2: Exposures for which a significant increase in credit risk has occurred since origination. The Bank will assess whether a significant increase in credit risk has occurred based on qualitative and quantitative drivers; as well as exposures that are more than 30 days past due contractual payment date. Lifetime expected credit losses will be recognized for these assets.
- Stage 3: Exposures which meet the definition of default. The Bank has aligned its definition of default with Regulatory Capital CRR Article 178, which considers exposures that are more than 90 days past due, forbearance, as well as indicators that an exposure is unlikely to pay. Lifetime expected credit losses will be recognized for these assets.

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

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

The revised impairment model is expected to have a material financial impact on the existing impairment provisions previously recognised in terms of the requirements of IAS 39, as well as increase volatility in the recognition of impairment losses going forward. It is estimated that the increase on IAS 39 impairment stock (including contractual interest not recognized per the principles above) will be in the region of 50% to 60% on a pre-tax basis.

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

**5. NEW STANDARDS, AMMENDMENTS AND INTERPRETATIONS (Continued)**

*(ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (Continued)*

***IFRS 16 Leases***

The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

The key features of the new standard are:

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. The new standard's transition provisions permit certain reliefs. The new standard requires lessees and lessors to make more extensive disclosures than under IAS 17. The impact of the new standard is being assessed by the Bank.

***IFRS 17 Insurance Contracts***

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfillment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non- distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

## AZANIA BANK LIMITED

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

#### 5. NEW STANDARDS, AMMENDMENTS AND INTERPRETATIONS (Continued)

*(ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (Continued)*

IFRS 17 is effective for reporting periods starting on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The bank has not started applying IFRS 17.

#### ***IFRS 15 Revenue from contracts with customers***

The standard is effective on 1 January 2018. The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures. However, the Bank has no significant revenue generating contracts with customers that are not within the scope IFRS 9 therefore no impact is expected.



## AZANIA BANK LIMITED

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

#### 5. NEW STANDARDS, AMMENDMENTS AND INTERPRETATIONS (Continued)

*(ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (Continued)*

Other standards and interpretations that are yet to be effective:

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (Effective 1 January 2018)
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (Effective 1 January 2019): The Company currently has no uncertain tax positions.

The other new and amended standards issued but not yet effective, and not listed above, are not expected to have an impact on the Company's financial statements.

- IAS 7 Statement of Cash Flows: Disclosure Initiative – Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017).
- IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12 (Effective for annual periods beginning on or after 1 January 2017).
- IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity (Effective for annual periods beginning on or after 1 January 2019.)
- IAS 23 Borrowing Costs - Borrowing costs eligible for capitalization (Effective for annual periods beginning on or after 1 January 2019.)
- IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment - by -investment choice. (Effective for annual periods beginning on or after 1 Jan 2019).
- IAS 40-Investment Property: Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018.)
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters. (Effective for annual periods beginning on or after 1 Jan 2018).
- IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (Effective for annual periods beginning on or after 1 January 2018).
- IFRS 3 Business Combinations - Previously held Interests in a joint operation. (Effective for annual periods beginning on or after 1 Jan 2019).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 Transfers of Investment Property – Amendments to IAS 40 (Effective for annual periods beginning on or after 1 January 2018).
- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted).

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

**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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) Dividend income**

Dividend income is recognised when the bank's right to receive the payment is established. Dividends are presented as other operating income based on the nature of investments currently held.

**d) 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.

**e) 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.

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) **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 Pension contributions plans*

The Bank operates a defined contribution plan whereby each of its employees contribute to the state managed (statutory) funds namely the Parastatal Pensions Fund (PPF), Public Service Pensions Fund (PSPF), the National Social Security Fund (NSSF) and Local Authority Pensions Fund (LAPF). The Bank contributes 15% of basic salary for each employee while the employees contribute 5%. Apart from these monthly contributions, the bank has no further commitments or obligations to these funds. The contributions are charged to the profit or loss in the year to which they relate

*Workers Compensation Fund*

This is a social security scheme established for compensating workers who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment. The Bank is required to contribute to the fund % of the monthly wage bill. The Bank remits the contributions on month to month basis and costs recognised in respective months

*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 other comprehensive income (OCI) in the period in which they occur. 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 in the period the settlement occurs.

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) **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.

All financial instruments are measured initially at their fair value plus transaction costs directly attributable to their acquisition of issue, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

• **Measurements and classification**

The classification of financial instruments at initial recognition depends on their purpose and characteristics and intention of management on acquiring them.

**Financial assets**

The Bank classifies its financial assets in the following categories:

- Loans and receivables,
- Held-to-maturity and
- Available-for-sale financial assets.

(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.

The amortization is included in ‘Interest income’ in the profit or loss. The losses arising from impairment are recognized in the profit or loss in ‘Impairment loss expense’ 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. Held to maturity includes Government and Corporate securities.

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) **Financial instruments (continued)**

*(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. Available-for-sale financial assets include equity.

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

**Financial liabilities**

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

**Convertible stock**

This is financial instrument the bank is holding a loan which will be converted to equity. The convertible stock is recorded at the proceeds received, net of direct issue costs.

**Equity Instruments**

An equity instrument is any contract evidenced to hold and control the residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

• **De-recognition**

**Financial assets**

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.

**Financial liabilities**

A financial liability is derecognized when the contractual obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

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

**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**g) Financial instruments (Continued)**

• **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 stock market.

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.

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 management 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.

**AZANIA BANK LIMITED**

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

**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**g) Financial instruments (Continued)**

Classes of financial instruments

The bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments.

The classification made can be seen in the table as follows:

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

## AZANIA BANK LIMITED

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

#### 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### g) Financial instruments (Continued)

###### • Impairment of financial assets

###### (i) Assets carried at amortised cost

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

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

- 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 reorganization;
- 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 losses occurring and its identification is determined by the directors for each identified portfolio. In general, the periods used vary between 3 and 12 months; in exceptional cases, longer periods are warranted.

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

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.



## AZANIA BANK LIMITED

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

#### 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### g) Financial instruments (Continued)

- Impairment of financial assets (Continued)

##### (i) Assets carried at amortised cost (Continued)

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.

##### (ii) 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.

**AZANIA BANK LIMITED**

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

**6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) Property and equipment (Continued)**

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.

• **Work in Progress**

These are costs of non-financial assets which have not met criteria of being recognized under property and equipment or intangible assets. The assets are normally under construction, development or at acquisition process has not finalized to meet the requirements of Accounting standards and Policy.

**j) Intangible assets**

These are development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the bank. Development costs are recognized 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. Costs associated with maintaining software programmes are recognised as an expense when incurred.

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.

<b>Description of items</b>	<b>Useful lives</b>
<i>Computer Software</i>	5 Years

## AZANIA BANK LIMITED

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

#### 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **k) 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.

##### **l) 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.

##### **m) Income tax**

###### ***Current income tax***

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

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

###### ***Deferred income tax***

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

## AZANIA BANK LIMITED

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

#### 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### **n) Dividend on ordinary share capital and preference share capital**

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

##### **o) Ordinary Share capital**

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

##### **p) Non-Cumulative Preference share capital**

This is a class of share capital which is given priority on receiving dividend over ordinary share. Holders of non-cumulative preference shares are not entitled to carry over the dividend for the year the Bank has not declared to issue dividend.

##### **q) 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.

##### **r) 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 recognized 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 unamortized premium.

##### **s) 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.

**AZANIA BANK LIMITED**

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

	2017 TZS'000	2016 TZS'000 RESTATED
<b>7. INTEREST INCOME</b>		
Loans to banks	2,859,393	1,727,076
Investment in Government securities	9,099,777	5,730,573
Loans and advances to customers	29,941,748	32,055,445
	<b>41,900,918</b>	<b>39,513,094</b>
<b>8. INTEREST EXPENSE</b>		
Deposits from banks	3,146,289	4,747,569
Deposits from customers	11,611,050	11,620,470
Revolving credit lines	2,088,042	2,045,355
	<b>16,845,381</b>	<b>18,413,394</b>
<b>9. IMPAIRMENT CHARGES</b>		
Increase in Individually impairment charge	288,702	6,698,315
Increase in portfolio impairment	55,478	649,648
Write -offs	-	1,306,730
	<b>344,180</b>	<b>8,654,693</b>
<b>10. FEES AND COMMISSIONS INCOME</b>		
Minimum balance	48,453	54,130
Security perfection	87,258	174,830
Ledger fees	964,314	976,676
Telegraphic transfers	438,163	422,122
Guarantees indemnities	261,662	151,912
Cheque books issuances	33,253	28,962
Letters of credit	153,080	81,411
Western union	13,249	22,274
Salary processing fees	51,036	31,620
Unpaid cheques fees	30,954	37,085
Statement fees	43,479	49,903
Bank/Telecom transactions fee	763,717	836,862
Insurance income	210,412	188,471
Loan Arrangement Fee	1,315,884	888,695
Cash withdrawal commission	1,317,207	1,621,113
Dividend Income	32,017	-
ATM commission	162,665	154,979
Sundry commission & Fees	400,026	320,235
Other fees and commissions <sup>1</sup>	295,249	328,283
	<b>6,622,078</b>	<b>6,369,563</b>

<sup>1</sup> Includes write back of provision made in previous periods

**AZANIA BANK LIMITED**

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

	<b>2017</b>	<b>2016</b>
	<b>TZS'000</b>	<b>TZS'000</b>
		<b>RESTATED</b>
<b>11. FOREIGN EXCHANGE INCOME</b>		
Foreign exchange income/(loss)	1,674,186	1,113,576
Revaluation income/(loss)	(135,104)	(500,819)
	<u><b>1,539,082</b></u>	<u><b>612,757</b></u>
<b>12. RECOVERIES FROM BAD DEBTS</b>	<u><b>52,102</b></u>	<u><b>593,795</b></u>
<b>13. PERSONNEL EXPENSES</b>		
Salaries and wages	10,849,596	9,847,800
Retirement benefit contribution	1,523,774	1,356,911
Skills Development levy	583,911	502,932
Workers compensation Fund	105,324	101,964
Staff medical insurance	558,110	490,677
Leave travel	854,632	849,177
Staff training	189,673	105,081
Staff endowment scheme-Note 34	313,252	442,493
Uniforms	77,300	32,049
Staff relocation	42,961	35,798
Other costs	763,202	331,677
	<u><b>15,861,735</b></u>	<u><b>14,096,559</b></u>
<b>14. PREMISES AND MAINTENANCE COSTS</b>		
Office rent	2,444,686	2,107,083
Utility charges	706,146	637,639
Office cleaning	167,005	238,921
Office parking	37,777	25,238
Repair and maintenance	25,571	-
	<u><b>3,381,185</b></u>	<u><b>3,008,881</b></u>

**AZANIA BANK LIMITED**

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

	2017 TZS'000	2016 TZS'000 RESTATED
<b>15. EQUIPMENT MAINTENANCE COSTS</b>		
Generators	110,181	118,217
Motor vehicles	163,884	169,762
Computer equipment	553,047	371,199
Other office equipment & furniture	611,070	645,068
	<u>1,438,182</u>	<u>1,304,246</u>
<b>16. DEPRECIATION AND AMORTISATION</b>		
Depreciation of property and equipment	1,484,541	1,437,095
Amortization of intangible assets	274,516	9,453
	<u>1,759,057</u>	<u>1,446,548</u>
<b>17. GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Auditors' remuneration	202,620	93,946
Consumables	91,461	100,615
Burial support	16,202	5,500
Subscription	45,380	51,053
Insurance costs	383,070	393,275
Deposit Insurance Fund	419,472	435,082
Directors fees	70,494	53,947
Stationary & Printing	358,717	466,772
Advertising costs	385,212	409,769
Security costs	1,058,463	1,348,504
Loans fair value benefits <sup>2</sup>	1,507,482	419,582
Swift expenses	19,640	24,384
Communication and postage	783,805	869,837
Travel costs	624,545	561,226
ATM expenses	560,897	586,747
Tax consultancy fee	25,931	13,542
Legal and other professional fees	181,700	206,635
Business entertainment	56,468	111,051
Bank charges	85,799	64,058
Banking license	14,540	33,433
City service levy	34,231	67,216
Write offs	-	569,906
Provisions for sundry receivables	571,964	542,267
Other costs	504,617	735,784
	<u>8,002,710</u>	<u>8,164,131</u>

<sup>2</sup> The amount arises as a difference between the interest rate charged to staff loans as compared to commercial lending rates.

**AZANIA BANK LIMITED**

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

	2017 TZS'000	2016 TZS'000 RESTATED
<b>18. TAX EXPENSE /(CREDIT)</b>		
Income tax charge		
-relating to current year	904,509	(116,879)
-relating to prior years	-	180,875
Deferred income tax		
relating to current year	150,104	(2,024,464)
relating to prior year	(380,652)	-
	<u><b>673,961</b></u>	<u><b>(1,960,468)</b></u>

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit /(loss) before tax	<u><b>2,481,750</b></u>	<u><b>(7,999,243)</b></u>
Tax calculated at a tax rate of 30%	744,525	(2,399,773)
Tax effect of:		
Depreciation on non- qualifying assets	138,975	55,076
Expenditure permanently disallowed	213,910	2,562,906
Current income tax – prior years	-	180,875
Deferred income tax – net	(423,449)	(2,359,552)
	<u><b>673,961</b></u>	<u><b>(1,960,468)</b></u>
<b>19. CASH AND BALANCE WITH BANK OF TANZANIA</b>		
Cash in hand	26,180,583	17,199,608
Balances with Bank of Tanzania		
- Statutory Minimum Reserve (SMR)	17,982,815	31,218,338
- Current account	3,853,703	1,848,704
	<u><b>48,017,101</b></u>	<u><b>50,266,650</b></u>

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.



**AZANIA BANK LIMITED**

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

	<b>2017</b>	<b>2016</b>
	<b>TZS'000</b>	<b>TZS'000</b>
		<b>RESTATED</b>
<b>20. LOANS AND ADVANCES TO BANKS</b>		
Items in course of collection	3,790,166 <sup>3</sup>	3,806,806
Nostro balances	11,199,460	2,687,064
Investments with banks	42,331,387	45,088,336
Provision for impaired placements	(500,000)	-
Accrued interest receivable	368,994	279,833
	<u><b>57,690,007</b></u>	<u><b>51,862,039</b></u>
Maturities within 3 months	54,690,007	49,678,609
Maturities after 3 months	3,000,000	2,183,430
	<u><b>57,690,007</b></u>	<u><b>51,862,039</b></u>
Placements with other banks are not secured and earn interest on normal market interest rates. As at 31 December 2017, placements with other banks earned an average of 9.17% for local currency and 4.4% for USD placements (2016: 12% and 3.9%) Other items do not earn interest when are held at the correspondent banks.		
<b>21. GOVERNMENT SECURITIES HELD TO MATURITY</b>		
Treasury bills	45,306,827	34,792,462
Treasury Bonds	30,027,100	10,740,000
Unearned discount	(1,685,059)	(458,948)
Interest receivable	3,966,091	3,674,326
	<u><b>77,614,959</b></u>	<u><b>48,747,840</b></u>
Maturities		
Treasury bills and bonds maturing within 3 months	22,653,841	3,290,644
Treasury bills and bonds maturing after 3 months	54,961,118	45,457,196
	<u><b>77,614,959</b></u>	<u><b>48,747,840</b></u>

<sup>3</sup> This balance contains amount in suspense to settle or receive proceed on business arrangements in places. Businesses under these accounts are Money transfers where the bank acts as an agent.

**AZANIA BANK LIMITED**

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

	<b>2017</b>	<b>2016</b>
	<b>TZS'000</b>	<b>TZS'000</b>
		<b>RESTATED</b>
<b>22. LOANS AND ADVANCES TO CUSTOMERS</b>		
Individual loans		
- Overdrafts	10,222,939	11,838,553
- Personal loans	10,004,556	12,041,970
- Consumer loans	65,250,432	53,330,088
- Mortgage	29,594,048	29,517,071
	<u>115,071,975</u>	<u>106,727,682</u>
Corporate / SMEs		
- Overdrafts	24,376,639	20,060,816
- Term loans	39,926,651	38,400,315
	<u>64,303,290</u>	<u>58,461,131</u>
Staff loans	13,661,350	12,080,947
Interest receivable	10,956,124	5,297,693
Interest in suspense	(6,719,397)	(3,014,723)
	<u>17,898,077</u>	<u>14,363,917</u>
<b>Total loans and advances</b>	<b>197,273,342</b>	<b>179,552,730</b>
Less: Allowances for impairment on loans and advances	(10,569,880)	(10,225,700)
<b>Net loans and advances</b>	<b>186,703,462</b>	<b>169,327,030</b>

**Restatement of financial statements**

The Bank has restated its financial statements for the year ended 31<sup>st</sup> December 2016 in accordance with International Accounting Standard (IAS) 8 - Accounting Policies, Changes in Accounting Estimates and Errors. The restatement arose following identification and rectification of an error in the books of accounts for the year 2016.

The said error developed following generation of interest income on loans which were liquidated before respective maturity period (pre- liquidated). These loans were earlier booked under The Rule 78 in the core banking system and after liquidation they continued generating interest income, as a result interest receivable was overstated by TZS 4,366,839,594 whereas interest income was overstated by TZS 3,961,021,304 and interest in suspense was overstated by TZS 405,818,290. The accumulated loss was understated by TZS 2,772,714,913 whereas the Bank paid corporate income tax amount of TZS 1,188,306,391.

**AZANIA BANK LIMITED**

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

**22. LOANS AND ADVANCES TO CUSTOMERS**

	<b>Specific impairment TZS'000</b>	<b>Portfolio impairment TZS'000</b>	<b>Total impairment TZS'000</b>
<b><u>2017</u></b>			
As at January	9,602,879	622,821	10,225,700
Impairment charge during the year	288,7003	64,297	(344,180)
As at 31 December	<b><u>9,891,582</u></b>	<b><u>687,118</u></b>	<b><u>10,569,880</u></b>
<b><u>2016</u></b>			
As at January	3,583,975	649,648	4,233,623
Increase during the year	7,374,790	(26,827)	7,347,963
Charge off /release during the year	(1,355,886)	-	(1,355,886)
As at 31 December	<b><u>9,602,879</u></b>	<b><u>622,821</u></b>	<b><u>10,225,700</u></b>

**23. AVAILABLE FOR SALE INVESTMENTS**

	<b>2017</b>	<b>2016</b>
TMRC Investment	3,371,380	3,244,000
Umoja Switch	20,000	20,000
	<b><u>3,391,380</u></b>	<b><u>3,264,000</u></b>

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.

**AZANIA BANK LIMITED**

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

**24. PROPERTY AND EQUIPMENT**

	Leasehold improvement TZS'000	Motor Vehicles TZS'000	Furniture & equipment TZS'000	Computers TZS'000	Capital work in progress TZS'000	Total TZS'000
<b>Cost</b>						
As at 1 January 2017	4,916,188	1,008,072	2,945,393	925,526	718,310	10,513,489
Additions	45,397	331,506	214,792	111,094	914,187	1,616,976
Transfer	-	-	-	-	(5,250)	(5,250)
<b>As at 31 December 2017</b>	<b>4,961,585</b>	<b>1,339,578</b>	<b>3,160,185</b>	<b>1,036,620</b>	<b>1,627,247</b>	<b>12,125,215</b>
<b>Accumulated depreciation</b>						
As at 1 January 2017	(1,292,677)	(407,664)	(1,296,781)	(364,746)	-	(3,361,868)
Charge for the year	(497,969)	(218,689)	(569,338)	(198,545)	-	(1,484,541)
<b>As at 31 December 2017</b>	<b>(1,790,646)</b>	<b>(626,353)</b>	<b>(1,866,119)</b>	<b>(563,291)</b>	<b>-</b>	<b>(4,846,409)</b>
<b>Net book value as at 31 December 2017</b>	<b>3,170,939</b>	<b>713,225</b>	<b>1,294,066</b>	<b>473,329</b>	<b>1,627,247</b>	<b>7,278,806</b>
<b>Cost</b>						
As 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)
<b>As at 31 December 2016</b>	<b>4,916,188</b>	<b>1,008,072</b>	<b>2,945,393</b>	<b>925,526</b>	<b>718,310</b>	<b>10,513,489</b>
<b>Accumulated depreciation</b>						
As at 1 January 2016	(810,430)	(239,162)	(632,954)	(265,395)	-	(1,947,941)
Charge for the year	(482,247)	(184,535)	(667,788)	(102,525)	-	(1,437,095)
Disposals	-	16,033	3,961	3,174	-	23,168
<b>As at 31 December 2016</b>	<b>(1,292,677)</b>	<b>(407,664)</b>	<b>(1,296,781)</b>	<b>(364,746)</b>	<b>-</b>	<b>(3,361,868)</b>
<b>Net book value as at 31 December 2016</b>	<b>3,623,511</b>	<b>600,408</b>	<b>1,648,612</b>	<b>560,780</b>	<b>718,310</b>	<b>7,151,621</b>

**AZANIA BANK LIMITED**

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

**25. INTANGIBLE ASSETS**

	2017 TZS'000	2016 TZS'000 RESTATED
<b>Cost</b>		
As at 01 January	2,953,959	2,138,147
Additions during the year	12,626	421,725
Transfer from work in progress	5,250	394,088
<b>As at 31 December</b>	<b><u>2,971,835</u></b>	<b><u>2,953,960</u></b>
<b>Accumulated Amortization</b>		
As at 01 January	2,002,969	1,993,515
Charge for the year	2,745,515	9,454
<b>As at 31 December</b>	<b><u>2,277,484</u></b>	<b><u>2,002,969</u></b>
<b>Net book value as at 31 December</b>	<b><u>694,351</u></b>	<b><u>950,991</u></b>

**26. INCOME TAX LIABILITY /(RECOVERABLE)**

As at 1 January	(1,151,266)	421,262
Charge during the year		
- Current year	904,509	(116,879)
- Prior year	-	180,875
Relocation from other assets	(964,043)	-
Payments during the year	<b><u>(1,210,800)</u></b>	<b><u>(1,636,524)</u></b>
		<b><u>(1,151,266)</u></b>

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**27. DEFERRED TAX ASSET**

Deferred tax is calculated using the enacted tax rate of 30% except for capital gains, for which enacted rate is of 5% is used (2016: 30% and 5%).

Deferred tax asset/liability arises as a result of differences on accounting income against taxable income. The difference arises as a result of differences of accounting principles underlying preparation and presentation of income statements and rules and regulations underlying preparation of taxable income. The deferred tax asset recorded arose as result of accounting loss caused by expenses not allowable for income tax computation. This deferred tax asset will be utilized at a time the disallowable expenses will meet criteria of being recognized as allowable taxable expenses. Some of these expenses are impairment provision on non-performing loans and provisional expenses on staff endowment scheme as well as depreciation expenses on non-current assets.

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

	At 1 <sup>st</sup> January 2017 TZS'000	(Credited)/charged to profit or loss TZS'000	Charge to other comprehensive income TZS'000	At 31st December 2017 TZS'000
<b>Year ended 31st December 2017</b>				
<b>Deferred income tax asset</b>				
Property and equipment	(369,551)	(48,268)	-	(417,819)
	<b>At 1<sup>st</sup> January TZS'000</b>	<b>(Credited)/charged TZS'000</b>	<b>Charge to other Comprehensive Income TZS'000</b>	<b>At 31st December TZS'000</b>
General provisions	(880,109)	(249,159)	-	(630,950)
Provision for loan losses	(2,827,900)	(343,064)	-	(3,170,964)
Defined benefit liability	(132,748)	-	(330,023)	(462,771)
	<b>(4,210,308)</b>	<b>(640,491)</b>	<b>(330,023)</b>	<b>(4,682,504)</b>

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**27. DEFERRED TAX (Continued)**

Year ended 31st December 2017	At 31	At 1st	Impact on	(Credited)/charged	Charge to	At 31st
	December	January				prior
	2016	2017	year	to profit or loss	comprehensive	2017
	TZS'000	TZS'000	adjustments	TZS'000	income	TZS'000
<b>Deferred income tax asset</b>						
Property, plant and equipment	(369,551)	(369,551)	-	(48,268)		(417,819)
General provisions	(880,109)	(150,233)	(729,876)	(168,180)	-	(318,413)
Provision for loan losses	(2,827,900)	(3,067,710)	239,810	(103,254)	-	(3,170,964)
Defined benefit liability	(132,748)	(368,795)	236,047	(93,976)		(462,771)
	(4,210,308)	(3,956,289)	(254,019)	(413,678)	-	(4,369,967)
<b>Other comprehensive income</b>						
Other Comprehensive Income	(373,200)	-	-	-	85,953	(287,247)
<b>Net deferred tax liability/(asset)</b>	<b>(4,583,508)</b>			<b>(413,678)</b>	<b>85,953</b>	<b>(4,657,214)</b>

**AZANIA BANK LIMITED**

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

	<b>2017</b>	<b>2016</b>
	<b>TZS'000</b>	<b>TZS'000</b>
<b>28. OTHER ASSETS</b>		<b>RESTATED</b>
Sundry receivable	1,505,110	324,835
Prepaid expenses	1,669,115	1,451,269
Collection account	94,044	-
Interbank Accounts	(16,767)	-
Provision for sundry receivable	(500,779)	-
	<u><b>2,750,723</b></u>	<u><b>1,776,104</b></u>

Sundry receivable is made of claims the Bank is expecting to receive proceeds in the course of business as well deposits the bank puts forward as it enters in agreement with service providers.

**29. DEPOSITS FROM BANKS**

Fixed deposits	38,556,059	51,330,481
Accrued interest	162,808	177,489
	<u><b>38,718,867</b></u>	<u><b>51,507,970</b></u>

**30. DEPOSITS FROM CUSTOMER**

Current accounts	107,491,147	52,153,429
Savings accounts	85,144,614	80,458,816
Term deposits	72,290,468	96,497,201
Other deposits	6,443,302	7,270,472
	<u><b>271,369,531</b></u>	<u><b>236,379,918</b></u>

**31. REVOLVING CREDIT LINES**

Tanzania Mortgage Refinancing Company (TMRC)	12,000,000	12,000,000
Government Employees Pension Fund (GEPF)	2,500,000	2,500,000
Accrued interest	277,101	287,616
	<u><b>14,777,101</b></u>	<u><b>14,787,616</b></u>

The Bank is holding deposits in form of revolving credit lines from TMRC amounting to TZS 12 billion at 11.5% per annum; the purpose of the facility is to finance residential mortgages and TZS 2.5 billion from GEPF at 14.5% and 15.75%.

**32. CONVERTIBLE LOAN STOCK**

Government Employees Pension Fund	2,000,000	2,000,000
Accrued interest	39,781	39,781
	<u><b>2,039,781</b></u>	<u><b>2,039,781</b></u>

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

<b>2017</b>	<b>2016</b>
<b>TZS'000</b>	<b>TZS'000</b>



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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
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		<b>RESTATED</b>
<b>33. PAYABLES AND ACCRUALS</b>		
Accrued expenses	679,001	602,203
Other liabilities	2,587,208	2,222,161
	<u><b>3,266,209</b></u>	<u><b>2,824,364</b></u>
<b>34. GROUP STAFF ENDOWMENT SCHEME</b>	<u><b>1,956,459</b></u>	<u><b>1,229,317</b></u>

During the year 2017, 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 1,956 million (2016: TZS 1,229 million). The corresponding past service credit was recognised in the profit and loss for year 2017.

**Movement in the Defined Group Staff benefit obligation**

	<b>2017</b>	<b>2016</b>
	<b>TZS'000</b>	<b>TZS'000</b>
		<b>RESTATED</b>
Balance as at 1 January	1,229,317	1,673,969
Included in profit and loss;		
- Current service -cost	120,157	186,011
- Interest cost	193,095	256,482
Total charge to profit and loss	313,252	442,493
Included in other comprehensive income		
- Loss arising in actuarial valuation	413,890	(357,137)
Payments during the year	-	(530,008)
<b>Balance as at 31 December</b>	<u><b>1,956,459</b></u>	<u><b>1,229,317</b></u>

Below are the key assumptions used:

- *Discount rate:* IAS 19 requires the discount rate to be based on the yields available on high quality corporate bonds of appropriate currency and term. The corporate bond market in Tanzania is relatively limited and illiquid. Therefore, the discount rate was based on the yields available on long-term government bonds. The discount rate used for 2017 is 16% p.a (2016: 15%).
- *Salary:* The salary increment is assumed to be in line with long term inflation. The Bank has budgeted a 5% p.a. (2016: 2%) increase in salaries for the year. The government's long term inflation is 5% p.a.
- *Retirement age:* The Bank has used a compulsory retirement age of 60 years.
- *Other demographic assumptions:* The Bank has not made an allowance for retirements or exits before age of 60 years. Members who die before retirement are covered under a separate life assurance policy.

**AZANIA BANK LIMITED**

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

	<b>2017</b>	<b>2016</b>
	<b>TZS'000</b>	<b>TZS'000</b>
		<b>RESTATED</b>
<b>35. SHARE CAPITAL</b>		
<b>AUTHORISED SHARE CAPITAL</b>		
100,000,000 ordinary shares @ 1,000	100,000,000	100,000,000
15,000,000 Convertible loan stock @ 1,000	15,000,000	15,000,000
1,000,000 Non-cumulative Irredeemable preference shares @ 1,000	1,000,000	1,000,000
	<u>116,000,000</u>	<u>116,000,000</u>
<b>ISSUED SHARE CAPITAL</b>		
59,629,954 ordinary shares @ 1,000	59,629,954 <sup>4</sup>	23,637,594
69,444 Non-cumulative irredeemable shares @ 1,000	69,444	69,444
Advance towards Equity	-	3,028,000
	<u>59,699,398</u>	<u>26,735,038</u>
Movement of share capital, defined benefit scheme and other reserves have been presented under Statement of Changes in Equity on page 23.		
<b>36. SHARE PREMIUM</b>		
On shares issued	-	6,745,860
	<u>-</u>	<u>6,745,860</u>
The share premium arose in 2013 on issue of 10,798,235 shares.		
<b>37. REVALUATION RESERVE</b>		
As at 1 January	367,890	367,890
Realized gain on disposal of revalued assets	(2,942)	-
	<u>364,948</u>	<u>367,890</u>

<sup>4</sup> During the year the Bank received fresh capital of TZS 26,219 million (2016: TZS 3,028 million). All receipts (for year 2017 and 2016) were registered as ordinary share capital. Furthermore, the share premiums of TZS 6,745 million which were allocated in year 2013 were registered as ordinary share capital in year 2017.

**AZANIA BANK LIMITED**

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

**38. REGULATORY RESERVE**

	<b>Specific TZS'000</b>	<b>General TZS'000</b>	<b>Total TZS'000</b>
As at 1 January 2017	3,397,430	1,503,254	4,900,684
Appropriation from /(to) retained earnings	698,521	189,782	888,303
<b>As at 31 December 2017</b>	<b><u>4,095,951</u></b>	<b><u>1,693,036</u></b>	<b><u>5,788,987</u></b>
As at 1 January 2016	4,098,764	1,773,141	5,871,905
Appropriation from /(to) retained earnings	(701,334)	(269,887)	(971,221)
<b>As at 31 December 2016</b>	<b><u>3,397,430</u></b>	<b><u>1,503,254</u></b>	<b><u>4,900,684</u></b>

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.

<b>39. CASH AND CASH EQUIVALENT</b>	<b>2017 TZS '000</b>	<b>2016 TZS '000 RESTATED</b>
Cash balances	25,962,159	17,104,820
Foreign exchange gain/(loss)	218,424	94,788
Balances with Bank of Tanzania	3,853,703	1,848,704
Balances with other banks (maturities of 3 months or less)	41,428,268	49,678,609
Treasury bills maturing less than 3 months	22,653,841	13,663,252
	<b><u>94,116,396</u></b>	<b><u>82,390,173</u></b>

**40. CAPITAL MANAGEMENT**

The Bank's objectives on managing capital go beyond the concept of equity. These objectives are:

- To comply with the capital requirements set by the Regulator of the banking industry in which the Bank operates;
- 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.

## AZANIA BANK LIMITED

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

#### 40. CAPITAL MANAGEMENT (Continued)

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, while 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 15,000 million, 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 and capital market department is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings, other than reserves established to cushion the anticipated loss resulted from non-performing loans. 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 Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized in addition to recognizing the need to maintain a balance between the higher returns and that may be possible with greater gearing and the advantages and security afforded by sound capital position

The table below summarises the composition of regulatory capital and the ratios of the bank for the year ended 31 December 2017 and year ended 31 December 2016. During the year under review, the Bank complied with the capital adequacy ratio, and the single borrowers limit.

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

**40. CAPITAL ADEQUACY**

	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>TZS'000</b>	<b>TZS'000</b>	<b>TZS'000</b>
		<b>RESTATED</b>	<b>1 JANUARY</b>
Ordinary share capital	59,629,954	23,637,594	23,707,038
Preference share capital	69,444	69,444	
Advance towards capital	-	3,028,000	3,028,000
Share premium	-	6,745,860	6,745,860
Accumulated losses	(8,892,717)	(9,812,203)	(8,155,383)
	<b>50,806,681</b>	<b>23,668,695</b>	<b>25,325,515</b>
<b>Less</b>			
Prepayments	(1,669,115)	(1,451,269)	(1,451,269)
Intangible assets	(694,351)	(950,991)	(950,991)
Deferred charges	(4,657,214)	(4,201,278)	(4,201,278)
<b>Total core capital</b>	<b>43,786,001</b>	<b>17,065,157</b>	<b>18,721,977</b>
<b>Subordinated debts</b>	<b>2,039,781</b>	<b>2,039,781</b>	<b>2,039,781</b>
<b>General provisions</b>	<b>1,693,036</b>	<b>1,503,254</b>	<b>1,503,254</b>
<b>Tier 2 capital</b>	<b>3,732,817</b>	<b>3,543,035</b>	<b>3,543,035</b>
<b>Total capital</b>	<b>47,518,818</b>	<b>20,608,192</b>	<b>24,166,994</b>
<b>Total risk weighted assets</b>	<b>226,469,994</b>	<b>206,981,521</b>	<b>206,981,521</b>
Core capital ratio	<b>19.33%</b>	<b>8.24%</b>	<b>9.96%</b>
Total capital ratio	<b>20.98%</b>	<b>9.96%</b>	<b>11.68%</b>

**41. 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:

**AZANIA BANK LIMITED**

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

**41. RELATED PARTY TRANSACTIONS (Continued)**

**(a) Deposit liabilities from related parties**

	<b>2017 TZS'000</b>	<b>2016 TZS'000 RESTATED</b>
National Social Security Fund (NSSF)	50,125,562	11,636,309
Parastatal Pension Fund (PPF)	3,911,918	6,851,352
	<u><b>54,037,480</b></u>	<u><b>18,487,661</b></u>

**(b) Loans from related parties**

Government Employees Pension Fund (GEPF)	<u>2,000,000</u>	<u>2,000,000</u>
	<u><b>2,000,000</b></u>	<u><b>2,000,000</b></u>

**(c) Loans to key management personnel**

As at 1 January	549,684	265,723
New loans issued during the year	906,924	496,212
Repayments during the year	(256,510)	(212,251)
	<u><b>1,200,098</b></u>	<u><b>549,684</b></u>

**(d) Key management personnel compensation**

Salaries and other short-term benefits	1,328,456	1,107,047
Directors' fees	70,494	53,947
	<u><b>1,398,950</b></u>	<u><b>1,160,994</b></u>

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 was 8% for all staff loans until December 2017 where the interest rate was revised downward to 5%. Exception is on Education loans which are interest free.

## AZANIA BANK LIMITED

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

#### 42. FAIR VALUE MEASUREMENTS

##### *Valuation methodology*

The Bank establishes fair value for held to maturity financial assets using valuation technique that takes into account discount and interest earned at the reporting date. The current market information is available on the Bank of Tanzania website for market interest rates on loans and advances, deposits and borrowings.

The Bank establishes fair value of available for sale financial assets based on the share prices of unquoted equity shares available from the issuer of the equity instrument at the reporting date. Fair values of held for trading financial assets are established based on prices/market information of such instrument available on Dar es Salaam Stock Exchange website at the reporting date.

##### *Fair value hierarchy*

IFRS 13 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 that the entity can access at the measurement date. 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, interest and yield curves) or indirectly (that is, derived from prices Central Bank Auction prices for Government securities); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs to valuation techniques).

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 are a reasonable approximation of fair values because of the short term nature of the financial assets and financial liabilities or they re-priced in the short run.

**AZANIA BANK LIMITED**

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

**42. FAIR VALUE MEASUREMENTS (CONTINUED)**

**42.1 Fair value of financial assets and liabilities (Continued)**

	Held to maturity	Loans and receivables	Other amortised cost	Total carrying amount	Level 1	Level 2	Level 3	Total
At 31 December 2017	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Financial assets								
Cash and balances with Bank of Tanzania	-	-	-	-	-	-	-	-
Placements with other banks	-	-	57,690,007	57,690,007	-	57,690,007	-	57,690,007
Available for sale investments	3,391,380	-	-	3,391,380	-	3,391,380	-	3,391,380
Government Investments Held to maturity	77,614,959	-	-	77,614,959	-	77,614,959	-	77,614,959
Loans and advances to customers (net)	-	186,703,462	-	186,703,462	-	186,703,462	-	186,703,462
<b>Total financial assets</b>	<b>81,006,339</b>	<b>186,703,462</b>	<b>57,690,007</b>	<b>325,399,808</b>	<b>-</b>	<b>325,399,808</b>	<b>-</b>	<b>325,399,808</b>
Financial liabilities								
Deposits from other banks	-	-	38,718,867	38,718,867	-	38,718,867	-	38,718,867
Deposits from customers	-	-	271,369,531	271,369,531	-	271,369,531	-	271,369,531
Items in the course of collection	-	-	-	-	-	-	-	-
Other Liabilities	-	-	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>310,088,398</b>	<b>310,088,398</b>	<b>-</b>	<b>310,088,398</b>	<b>-</b>	<b>310,088,398</b>



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

**42. FAIR VALUE MEASUREMENTS (CONTINUED)**

**42.1 Fair value of financial assets and liabilities (continued)**

At 31 December 2016	Total carrying amount TZS '000	Level 1 TZS '000	Level 2 TZS'000	Level 3 TZS '000	Total TZS '000
Financial assets					
Cash and balances with Bank of Tanzania	-	-	-	-	-
Placements with other banks	51,862,039	-	51,862,039	-	51,862,039
Government Securities held to maturity	48,747,840	-	48,747,840	-	48,747,840
Loans and advances to customers (net)	169,727,957	-	-	169,727,957	169,727,957
Available for sale investments	3,264,000	-	3,264,000	-	3,264,000
<b>Total financial assets</b>	<b>273,601,836</b>	<b>-</b>	<b>103,873,879</b>	<b>169,727,957</b>	<b>273,601,836</b>
Financial liabilities					
Deposits from other banks	51,507,970	-	51,507,970	-	51,507,970
Deposits from customers	236,379,918	-	236,379,918	-	236,379,918
Revolving line of Credit	14,787,616	-	14,787,616	-	14,787,616
Payables and Accruals	-	-	-	-	-
<b>Total financial liabilities</b>	<b>302,675,504</b>	<b>-</b>	<b>302,675,504</b>	<b>-</b>	<b>302,675,504</b>

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

**43. FINANCIAL RISK MANAGEMENT**

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk, market and operational risks. The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management frame work. The Board is ultimately responsible for all risks taken by the Bank. Furthermore, the Board puts in place 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,
- Market risk
- Liquidity risk and
- Operational risk.

These risks are explained in the following paragraphs.

**43.1 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. Having clear understanding of the credit risk the Bank manages at management level by having subcommittee responsible to manage loan portfolio of the Bank. Furthermore, the Board of Directors has specific committee for overseeing all credit process.

**43.1.1 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 judgment. They are validated, where appropriate, by comparison with externally available data. The Bank's rating method comprises 5 rating levels for loans.

## AZANIA BANK LIMITED

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

#### 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 43.1 Credit risk (Continued)

##### 43.1.2 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.

##### 43.1.3 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.

**AZANIA BANK LIMITED**

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

**43 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**43.1 Credit risk (Continued)**

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

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.

<b>Bank's rating</b>	<b>31-Dec-17 Credit risk exposure (%)</b>	<b>Impairment allowance</b>	<b>31-Dec-16 Credit risk exposure</b>	<b>Impairment allowance (%)</b>
1. Current	82.22%	0.00%	81.92	0%
2. Special monitoring	5.06%	0.34%	4.95	0.34%
3. Sub-standard	4.29%	1.83%	5.54	2.17%
4. Doubtful	3.93%	1.31%	2.85	0.90%
5. Loss	4.5%	1.88%	4.74	2.15%
	<b>100%</b>	<b>5.36%</b>	<b>100</b>	<b>5.56%</b>

The directors are confident to have 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 in the foreseeable future. Basing on the available credit risk grading criteria, actual results as at 31st December 2017 were as follows:

- 87.29% of the loans and advances portfolio was categorised in the top two grades of the internal rating system (2016: 86.90); and
- 82.22% of the loans and advances to customers are considered to be performing which are neither past due nor impaired (2016: 81.92%).

**AZANIA BANK LIMITED**

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

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**43.1 Credit risk (Continued)**

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

	<b>2017</b>	<b>2016</b>		
	<b>Loan and Advances to Customers</b>	<b>Loan and Advances to Banks</b>	<b>Loan and Advances to Customers</b>	<b>Loan and Advances to Banks</b>
Neither past due nor impaired	163,342,268	57,690,007	146,364,347	51,862,039
Past due but not impaired	8,851,945	-	9,085,514	-
Impaired	25,079,129	-	24,102,869	-
<b>Gross loans and advances</b>	<b>197,273,342</b>	<b>57,690,007</b>	<b>179,552,730</b>	<b>51,862,039</b>
Less: allowance for impairment	(10,569,880)	(500,00)	(10,225,700)	-
<b>Net loans and advances</b>	<b>186,703,462</b>	<b>57,190,007</b>	<b>169,327,030</b>	<b>51,862,039</b>
Portfolio allowance	678,298	-	622,821	-
Individually impaired	9,891,582	(500,00)	9,602,879	-
<b>Total allowance</b>	<b>10,569,880</b>	<b>(500,00)</b>	<b>10,225,700</b>	<b>-</b>

**AZANIA BANK LIMITED**

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

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**43.1 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			
	Overdraft	Term loans	Overdraft	Term loan		
<b>31 December 2017</b>						
<b>Grades</b>						
Standard (current)	13,316,330	112,142,860	15,275,982	22,286,215	163,021,387	57,690,007
Especially mentioned	266,228	7,416,805	421,695	1,068,094	9,172,823	-
<b>Total</b>	<b>13,582,558</b>	<b>119,559,665</b>	<b>15,697,677</b>	<b>23,354,309</b>	<b>172,194,210</b>	<b>57,690,007</b>
<b>31 December 2016</b>						
<b>Grades</b>						
Standard (current)	8,428,557	76,757,763	14,351,327	47,216,833	146,754,480	51,862,039
Especially mentioned	356,636	9,382,027	607,245	1,739,606	9,085,514	-
<b>Total</b>	<b>8,785,193</b>	<b>86,139,790</b>	<b>14,958,572</b>	<b>48,956,439</b>	<b>155,839,994</b>	<b>51,862,039</b>

**AZANIA BANK LIMITED**

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

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**43.1 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		Total TZS'000
	Overdrafts TZS'000	Term loans TZS'000	Overdrafts TZS'000	Term loans TZS'000	
<b>31 December 2017</b>					
Past due up to 30 days	222,952	1,646,293	-	-	1,869,245
Past due 30 - 60 days	580,582	51,483	421,695	1,068,094	2,121,855
Past due 60 - 90 days	-	4,860,845	-	-	4,860,845
<b>Total</b>	<b>803,534</b>	<b>6,558,622</b>	<b>421,695</b>	<b>1,068,094</b>	<b>8,851,945</b>
<b>31 December 2016</b>					
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	3,225,063
<b>Total</b>	<b>356,636</b>	<b>9,382,027</b>	<b>607,245</b>	<b>2,739,606</b>	<b>9,085,514</b>

**AZANIA BANK LIMITED**

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

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**43.1 Credit risk (Continued)**

**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 2017. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counter parties.

	<b>Tanzania</b>	<b>Europe</b>	<b>America</b>	<b>Others</b>	<b>Total</b>
	<b>TZS 000</b>	<b>TZS 000</b>	<b>TZS 000</b>	<b>TZS 000</b>	<b>TZS '000</b>
Amounts due from banks	54,113,708	936,425	2,621,887	17,987	57,690,007
Held to Maturity Investments	77,614,959	-	-	-	77,614,959
Loans and advances to customers:					
Loans to individuals - Overdrafts	10,222,939	-	-	-	10,222,939
Loans to individuals - Term loans	118,510,386	-	-	-	118,510,386
Loans to corporate - Overdraft	24,376,639	-	-	-	24,376,639
Loans to corporate - Term loans	39,926,651	-	-	-	39,926,651
Available for Sale Investments	3,391,380	-	-	-	3,391,380
Other assets*	15,829,949	-	-	-	15,829,949
<b>As at 31 December 2017</b>	<b>344,748,557</b>	<b>936,425</b>	<b>2,621,887</b>	<b>17,987</b>	<b>348,324,856</b>

\*Other assets includes non-financial instruments



**AZANIA BANK LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017****43. FINANCIAL RISK MANAGEMENT (CONTINUED)****43.1 Credit risk (Continued)****(a) Geographical sectors (Continued)****Concentration of risks of financial assets with credit risk exposure****31 December 2016**

	<b>Tanzania TZS 000</b>	<b>Europe TZS 000</b>	<b>America TZS 000</b>	<b>Others TZS 000</b>	<b>Total TZS '000</b>
Amounts due from banks	54,525,081	1,597,176	142,606	-	50,264,863
Held to Maturity Investments	48,747,840	-	-	-	48,747,840
Loans and advances to customers:					
Loans to individuals - Overdrafts	11,838,553	-	-	-	11,838,553
Loans to individuals- Term loans	94,889,129	-	-	-	94,889,129
Loans to corporate entities- Overdraft	20,060,816	-	-	-	20,060,816
Loans to corporate entities- Term loans	38,400,315	-	-	-	38,400,315
Available for Sale Investments	3,264,000	-	-	-	3,264,000
Other assets	15,359,471	-	-	-	15,359,471
<b>As at 31 December 2016</b>	<b>281,085,205</b>	<b>1,597,176</b>	<b>142,606</b>	<b>-</b>	<b>282,824,987</b>

**AZANIA BANK LIMITED**

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

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**43.1 Credit risk (continued)**

**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.

**Sectorial classification-2017**

	Financial institutions TZS'000	Manufacturing TZS'000	Trading and commercial TZS'000	Transport and communication TZS'000	Government TZS'000	Individuals TZS'000	Others TZS'000	Total TZS'000
Loans and advances to banks	57,690,007	-	-	-	-	-	-	57,690,007
Government Investments Held to maturity	-	-	-	-	77,614,959	-	-	77,614,959
Loans to Individuals -Overdrafts	-	-	-	-	-	10,222,939	-	10,222,939
Loans to Individuals -Term loans	-	-	-	-	-	118,510,386	-	118,510,386
Loans to Corporate entities -Overdrafts	-	-	24,376,639	-	-	-	-	24,376,639
Loans to Corporate entities -Term loans	-	6,516,453	27,993,034	5,073,494	-	-	343,670	39,926,651
Available for Sale Investments	3,391,380	-	-	-	-	-	-	3,391,380
Other assets	-	-	-	-	-	-	16,591,895	16,591,895
<b>As at 31 December 2017</b>	<b>61,081,387</b>	<b>6,516,453</b>	<b>52,369,673</b>	<b>5,073,494</b>	<b>77,614,959</b>	<b>128,733,325</b>	<b>16,935,565</b>	<b>348,324,856</b>

**AZANIA BANK LIMITED**

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

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**43.1 Credit risk (continued)**

**Concentration of risks of financial assets with credit risk exposure**

(c) *Industry sectors*

	Financial institutions TZS'000	Manufacturing TZS'000	Trading and commercial TZS'000	Transport and communication TZS'000	Government TZS'000	Individuals TZS'000	Others TZS'000	Total TZS'000
Loans to banks	51,862,039	-	-	-	-	-	-	51,862,039
Government Investments Held to Maturity	-	-	-	-	48,747,840	-	-	48,747,840
Loans to Individuals -Overdrafts	-	-	-	-	-	11,838,553	-	11,838,553
Loans to individuals- Term loans	-	-	-	-	-	106,970,076	-	106,970,076
Loans to corporate entities- Overdraft	-	-	20,060,816	-	-	-	-	20,060,816
Loans to corporate entities- Term loans	-	1,443,518	33,615,451	2,385,762	-	-	955,584	38,400,315
Available for Sale Investments	3,264,000	-	-	-	-	-	-	3,264,000
Other assets	-	-	-	-	-	-	15,359,471	15,359,471
<b>At 31 December 2016</b>	<b>55,126,039</b>	<b>1,443,518</b>	<b>53,676,267</b>	<b>2,385,762</b>	<b>48,747,840</b>	<b>106,727,682</b>	<b>16,315,055</b>	<b>308,043,420</b>

## **AZANIA BANK LIMITED**

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

#### **43. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **43.2 Market risk**

Market risk is the risk where the 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 monitored regularly in the bank's treasury and capital market department. The Bank has Assets and Liabilities Management Committees that is entrusted with mandate to manage market risk with at least quarterly reports being submitted to the Board of Directors for deliberation and guidance.

##### **43.2.1 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 2017. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

AZANIA BANK LIMITED

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

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.2 Market risk (Continued)

43.2.1 Foreign exchange risk (Continued)

At 31 December 2017	TZS	USD	GBP	EURO	Others	Total
<b>Assets</b>						
Cash and balances with Bank of Tanzania	33,548,795	14,199,172	13,025	255,839	270	48,017,101
Loans and advances to banks	29,491,293	24,995,018	556,812	2,586,946	59,938	57,690,007
Government Investments Held to maturity	77,614,959	-	-	-	-	77,614,959
Loans and advances to customers	171,949,553	14,665,466	-	88,443	-	186,703,462
Available for Sale Investments	3,391,380	-	-	-	-	3,391,380
Other assets	9,061,048	154,248	171	349	-	9,215,816
<b>Total assets</b>	<b>325,057,028</b>	<b>54,013,904</b>	<b>570,008</b>	<b>2,931,577</b>	<b>60,208</b>	<b>382,632,725</b>
<b>Liabilities</b>						
Deposits from banks	14,713,566	22,617,158	451,718	936,425	-	38,718,867
Revolving credit lines	240,137,771	29,016,063	92,656	2,123,039	2	271,369,531
Convertible loan stock	14,777,101	-	-	-	-	14,777,101
Other liabilities	2,039,781	-	-	-	-	2,039,781
<b>Total liabilities</b>	<b>1,298,678</b>	<b>3,877,114</b>	<b>3,801</b>	<b>1,819</b>	<b>41,256</b>	<b>5,222,668</b>
	<b>272,966,897</b>	<b>55,510,335</b>	<b>548,175</b>	<b>3,061,283</b>	<b>41,258</b>	<b>332,127,948</b>
<b>Net balance sheet position</b>	<b>52,090,131</b>	<b>(1,496,431)</b>	<b>21,833</b>	<b>(129,706)</b>	<b>18,950</b>	<b>50,504,777</b>
<b>Credit commitments</b>	<b>15,861,309</b>	-	-	-	-	<b>15,861,309</b>

**AZANIA BANK LIMITED**

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

**43 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**43.2 Market risk (Continued)**

**43.2.1 Foreign exchange risk (Continued)**

<b>At 31 December 2016</b>	<b>TZS</b>	<b>USD</b>	<b>GBP</b>	<b>EURO</b>	<b>Others</b>	<b>Total</b>
<b>Assets</b>						
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
Government Investments Held to maturity	48,747,840	-	-	-	-	48,747,840
Loans and advances to customers	150,372,652	18,833,481	-	120,897	-	169,327,030
Available for Sale Investments	3,264,000	-	-	-	-	3,264,000
Other assets	17,666,824	212,399	-	678	-	17,879,901
<b>Total assets</b>	<b>283,814,684</b>	<b>52,953,989</b>	<b>352,623</b>	<b>4,226,027</b>	<b>137</b>	<b>341,347,460</b>
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>252,329,213</b>	<b>53,753,900</b>	<b>351,113</b>	<b>4,107,230</b>	<b>1</b>	<b>310,541,457</b>
<b>Net balance sheet position</b>	<b>31,485,471</b>	<b>(799,911)</b>	<b>1,510</b>	<b>118,797</b>	<b>136</b>	<b>30,806,003</b>
<b>Credit commitments</b>	<b>12,033,711</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,033,711</b>

**AZANIA BANK LIMITED**

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

**43 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**43.2 Market risk (Continued)**

**43.2.1 Foreign exchange risk (Continued)**

**Sensitivity analysis**

As at 31 December 2017, the Bank had significant exposures on United States dollars and Euro.

DESCRIPTION	2017		2016	
	USD	EUR	USD	EUR
Exchange rate at 31 December				
Assets	2,241	2,676	2,183	2,282
Liabilities	24,098	1,096	24,253	1,852
Net balance sheet position	24,777	1,144	24,619	1,800
	(679)	(48)	(366)	52
Rate depreciated by 10%	224	268	218	228
Profit/(Loss )-TZS	(152,253)	(12,971)	(79,991)	11,880
Rate appreciated by 10%	(224)	(268)	(218)	(228)
Profit/(Loss )-TZS	152,253	12,971	79,991	(11,880)

If Tanzanian Shillings had weakened/strengthened by 10% against United States dollar with all variables held constant, the pre-tax profit would have been higher/lower by TZS 152 million (2016: loss of TZS 80 million).

If Tanzanian Shillings had weakened/strengthened by 10% against EURO, with all variables held constant, the pre-tax profit would have been lower/higher by TZS 13 million (2016: profit higher/lower by TZS 12 million).

**43.2.2 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.

AZANIA BANK LIMITED

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

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.2 Market risk (Continued)

43.2.2 Interest rate risk (continued)

At 31 December 2017	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
<b>Assets</b>						
Cash and balances with Bank of Tanzania	-	-	-	-	48,017,101	48,017,101
Loans to banks	28,829,454	11,001,933	3,000,000	-	14,858,620	57,690,007
Government Investments Held to Maturity	2,296,832	25,357,009	24,392,986	21,267,058	4,301,074	77,614,959
Loans and advances to customers Available for sale investments	21,658,955	3,943,290	45,519,613	92,741,364	22,840,240	186,703,462
Other assets	-	-	-	-	3,391,380	3,391,380
<b>Total assets</b>	<b>52,785,241</b>	<b>40,302,232</b>	<b>72,912,599</b>	<b>114,008,422</b>	<b>110,000,310</b>	<b>390,008,804</b>
<b>Liabilities</b>						
Deposits from banks	14,817,339	15,997,257	7,741,463	-	368,994	38,718,867
Deposits from customers	199,879,360	23,633,866	39,326,211	8,530,095	-	271,369,531
Revolving credit lines	-	14,500,000	-	-	277,101	14,777,101
Convertible loan stock	39,781	-	-	2,000,000	-	2,039,781
Accounts payable and accruals	-	-	-	-	5,222,668	5,222,668
<b>Total liabilities</b>	<b>214,696,699</b>	<b>54,131,123</b>	<b>47,067,673</b>	<b>10,548,780</b>	<b>5,908,544</b>	<b>332,127,948</b>
<b>Interest repricing gap</b>	<b>(161,911,458)</b>	<b>(13,828,891)</b>	<b>25,844,926</b>	<b>103,459,649</b>	<b>104,091,766</b>	<b>57,880,856</b>



AZANIA BANK LIMITED

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

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.2 Market risk (Continued)

43.2.2 Interest rate risk (continued)

At 31 December 2016	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
<b>Assets</b>						
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
Government Investments Held to Maturity	463,485	17,039,486	16,825,684	10,740,000	3,679,185	48,747,840
Loans and advances to customers Available for sale investments	6,710,448	13,420,896	60,394,032	64,698,785	24,102,869	169,327,030
Other assets	-	-	-	-	3,264,000	3,264,000
<b>Total assets</b>	<b>42,428,549</b>	<b>37,010,672</b>	<b>79,403,146</b>	<b>75,438,785</b>	<b>104,545,878</b>	<b>338,827,030</b>
<b>Liabilities</b>						
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	-	-	39,781	2,000,000	-	2,039,781
Accounts payable and other liabilities	-	-	-	-	4,053,681	4,053,681
<b>Total liabilities</b>	<b>59,326,501</b>	<b>43,541,673</b>	<b>44,996,720</b>	<b>94,483,816</b>	<b>66,420,256</b>	<b>308,768,966</b>
<b>Interest repricing gap</b>	<b>(16,897,952)</b>	<b>(6,531,001)</b>	<b>34,406,426</b>	<b>(19,045,031)</b>	<b>38,125,622</b>	<b>30,058,064</b>

## AZANIA BANK LIMITED

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

#### 43. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 43.2 Market risk (continued)

##### 43.2.2 Interest rate risk (continued)

###### • Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, if there was an increase of interest rates by 2% the bank's profitability would be reduced by TZS 623 million (2016: TZS 40 million) due to increase in annual interest expenses. The impact of this increase on capital of the bank is reduction by TZS 436 million (2016: TZS 28 million). However, with the core capital of TZS 43,786 million (see note 40) the amounts are not expected to significantly impair the ability of the Bank to operate profitably.

	2017 TZS000	2016 TZS000
Assets re-pricing after 6 months	80,286,350	81,259,447
Liabilities re-pricing after 6 months	142,571,209	85,251,089
<b>Interest rate Gap</b>	<b>(62,284,859)</b>	<b>(3,991,642)</b>
Impact of interest rate rise by additional 2%	(622,849)	(39,916)
Impact in Capital	(435,994)	(27,941)

##### 43.3 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.

###### 43.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate Treasury and Capital Market 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.

**AZANIA BANK LIMITED**

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

**43. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**43.3 Liquidity risk (Continued)**

**43.3.2 Funding approach (Continued)**

At 31 December 2017		1-3 months	3-6 months	6- 12 months	1-5 years	More than 5 years	Total
Assets		TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cash and balances with Bank of Tanzania		30,034,286	-	-	17,982,815	-	48,017,101
Loans and advances to banks		28,829,454	11,001,933	3,000,000	-	14,858,620	57,690,007
Loans and advances to customers		21,658,955	3,943,290	45,519,613	92,741,364	22,840,240	186,703,462
Investments		2,296,832	25,357,009	24,392,986	21,267,058	4,301,074	77,614,959
Other assets		1,505,110	-	-	-	15,086,785	16,591,895
<b>Total financial assets</b>		<b>84,324,637</b>	<b>40,302,232</b>	<b>72,912,599</b>	<b>131,991,237</b>	<b>57,086,719</b>	<b>386,617,424</b>
Deposits from banks		14,817,339	15,997,257	-	-	-	38,718,867
Deposits from customers		199,879,360	23,633,866	39,326,211	8,530,095	-	271,369,531
Revolving credit lines		-	14,500,000	-	-	277,101	14,777,101
Convertible loan stock		39,781	-	-	2,000,000	-	2,039,781
Accounts payables and Accruals		-	-	-	-	1,956,459	1,956,459
<b>Total financial liabilities</b>		<b>214,736,480</b>	<b>54,131,123</b>	<b>39,326,211</b>	<b>10,530,095</b>	<b>2,233,560</b>	<b>328,861,739</b>
<b>Net liquidity gap</b>		<b>(130,411,842)</b>	<b>(13,828,891)</b>	<b>33,586,389</b>	<b>121,442,457</b>	<b>54,832,063</b>	<b>57,755,685</b>

**AZANIA BANK LIMITED**

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

**44. CONTINGENT LIABILITIES AND COMMITMENTS**

**a) Loan commitment, guarantees and other facilities**

At 31 December 2017, the bank had the contractual amount of the off Statement of Financial Position financial instruments that commit it to extend credit to customers, guarantees and letters of credit as follows:

As at 31 December 2017	No later than 1 year TZS 000	1-5 years TZS 000	Over 5 years TZS 000	Total TZS 000
Loan commitments	6,108,993	-	-	6,108,993
Letters of credit and guarantees	9,001,502	-	-	9,001,502
<b>Total</b>	<b>15,110,495</b>	<b>-</b>	<b>-</b>	<b>15,110,495</b>
As at 31 December 2016				
Loan commitments	6,440,367	-	-	6,440,367
Letters of credit and guarantees	5,593,344	-	-	5,593,344
<b>Total</b>	<b>12,033,711</b>	<b>-</b>	<b>-</b>	<b>12,033,711</b>

**b) Legal claims contingency**

As at 31 December 2017, 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:

	2017 TZS'000	2016 TZS'000
No later than one year	2,166,158	2,431,833
Later than one year and no later than five years	5,109,954	9,726,532
Later than five years	974,543	9,726,532
	<b>8,250,655</b>	<b>14,838,305</b>

**d) Capital commitments**

	2017 TZS '000	2016 TZS 000
The Bank has capital expenditure approved but not contracted for	2,150,000	1,360,000

**45. SUBSEQUENT EVENTS**

In the opinion of the Directors, there were no events after 31 December 2017 which requires an adjustment in the financial statements apart from placements made to banks whose licenses were revoked by the Bank of Tanzania (2016: Restated financial statements due to an error on the interest income).

**46. COMPARATIVES**

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