AKIBA COMMERCIAL BANK PLC

benki kwa maendeleo yako

ANNUAL REPORT & FINANCIAL STATEMENTS 2014

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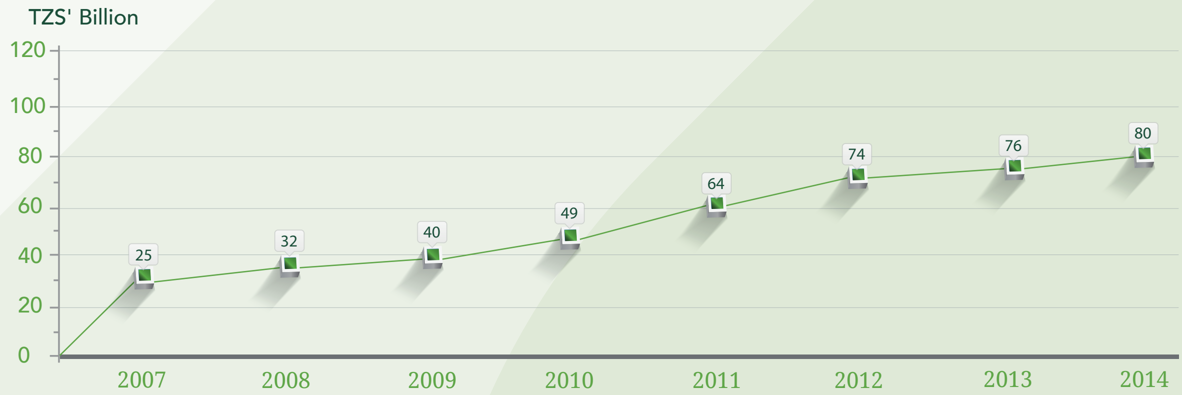

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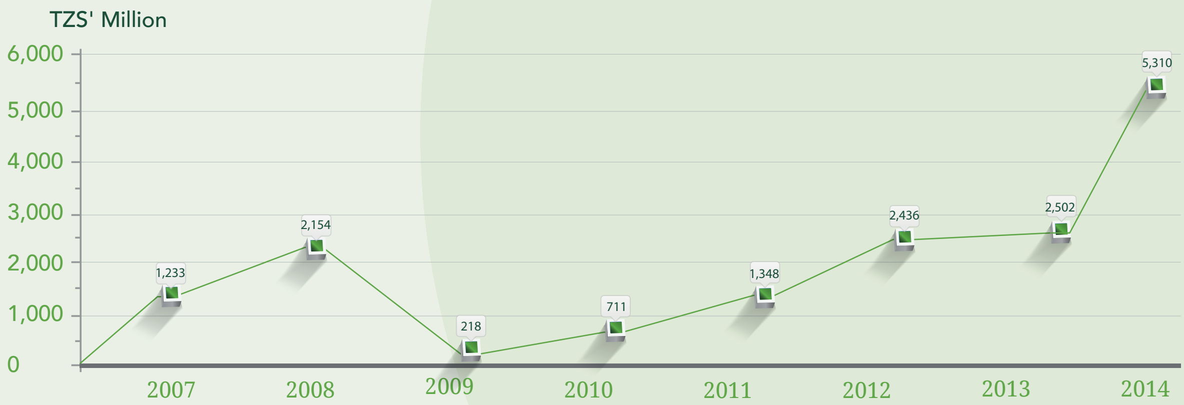

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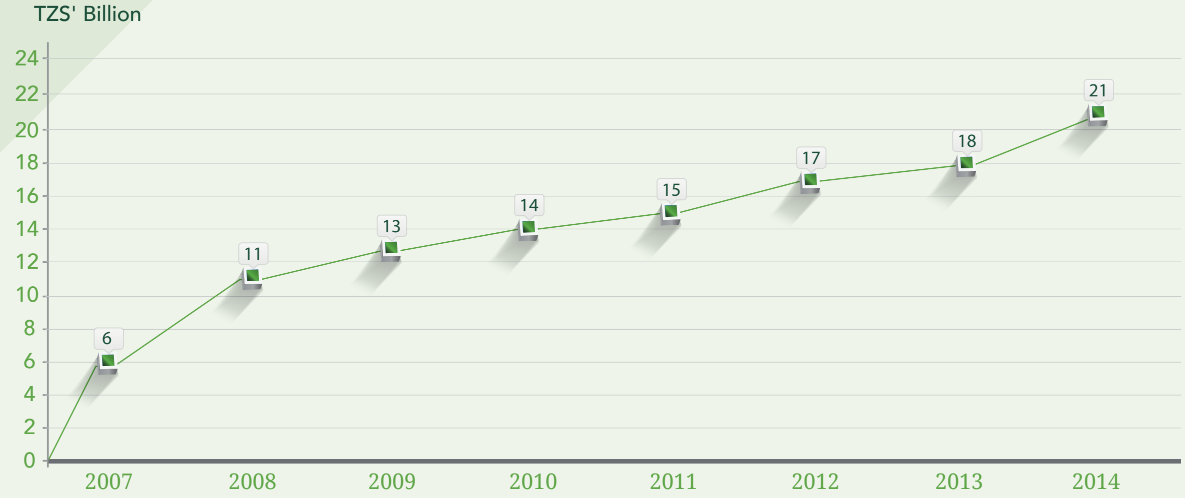

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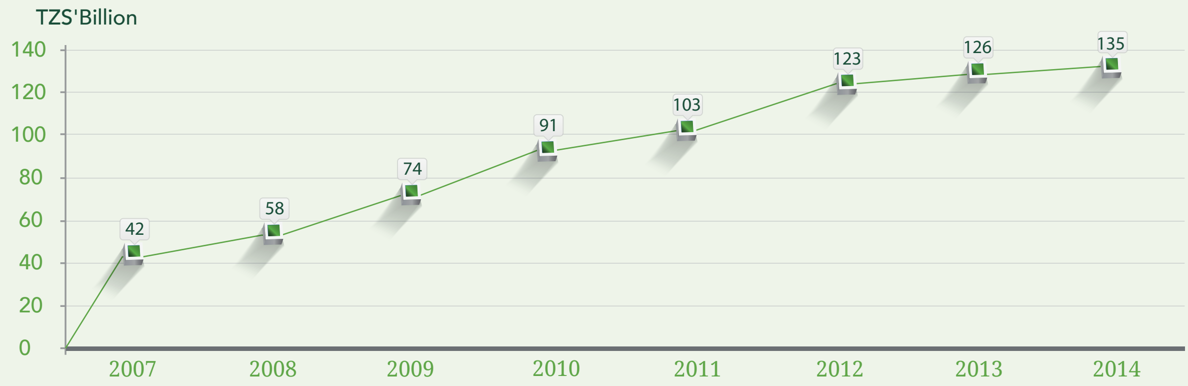

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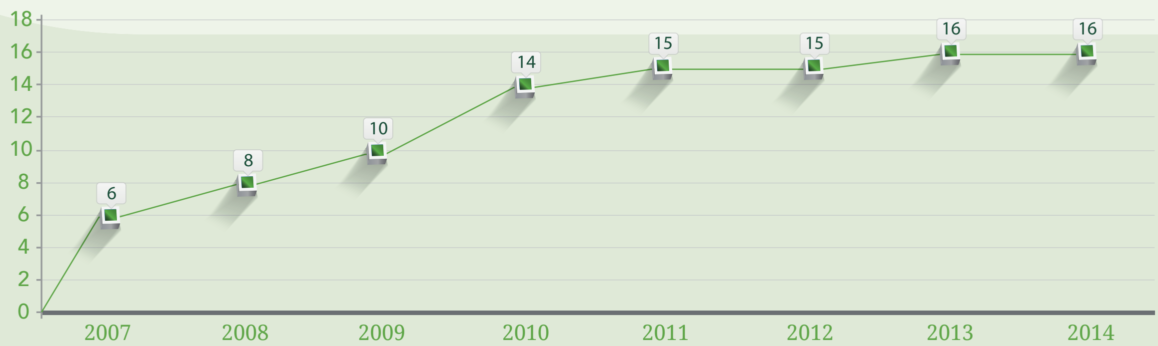


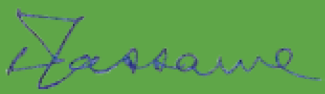
03 Letter of Transmittal

Mr. Ernest Massawe
Chairman

Dear Shareholders,

It is my pleasure, on behalf of Board of Directors, to present to you the Bank's Annual Report for the year 2014. The report contains the Audited Financial Statements, major events that happened during the year, achievements and future business prospects for the bank. It is my hope that this report will meet your approval.

Yours faithfully,



Ernest Massawe
Chairman
Akiba Commercial Bank Plc

Senior Management Team

Our Vision

The Tanzanian bank of choice for micro, small and medium enterprises and working families.

Our Mission

To provide a holistic range of innovative, customized banking solutions to Tanzanian micro, small and medium enterprises and households in the most efficient and sustainable manner embracing the social and environmental interests of its stakeholders.

Akiba Commercial Bank Plc (ACB) commenced banking operations in August 1997 as an initiative of Tanzanian entrepreneurs who were inspired overall to move into microfinance, by the moral and economical concern for the plight of Tanzanians. These founder members were bound together by a strong conviction that in Akiba, they would have the vehicle with which they would reach and touch the lives of previously un-banked and commercially underserved men and women of Tanzania. The group's mission and vision was to support the emergence of down to earth Tanzanian businesses through the provision of financial services at all levels, by a Tanzanian-owned commercial bank, which understood Tanzanians and was committed to Tanzania. This was the original, very firm and deep rooted vision of founder members of Akiba.

In order to strengthen the resource base of the bank, the founder members over time invited like-minded local institutional investors namely, Inter-consult Ltd, PPF, TDFL, and NIC, and foreign institutions such as Triodos Hivos, Triodos Fonds, FMO, Rabo Bank, (all of The Netherlands), SIDI of France, and INCOFIN of Belgium and ACCION International. All these institutions were invited because they share the same vision; and were willing to participate actively without being driven by profits as their main objective; rather they were also committed to uplift the economic status of Tanzanians, irrespective of their socio-economic positions in life, so long as they have entrepreneurial skills that can be nurtured. ACB's target markets are small and medium sized entrepreneurs, companies and community banks. As a committed bank, we are guided by the following Core Values in all activities that we undertake.

- Team work
- Integrity
- Commitment
- Respect
- Socially Responsible

AKIBA COMMERCIAL BANK PLC
the bank for your development

> ...I am further delighted to report on compliance of BOT minimum capital requirement that was fulfilled by September, 2014...

Mr. Ernest Massawe
Chairman

It is a great pleasure for me to report to the shareholders and other stakeholders of the Akiba Commercial Bank PLC (ACB) on the financial and operational results of the bank in 2014. This pleasure is enhanced not only by the fact that this is the first time in many years that I have the honour of submitting this report, but also as a result of the outstanding results being reported by the bank whose chairmanship I assumed as recently as November 2014.

I would like to congratulate my predecessor, Ms. Elizabeth Minde for having led the bank for the period of two consecutive terms in her capacity as non-executive director and chairperson.

It is clear that ACB has developed significantly over the years in terms of outreach, technology, innovative; tailor made and sophisticated products as well as infrastructure stabilization. All these milestones have made significant contribution to the growth of shareholders' funds and to the Tanzanian economy in general.

Economic Context

Tanzanian economy maintained its strong growth path in the first half of 2014, growing at 7.1 percent, close to the projected growth of 7.2 percent for the year. The favorable economic performance resulted from the impact of good weather and increased application of agricultural inputs, which boosted agricultural activity; continued implementation of infrastructure projects and strong regional and domestic demand which bolstered manufacturing activities. Headline inflation remained well contained given sharp fall in global oil prices, reflected in declining domestic pump prices; and modest increase in the price of most foodstuffs following regional bumper harvest. In addition, the tight monetary policy stance pursued by the Central bank since the end of 2011 has been successful in containing core inflation at around 4.8 percent, slightly and favorably below the medium term target of 5.0 percent, and the lowest rate attained in the last four years. Nonetheless, in the year under review, the Tanzanian Shilling depreciated by more than 8% against the USD.

Banking Sector Highlights

During the year under review, the banking sector has been credited with accelerating financial inclusion and with developments that have led to increased access to banking services to Tanzanian population. The sector is expected to continue on this growth trajectory due to the development of cost effective alternate channels (mobile banking and agency services) which compliment expansion through 'brick and mortar' structures.

Profitability and growth

ACB's focus on enhancing customer needs and accessibility of its services through improved delivery channels has seen its growth momentum doubled for the year under review, despite the stiff competition prevailing in the financial sector by registering a profit before tax of TZS 5.3 billion twice as much as TZS 2.5 billion recorded in 2013. The increase is accredited by growth and improvement in lending activities and investment in treasury bills. Moreover, the Bank's earnings per share have increased to TZS 400 from TZS 198 per share.

Dividend proposal

The board continues to balance between maximizing shareholder value as well as the need to plough back funds into the company for future and sustainable business growth. As a demonstration of confidence in the strength of the Bank's balance sheet and sustainability of growth, the Board has recommended a cash dividend of TZS 30 per share for the year ended December, 2014.

Compliance to regulatory requirement

I am further delighted to report on compliance of BOT minimum capital requirement that was fulfilled by September, 2014. ACB as a commercial bank has complied with the said requirements through retained earnings.

Changes in the Board

I would like to report changes in the board during the year under review. The expiry of the term for the directorship of minority representation that was served by Ms. Elizabeth Minde, called for an election to fill the vacancy. Four candidates namely; Mr. Richard Shaba, Mr. Patrice Mwaigomole, Ms. Elizabeth Minde and Mr. Joseph Rugumyamheto contested for the vacancy and Mr. Joseph Rugumyamheto emerged victorious in the directorship election for the minority representation. Once, again we thank Ms. Elizabeth Minde for her enormous contribution and welcome on board Mr. Joseph Rugumyamheto.

Chairman's Statement (Continued)

2015 Outlook

2014 was another year of stable performance and the board remains confident about 2015. Economic growth is projected to remain at about 7 percent in 2015 and in the medium term, reflecting sustained dynamism in the manufacturing and service sectors. Construction of a natural gas pipeline and gas-fueled power plants would also lower the cost of power generation and reduce demand for expensive heavy fuel imports, with a positive impact on growth and the balance of payments. Inflation is expected to stabilize around the authorities' 5 percent target.

ACB will endeavor to leverage on its strength, the conducive business environment to continue supporting micro, small and medium entrepreneurs in realizing their business goals as well as transforming their lives by offering innovative, affordable and customized financial services.
We further look forward to widening our outreach to other areas such Mwanza and Mbeya in 2015, other new branches will be opened in Mtwara, Morogoro, Iringa, Tanga and Songea within the next two to three years as an initiative of delivering inclusive customer- focused financial services .

Appreciation

Finally, I wish to express my sincere appreciation for the teams that have enabled us make these great strides over the year 2014. Many thanks to my fellow members of the Board of Directors, the management and staff of ACB for their hard work, our customers for their untiring support and last but not least to all our development partners and other stakeholders who have kept faith in us throughout this journey.

Thank you.

Ernest Massawe
Chairman
Akiba Commercial Bank Plc

Mr. Ernest Massawe
Chairman

Mr. Joseph Rugumyamheto
Director

Mr. Brian Kuwik
Director

Ms. Liesbeth Soer
Director

Dr. Richard Kasungu
Director

Mr. John Fischer
Director

Mr. Stephane Sapor
Director

Mr. Selestine J. Some
Director

11 Alternate Directors

Melissa Lumpkin Baez

David Maxson

Jean-Marie Prévost

Frank Streppel

GOLDEN ACCOUNT

Timiza malengo yako nasi

Management Report

"ACB recorded a net profit of TZS 3.4 billion, representing a significant increase of 111.%, compared to TZS 1.6 billion registered in the previous year of 2013."

Mr. John Lwande
Managing Director

FINANCIAL REVIEW

In the midst of a relatively buoyant economic environment last year, ACB recorded a net profit of TZS 3.4 billion, representing a significant increase of 111.%, compared to TZS 1.6 billion registered in the previous year of 2013.

This result marks another exceptional year for ACB , with notable growth achieved across all key balance sheet parameters, as well as earnings, on the back of a growing market share of assets and profitability.

ACB customer deposit base rose by 5%, from TZS 105.1 billion in 2013 to TZS 110.9 billion over the corresponding period ending in December 2014. The bank exprienced a modest growth of 3% of the loan book which stood at TZS 77 billion. This growth was mainly attributed to a balanced product mix of Biashara and Solidarity loans which cater for micro, small and medium enterprenuers. The bank extended Solidarity loans to 16,958 customers worth TZS. 12.3 billion with average loan size of TZS 726,850 and issued a total number of 18,084 Biashara loans with a value of TZS 86.7 billion with average of TZS 4.8 million per loan. Notwithstanding the reasonable quality of the loan book, loan impairment charge was enhanced during the year, a reflection of the prudent provisioning practices at ACB.

KEY BUSINESS DEVELOPMENTS

During the year under review the bank's impetus remain in innovating and refining its products to meet the needs of its customer base. The main objective was to grow the customer base by deploying a variety of strategies with a primary focus of attaining financial inclusion.

Some few noteworthy achievements include launch of ACB Golden Account. This product adds to the bucket of ACB savings product line. Its prototype ehnances and inculcate a saving culture to account holders, so it acts as saving vehicle to customers.

ACB Mobile upgrade was another milestone for 2014. Basing on its pivot role in attaining financial inclusion the ACB Mobile upgrade and improvement continues to be amongst the bank's key priorities. The refinement has been undertaken in improving the menu to shorten it, to make it more friendly and convinient to customers. Additional utilities include the recharge of Zuku and Azam decoders, purchase of smile 4G internet bundles and TTCL prepaid.

On operations front, technical implementation of Biomentric technology continues with the objective of ehnancing Know-Your-Customer (KYC) capabilities. The pilot exercise is currently on going for assessment and evaluation before rolling out to customers. Moreover, some improvement and development has been made in the cheque clearing house to meet the contemporary business changes and dynamics in payment systems, whereby the new state- of the- art system with fully automated clearing house known as Tanzania Automated Clearing House (TACH) shall replace Bank of Tanzania Electronics Clearing House (BOTECH).

The TACH system shall work in the truncation environment, which will involve the replacement of physical cheques with electronic flow of information (cheque images) within the four legs of clearing i.e. Outward Clearing, Inward Clearing, Outward Unpaids and Inward Unpaids while retaining the physical cheque within the collecting bank. The system shall among other things enhance operational efficiency across the industry as the process will be automated and easily controlled and inturn meeting customer needs and expectations. On other hand, the proximity challenges, operational risk and transaction costs will be minimized. The effective implementation of the system started on 30th April, 2015.

From compliance perspective, the bank managed to conduct the exercise of updating customers' details as per regulator's directive whereby 64% of all accounts were updated during the year under appraisal.

In line with its mission, the bank continued to implement its role as a good community citizen through various Corporate Social Responsibility activities. During the year the bank donated hospital equipment to Dodoma referral hospital worth TZS 3.7 million. The ceremony was preceded with cleaning exercise of hospital surroundings which was undertaken by Dodoma branch as part of staff goodwill initiatives.

The bank also contributed TZS 1 million to Enaboishu Secondary School. The initiative of environmental protection continues as ACB's commitment to maintain Independence Square garden, the icon of Dodoma City is ongoing. This is not only enhancing the bank's good will to Dodoma community but also gives the bank a significant visibility as the bank is further using it as a platform for promoting its presence at Dodoma region. In sequence with those social responsibilities, ACB hosted an 'Iftar' with Muslim customers during the holy month of Ramadan. This was part of the bank's public relations, corporate image enrichment and customer loyalty programs.

As a customer focused bank, ACB endorsed 'Smart Campaign' during the year under review which advocates compliance to Client Protection Principles into institutional culture and operation of the bank. The said principles are: - Appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data and mechanisms for complaints resolution. The preliminary assessment for certification was conducted which brought forth the upgrading programme. ACB's goal is to be smart certified in order to increase its competitive edge in the market and inturn increase the market share. This is based on the fact that the tool can be used as a good platform in enhancing bank's image and can as well be used as a selling preposition.

Prospects for 2015

Despite the competitive market conditions, ACB commitment to its strategy of focusing on customers has enabled the bank to capture emerging growth opportunities in the market. We remain optimistic that the current growth momentum will be sustained in maintaining an efficient operating structure together with establishment of new branches and strengthen electronic delivery channels and development of robust agency network, focus on SME to embed client graduation process; prudent lending and risk management will continue to be the bank's future endeavors.

Notably, we shall continue to implement a winning strategy that focuses on delivering value to the customers through different avenues including deployment of client protection principles through 'smart campaign initiatives, disciplined cost management and increasing productivity to add further to shareholders' investment.

With these fundamentals we then look forward to a promising 2015.

Acknowledgement

Let me conclude my remarks by expressing my gratitude to all who have enabled the bank to achieve the success registered in 2014. Foremost, I would like to take this opportunity to recognize our principal stakeholders; our customers. We salute our depositors and borrowers for their unwavering faith and confidence. We will always strive to repay this confidence by being proactive and responsive to their needs by providing unparalleled financial solution.

I further, thank the shareholders, development partners and strategic business partners for their continued support and the Board for its guidance and invaluable support.

Finally, all the aforementioned achievements were made possible by passionate and enthusiastic team at ACB comprising nearly 550 staff members. I applaud all of them for continuing to live our brand pillars and core values. I am confident that together guided by a common purpose and vision we shall be able to steer the bank to even greater heights of success and prosperity.

Thank you

Mr. John Lwande
The Managing Director
Akiba Commercial Bank PLC

Senior Management team

John Lwande
Managing Director

Lefani Yakobe
General Manager Finance

Juliana Swai
General Manager Operations

Selemani Mponda
Chief Internal Auditor

Edward Talawa
General Manager - ICT

Felician Girambo
General Manager Commerce

Leynnette Machibya
Head of Risk and Compliance

Robert Masala
Head of Human Resources

Berina Rugeiyamu
Ag. Company Secretary

Fredrick Archard
Head of Marketing and Communications

AMETECH Agrochemical dealer, Kariakoo Market

Mr. and Mrs. Chacky decided to quit their jobs 10 years ago to venture into business. This came as a result of Mr. Chacky's extended absences and tight schedules of an overseas-based marine engineer. The couple figured out that there had to be a way of pulling together for a common good. They set-up AMETECH, an agrochemical company specializing in selling and supplying pesticides, herbicides, and fungicides imported from Germany and China.

The couple started banking with ACB in 2013 when they secured their first loan worth TZS 40 million over six months. They renewed the facility immediately for a twelve-months tenure and are currently finalizing their two outstanding installments. They have already started negotiations for a TZS 150 million facility to fulfill the overwhelming country-wide market demand.

Mrs. Chacky is proud of the fact that AMETECH products are well-known and respected across the country because of their high quality, and also pleased with ACB services and level of attention extended to customers, saying, "We applied for our first loan and within no time the money was in our account; we used it to clear the stock that we had imported. We were relieved with the prompt service we received and we are ready to recommend ACB to friends and business partners."

Notwithstanding their achievements, Mrs. Chacky said they still have to contend with high storage charges resulting from storing huge stock when the seasons are not favourable for farming. She says, "Farmers entirely depend on rain alone, and when it doesn't rain it means slow movement of stock thus low sales volume and higher storage charges because we rent many square meters to store chemicals."

HAJI DACHI Freelance Economist and Consultant

Haji Dachi became an ACB customer in 2014 immediately after the launch of the ACB Golden Account enticed by the product features listed during the press conference at the launch ceremony. He said, “I was highly enthralled by the account’s offerings which obviously encourage the account holder to develop a saving culture, and this is in addition to the fact that the account itself can be used as cash collateral for accessing a loan”.

He further points out that his cry over the years has been the availability of a financial solution that can leverage his business overheads adding, “We, service providers particularly consulting firms often experience enormous hardships when accessing financial services from banks. Many banks prefer to lend their money to businesses that sell physical goods not services; however, with the ACB Golden Account I managed to access a loan within 24 hours with my account savings acting as collateral. I serviced the loan for three months”.

Dachi also points out the impressive customer service that accompanies the account, crediting it to his continued commitment which has allowed him to bring his account status to a total current deposit of TZS 7 million with the aim of borrowing against it again.

His advice to other Tanzanians and anyone else in the service industry is straightforward: approach ACB because it has a standby solution to cater for your business needs. Those sleepless nights spent cracking your head over capital are now gone, he says, adding that he enjoys every working day, thanks to the ACB Golden Account.

DAUDI MACHUMU Break Point Restaurants

As busy as a bee, Daudi Machumu owns and operates Break Point, a chain of re-owned restaurants in Dar es Salaam serving a variety of traditional Tanzanian dishes inspired by the array of tribal cuisines from around the country. His idea is based on the fact that the population of Dar es Salaam constitutes different tribes. Over the years his business has flourished and turned into one of the most popular food destinations for those with a traditional palette.

His banking history with ACB can be traced back to 2004 during the launch of it's fourth outlet in Kijitonyama when he secured his first loan worth TZS 5 million which he invested in the restaurant. Daudi took his relationship with the bank further and to date he is proudly benefiting from a line of credit which allowed him to take out a loan of TZS 250 million alongside an overdraft facility to the limit of TZS 150 million.

He confidently accredits his achievements to ACB saying, "I have being growing in sync with ACB; when I started out my business, the bank had a handful branches and I was taking my first step with a TZS 5 million loan, but today just as the number of branches has grown, so has my business and my borrowing capacity. From Kijitonyama I have expanded to include serving colleges, work places, opened an outlet on Simu Street and a new, up-market outlet along Kinondoni Road".

A classic restaurant in Lusaka, Zambia, which opened in 2012 is another addition to his portfolio, while a similar endeavour in Reading, United Kingdom was forced to close as a consequence of challenges of managing an overseas business, however plans are afoot to resurrect it.

Like every other business anywhere, Daudi acknowledges the presence of challenges his business faces on a regular basis including low sales volumes during the rainy season when movement is normally restricted and overnight price increases for supplies which cannot easily be reflected on the menu price list. The menu at his restaurants also include game meat which often suffers from government restrictions on hunting which translate into scarcity and hence customer dissatisfactions. An inconsistent and unstable power supply regularly renders groceries stale reducing the business profit margins.

Despite these hurdles along his road, Daudi's bigger picture, in addition to reviving his British-based restaurant in UK, includes establishing a star hotel in Dar es Salaam.

GOLDEN TOUCH Hair And Beauty College

From a human resource background, Dora Bananuka was the first person in Tanzania to establish a beauty college, in 2004, following her termination from work. “I started my business from a bitter experience following the abrupt termination of my employment. But in hindsight it was a blessing in disguise as the situation paved the way to a new beginning”, says Mrs. Bananuka, a mother of four children.

She had an inclination towards establishing her own business and take control of things with her own hands. Her interest lay in hair and beauty but lacking the skills and there not being an institution offering a course in that discipline she enrolled at a college in Nairobi on a two-months course. In the course of her studies she convinced one of her tutors to team up with her and open a beauty college back in Tanzania.

In 2004 this vision became a reality. Mrs. Bananuka became an ACB customer in that same year and obtained her first loan of TZS 20 million to leverage her working capital, and later obtained an overdraft facility of TZS 22 million which she still maintains. Golden Touch Hair and Beauty College has remained on a path of progress, standing out to be the most prominent beauty college in the country. The standards the college maintains make it a magnet for students from other similar colleges and graduates secure employment almost immediately.

The college gave rise to two gift shops in Namanga and at the Dar Free Market shopping complex both of which trade under the same Golden Touch name as part of her strategy to reinforce her core business.

Mrs. Bananuka has remained passionate and loyal to ACB since 2004 describing the bank as more of a business partner than a lender, especially recalling her first experience those many years ago when her business was still in its infancy.

She makes the point that she is satisfied with the impact the college is making upon scores of young people who didn’t have the chance to pursue formal education. The skills they are taught help them in engaging themselves in productive activities. Golden Touch Hair and Beauty College employs ten teachers and support staff, and produces on average 100 graduates a year.

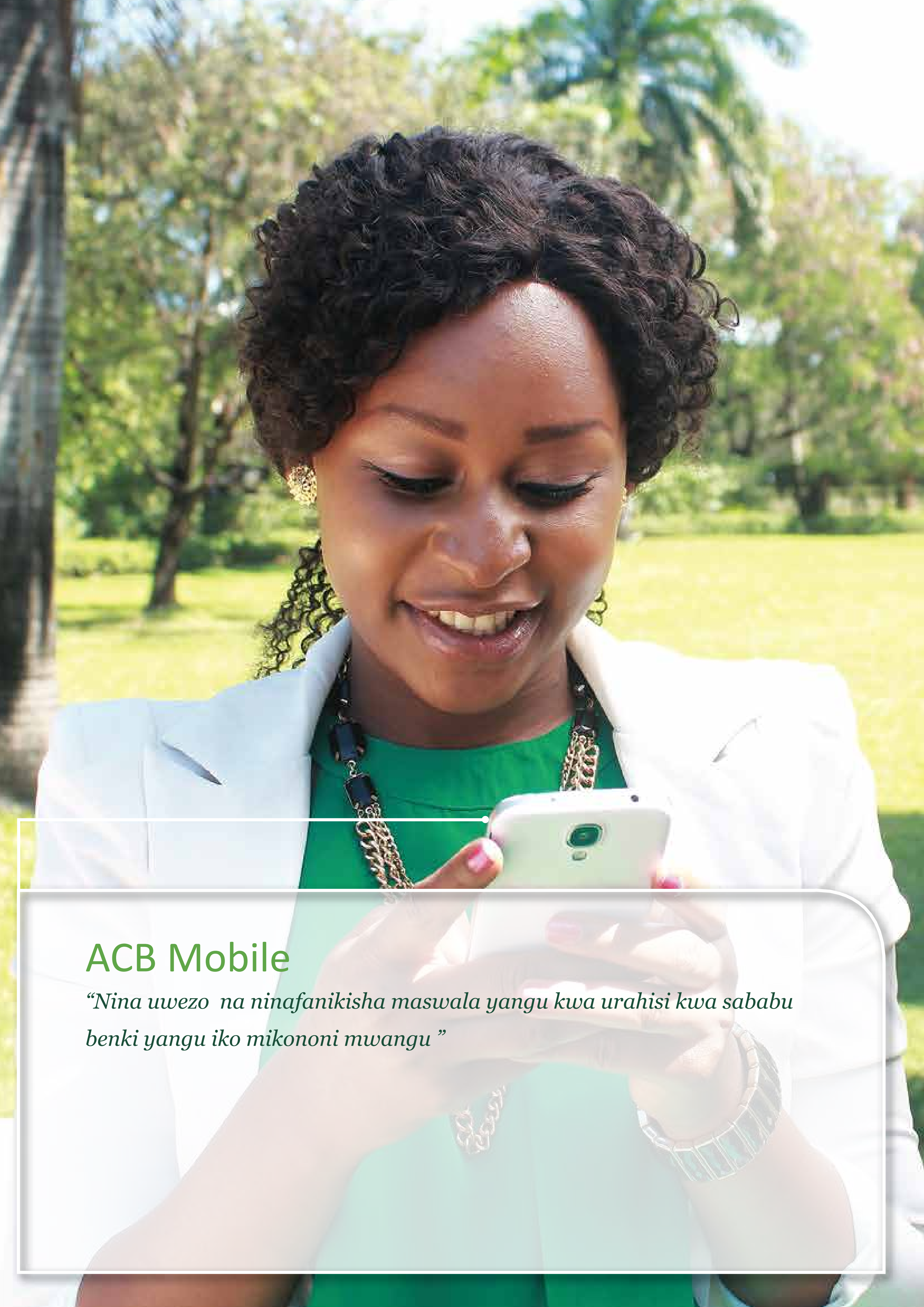
NURU ANDERSON MANDELA Timber stockist

Nuru Anderson is a vibrant and driven lady who has gone the extra mile to prove that even women can venture into businesses normally and usually undertaken by men. She stocks and sells treated and non-treated timber in Buguruni after switching from selling cereals. The switch came in 2002 with a capital base of TZS 5 million and has since grown her base to an enormous TZS 700 million to date of which TZS 200 million is attributed to an ACB credit facility extended to her in July 2014.

The ACB Buguruni branch played a major role in attracting her into becoming a customer especially because of the ease of doing business with the bank, she says. Her previous bank only lent her TZS 90 million which to her couldn't go the distance, however when ACB lent her TZS 200 million without difficulty she says suddenly the burden was gone from her business' shoulders. She says. "I was so pleased with my hassle-free TZS 200 million loan from ACB; once you fulfill the loan requirements including submission of proper documentation the money will be in your account in no time unlike other banks where you have to undergo long and bureaucratic processes."

Nuru is married with children, but she balances well her motherhood obligations and business even travelling to the southern highlands to oversee consignments where it can take up to a month to put together stock of TZS 40 to 50 million. Her trips sometimes take her across borders.

Her timber business paved the way for a wholesale endeavour in which she sells groceries and beverages. She says this second business helps to ensure a constant flow of revenue. According to her, this is her strategy for overcoming seasonal lulls in the timber business which can be affected by rains or other factors. She sees her timber business growing and reaching into other markets in East Africa.


ACB Mobile
“Nina uwezo na ninafanikisha maswala yangu kwa urahisi kwa sababu benki yangu iko mikononi mwangu ”

ACCION INTERNATIONAL

In 2012, the shares held by ACCION International in Akiba Commercial Bank were purchased by ACCION International after receiving appropriate approvals by Akiba's shareholders and the Bank of Tanzania. This purchase by ACCION International, a significant minority investor of Accion International, was completed due to ACCION's strategic desire to increase its commitment to Akiba by taking direct ownership in the bank so as to be more actively involved in the Tanzanian microfinance market.

ACCION International is a private, nonprofit organization with the mission of giving people the financial tools they need - microenterprise loans, business training and other financial services - to help work their way out of poverty. A world pioneer in microfinance, ACCION was founded in 1961 and issued its first microloan in 1973 in Brazil. Over time, ACCION has helped build 62 microfinance institutions in 31 countries on four continents. Those institutions are currently reaching millions of clients. In the United States, the U.S. ACCION Network is the largest microfinance lending network in the country and has served tens of thousands of clients with over $275 million in loans since the inception of its pilot program in 1991.

ACCION is an innovator in financial access, pioneering many of the best practices and emerging standards in the industry. The organization provides a full range of management duct and delivery channel ACCION also provides institutions, helping them to build upon ACCION's other services and linking them commercial banks and capital markets. Through equity and quasi-equity investments, as well as loan guarantees, systems, access innovations, attract deposits, become independent of donor funds and establish financial leverage. For more information, visit www.accion.org.

Erncon Holdings Limited

Erncon Holdings Limited is a family investment company established by Mr. Ernest S. Massawe and his family. It was established in 1993 for the sole purpose of managing the family's various investment activities as well as holding the family's assets. The initial directors of the company are Mr. Ernest Massawe, Mrs. Consolata Massawe, Ms. Maryanne Massawe, Mr. Andrew Massawe and Mr. Justin Massawe.

To-date the company has experienced strong growth and has diversified a portfolio covering a number of sectors, including: Tourism, Industrial gases, Insurance, Assurance, Banking, Real Estate, Stock Broking, Fund Management, Leasing, Mining, Mining Services and Logistics Solutions, Transportation and Telecoms.

Incofin CVSO investors

Since 1992 IncofinCVSO grew into a specialist in microfinance, enjoying recognition both nationally and internationally. Incofin CVSO currently cooperates with 30 partner institutions in 21 countries, reaching out to 1.8 million micro entrepreneurs.

After 20 years Incofin CVSO strives more than ever to achieve a double (financial and social) return. This balanced vision on investing convinced almost 200 new shareholders to join during 2011.

Incofin invests in MFIs that make a real difference to the quality of life of their stakeholders, their staff and their customers. Through the monitoring of a number of key social parameters, including the level and quality of service and the treatment of the environment and contribution to society, it manages to quantify an MFI's social performance.

For its investments, Incofin adopts a set of well- defined criteria, taking into account the impact of the microfinance institution on the local economy, the quality of its management, its financial situation, its track record, and the company's outlook. For each investment dossier a thorough due diligence is executed of the microfinance institution on site. After the investment, the investment file is carefully followed up. Incofincvso is a shareholder in Akiba since 2003 and has, since the beginning, also taken up an active role in the board.

MFIs can find in Incofin a partner who actively works together with them to find a solution that suits them best. The fund is managed by Incofin Investment Management, a manager of 6 microfinance investment funds with EUR 300 million assets under management. Incofin Investment Management is taking care of this job with an international and multilingual team of 37 experts who are at the MFIs' disposal.

More information on Incofin is available on our website www.incofin.com.

Inter-consult Ltd

From a humble beginning in 1978 in a small Dar es salaam office offering Civil and Structural Engineering services to an ISO 9001-2008 certified multi-disciplinary consultancy firm, Inter Consult Ltd has successfully delivered a full spectrum of services that bring infrastructure projects to life.

For three decades of consistent growth, we have worked with clients in virtually all industries, in both the public and private sectors, to identify, define and deliver innovative solutions to complex problems with exceptional commitment, excellence and results that inspire confidence.

Having been involved with over 400 projects ranging from a few hundred thousand to multi-million US Dollars in value, Inter-Consult has become a leading independent Tanzania based multi-disciplinary consultancy that is fully owned and managed by Tanzanians.

At the core of our mission is a pledge to our clients to provide the highest quality consulting services on time and for fair market value in all aspects of the construction industry including Architecture and Town Planning, Quantity Surveying, Structural, Mechanical and Electrical Engineering. We also offer services in Highway Engineering, Water Supply and Sanitation, Geotechnical and Materials Engineering, ICT and Project Management.

By positioning ourselves as a dynamic and growing business with a turnover of TZS 5 bn, focused on meeting the clients changing needs, we have attained good performance standards. We effectively handle all stages of project management - from feasibility studies, planning and design to construction supervision that extends to commissioning.

We have also invested in companies like Akiba Commercial Bank Plc, Inter Press Ltd whose vision is towards poverty alleviation

FMO

Entrepreneurial Development Bank

FMO is the Dutch development bank. FMO supports sustainable private sector growth in developing markets by investing in ambitious entrepreneurs and projects. FMO believes a strong private sector leads to economic and social development, empowering people to employ their skills and improve their quality of life. FMO specializes in sectors where its contribution can have the highest long-term impact: Financial institutions, Energy, Housing and Agribusiness, food & water. When financing companies and projects in other sectors such as telecoms and infrastructure, we work with a worldwide network of partners with thorough expertise in that area. With an investment portfolio of EUR 5.9 bn, FMO is one of the largest European bilateral private sector development banks.

Founded in 1970, FMO is a public-private development bank. The Dutch government is our major shareholder, holding a 51% stake. Other shareholders include large Dutch banks, employers' associations, trade unions and individual investors. We comply with internationally-accepted banking standards and are supervised by the Dutch Central Bank. FMO is rated triple-A by Standard & Poor's. FMO's solid profile and high quality portfolio allows us to invest in higher risk markets, either with our own capital or on behalf of the Dutch government. We principally provide long-term finance, although we also offer shorter-term project financing. We work with clients to understand their specific needs, tailoring the financial package to fit. Our participation often acts as a catalyst – attracting interest from other suitable investors who would otherwise avoid what are still considered higher-risk projects.

PPF Pensions Fund

PPF Pensions Fund was established by the Parastatal Pensions Act, No. 14 of 1978 to provide pensions and other related terminal benefits to all employees from Parastatal and private sectors. The current operations of the Fund are guided by Parastatal Organization Pensions Scheme Act [CAP 372 R. E. 2002]. The PPF Pensions Fund as a social security scheme has the responsibility of registering members, collecting and administering members' contributions, investing members' fund and granting benefits to members depending on different contingencies as specified in the Act.

The vision of the Fund is focused towards freeing members from hardships arising out of loss of income due to old age, disability, death and therelated risks. In order to ensure that our members are provided with the effective and efficient services PPF established a number of zonal offices close to the members. By the year 2010, PPF had established zone offices in the following regions:- Arusha, Mwanza, Morogoro, Mbeya, Mtwara, and Dar es salaam, which also include, Ilala office, Kinondoni office and Temeke office. PPF Pensions Fund has also established liaison offices in the following regions; Mafinga-Iringa, Tabora, Dodoma, Kahama, Tanga and Moshi.

Apart from opening offices close to members' vicinity, PPF had also made it possible for members to access information relating to their contribution, pension and claims by using PPF TAARIFA. Through PPF TAARIFA, PPF members can obtain information regarding their contribution, pension and claims by using their mobile phones. This can simply be done by sending the word(s) 'Michango', 'Pensheni' or 'Dai' to number 15553. For more information please visit PPF website, www.ppftz.org.

SIDI was set up in 1983 as a private company limited by shares, on the initiative of the Catholic Committee against Hunger and for Development (CCFD).

In the North, SIDI mobilizes funds from institutions and individuals, through its shareholding and an ethical savings fund. These funds are used to finance microfinance and smallholder producer organizations in the South such as: credit and savings unions, microfinance banks and companies, specialized NGOs, small holder producer cooperatives and companies and farmers organizations. End of December 2010 SIDI had 65 investments.

SIDI gives priority to institutions that need financial and institutional strengthening and is active mainly in rural areas where institutions provide financial services to small farmers and micro-enterprises.

SIDI's share capital, 13 million Euros, is used to provide various financial products to partner institutions such as equity investments, local and hard currency loans, local bank guarantees. The revenue from the ethical fund enables SIDI to provide regular follow up and technical assistance to its partners in order to strengthen their financial and institutional viability and improve their services to their clients.

End of December 2010, SIDI's portfolio was 10,4 million euros, of which 43% invested in Africa, 32% in Latin America, 6% in Asia, 9% in the Mediterranean basin, 9% in Eastern Europe, and 1% in the Caribbean. Amongst its founding shareholders are the French Development Agency, the Caisse des Dépôts et Consignations and the Crédit Coopératif (two French banks).

SIDI's financial and partnership relations are based on two main principles: long-term commitment and risk-sharing.

SIDI has been a founding shareholder of various other funds such as Profund, La Cif 1, MAF (Asia) and more recently SEFEA (Eastern Europe), SMEAF (East Africa), FOPEPRO (Latin America). SIDI together with two European allies, ALTERFIN Belgium and ETIMOS Italy, is about to launch FEFISOL fund, a 30 MEUR fund dedicated to finance rural microfinance institutions and producer organizations in Sub Saharan Africa.

Shareholders' Profiles

Triodos Investment Management

Triodos-Doen Foundation and Hivos Triodos Fund Foundation

Triodos-Doen Foundation (Triodos-Doen) and Hivos-Triodos Fund Foundation (Hivos-Triodos Fund) are microfinance funds managed by Triodos Investment Management, a 100% subsidiary of Triodos Bank, one of the world's leading sustainable banks. Triodos Investment Management has been a pioneering provider of capital to the microfinance sector since 1994. As an investor it wants to contribute to the development of a sustainable financial sector in developing countries that is based on fair pricing, transparency, access for all and care for the earth. Triodos Investment Management manages four funds that provide finance for around 95 MFIs in Latin America, Africa, Asia and Eastern Europe and hold equity stakes in 19 leading and innovative microfinance institutions and vehicles worldwide. At year-end 2011 the total assets under management in microfinance amounted to EUR 365 million.

Triodos-Doen and Hivos-Triodos Fund both started in 1994. Triodos-Doen is a joint initiative of DOEN Foundation and Triodos Bank; Hivos-Triodos Fund is joint-initiative of Dutch development organisation Hivos and Triodos Bank. In 2011, both funds sharpened their strategy by including the sustainability themes Foods & Agriculture and Energy & Climate within the financial sector in developing countries as an additional focus. Investment Management BV, a 100% subsidiary of Triodos Bank, the leading values-driven bank in Europe. Triodos Investment Management has been a pioneering provider of capital to the microfinance sector since 1994. As an investor it wants to contribute towards the development of a sustainable financial sector in developing countries, based on the pillars of fair pricing, transparency, poverty alleviation and care for the earth. Triodos Investment Management manages four funds that provide finance for around 80 MFIs in Latin America, Africa, Asia and Eastern Europe. They hold equity stakes in 19 prominent microfinance institutions. At year-end 2009 the total assets under management in microfinance amounted to EUR 236 million.

Donation of heavy duty suction machine to Dodoma referral hospital

Corporate Information

DIRECTORS OF THE BANK

DIRECTORS	NATIONALITY	POSITION
Mr. Ernest S. Massawe	Tanzanian	Chairman
Ms. Rita Van den Abbeel	Belgian	Director- Retired on 04 June 2014
Mr. John Fischer	American	
(Alternate: Mr. David Maxson)	American	
Ms Liesbeth Soer	Dutch	Director
(Alternate: Mr. Frank Streppel)	Dutch	
Mr. Brian Kuwik	American	Director
(Alternate: Ms. Melissa Baez)	American	
Mr. Joseph Rugumyamheto	Tanzanian	Director- Appointed on 25 July 2014
Mr. Selestine Some	Tanzanian	Director
Dr. Richard Kasungu	Tanzanian	Director
Ms. Elizabeth Minde	Tanzanian	Director- Retired on 25 July 2014
Mr. Stephane Sapor	French	Director-Appointed on 04 June 2014
(Alternate: Mr. Jean-Marie Prevost)	French	Director

MANAGING DIRECTOR	Mr. John Lwande
BANK SECRETARY	Berina Rugeiyamu 3rd Floor, Amani Place PO Box 669 Dar es Salaam, Tanzania
REGISTERED OFFICE	3rd Floor, Amani Place Ohio Street PO Box 669 Dar es Salaam, Tanzania
AUDITORS	PricewaterhouseCoopers Ltd Pemba Houses, 369 Toure Drive, Oyster bay PO Box 45, Dar es Salaam, Tanzania
LEGAL ADVISORS	Legal Link Attorneys PO Box 7642 Dar es Salaam, Tanzania Nexlaw Advocates PO Box 75578 Dar es Salaam, Tanzania

The Directors are pleased to present their report together with the audited financial statements of Akiba Commercial Bank Plc (the "Bank") for the year ended 31st December 2014 which show the Bank's state of affairs.

INCORPORATION

The Bank is incorporated in Tanzania under Companies Act 2002 as a Public Company Limited by shares and is domiciled in Tanzania.

PRINCIPAL ACTIVITIES

The Bank is engaged in the business of banking and provision of related services and is licenced under the Tanzanian Banking and Financial Institutions Act 2006.

BANK'S VISION

To be the Tanzanian Bank of choice for the micro, small and medium enterprises and working families

BANK'S MISSION

To provide a holistic range of innovative, customized banking solutions to Tanzanian micro, small and medium enterprises and households in the most efficient and sustainable manner embracing the social and environmental interests of its stakeholders.

DIRECTORS

The Directors of the Bank at the date of this report, who held office since 1st January 2014, except where otherwise stated, are as listed on page 1.

CAPITAL STRUCTURE AND SHAREHOLDING OF THE BANK

As at 31st December 2014, the Bank had 281 shareholders (2013: 281 shareholders).

Directors' holding shares at the Bank are listed below:

Name	Nationality	Ordinary Shares of TZS 1,000 each	Nominal value TZS 000	Ordinary Shareholding %
Ms. Elizabeth Minde	Tanzanian	6,714	6,714	0.078%
Dr. Richard Kasungu	Tanzanian	5,917	5,917	0.069%
Mr.Joseph Rugumyamheto	Tanzanian	6,255	6,255	0.073%
		18,886	18,886	0.219%

The Capital structure and shareholding position of the Bank as at 31st December 2014 is as follows:

	2014		2013	
Shareholder	Number of ordinary shares	Percentage (%)	Number of ordinary shares	Percentage (%)
Accion International	1,721,456	20	1,649,464	20
Parastatal Pensions Fund	963,957	11	923,644	11
Stichting Hivos - Triodos Fonds	683,335	8	654,758	8
INCOFIN CVSO	617,850	7	592,011	7
FMO	595,443	7	570,541	7
Inter Consult Limited	472,229	6	438,240	6
SIDI	434,022	5	415,871	5
Stichting Triodos - Doen	430,798	5	412,782	5
ERNCON Holdings Limited	426,684	5	408,840	5
Tanzania Development Finance	275,235	3	263,724	3
Others	1,986,126	23	1,917,310,	23
Total Shares	**8,607,135**	**100**	**8,247,185**	**100**

RESULTS AND DIVIDEND

The Bank recorded a profit before tax of TZS 5.3 billion for the year under review (2013 TZS 2.5 billion). The profit for the year is mainly attributed to lending activities. The Directors recommend payment of cash dividend of TZS 30 per share for the year ended 31st December 2014 (2013: Nil).

STOCK DIVIDEND

The Annual General Meeting of 28th July 2013 approved stock dividend equivalent of TZS 399,945,700 fully paid ordinary shares at par value by capitalising the retained earnings. The stock dividend was distributed to shareholders on a prorata basis. The issuance of stock dividend was approved by Bank of Tanzania on 24th February 2014 and has been issued to shareholders subsequent to the approval date. No stock dividend was approved for the year ended 31st December 2014.

CORPORATE GOVERNANCE

The Bank's Board of Directors is composed of eight (8) Directors (2013: 8). All directors are non-executive. The Board takes overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board is required to meet 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. Senior Management is invited to attend Board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units.

The Bank is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. During the year, the Board of Directors of the Bank had the following Board sub-committees to ensure a high standard of corporate governance throughout the Bank.

Audit Committee

Name	Position	Nationality
Mr. Selestine Some	Chairperson	Tanzanian
Mr. Stephane Sapor	Member	French
Mr. John Fischer	Member	American
Dr. Richard Kasungu	Member	Tanzanian

The Audit Committee reports to the main Board. The committee had six meetings during the year.

Governance and Human Resources Commitee

Name	Position	Nationality
Mr. Joseph Rugumyamheto	Chairperson	Tanzanian
Mr. Brian Kuwik	Member	American
Dr. Richard Kasungu	Member	Tanzanian
Mr. Stephane Sapor	Member	French

The Governance and Human Resources committee reports to the main Board. The committee had four meetings during the year.

Risk and Finance Oversight Committee

Name	Position	Nationality
Ms. Liesbeth Soer	Chairperson	Dutch
Dr. Richard Kasungu	Member	Tanzanian
Mr. John Fischer	Member	American
Mr. Selestine Some	Member	Tanzanian

The Risk and Finance Oversight Committee reports to the main Board. The committee had four meetings during the year.

Credit Committee

Name	Position	Nationality
Mr. Brian Kuwik	Chairperson	American
Mr. Selestine Some	Member	Tanzanian
Mr. Joseph Rugumyamheto	Member	Tanzanian
Ms. Liesbeth Soer	Member	Dutch

The Credit Committee reports to the main Board. The committee had four meetings during the year.

The main Board of Directors had eight meetings during the year.

RELATED PARTY TRANSACTIONS AND BALANCES

Transactions during the year with related parties were conducted at terms and conditions similar to those offered to other clients and in the normal course of business. Details of transactions and balances with related parties are included in note 31 to the financial statements.

MANAGEMENT

The Management of the Bank is under the Managing Director and is organized in the following departments:

- Finance and Treasury department;
- Operations department;
- Marketing and Communications department;
- Commerce department;
- Human Resources department;
- Information & Communication Technology department;
- Risk & Compliance department;
- Legal department; and
- Internal Audit department.

PERFORMANCE FOR THE YEAR

The year ended 31st December 2014 had a profit before tax of TZS 5.3 billion (2013: TZS 2.5 billion).

Total fees and commission income for the year remain at the same level of TZS 5.7 billion as in 2013 due to absorption of excise duty that was introduced by the government. Overall the Bank experienced increased volume of customer transactions in the year 2014.

Total general and administrative expenditure was TZS 10.1 billion, an increase of 13% from expenditure of TZS 8.9 billion in 2013 mainly due to the growth of the business.

Total assets at year end stood at TZS 135 billion, a net increase of 8% or TZS 10 billion from TZS 125 billion at 31st December 2013. This growth in the Bank's asset base was fully funded by increase in deposits throughout 2014. The Bank managed to maintain customer deposit volume which increased by 5% from TZS 105.1 billion in 2013 to TZS 110.9 billion in 2014.These deposits were taken at comparatively low interest cost compared to interbank lending rates of an average rate of 7.5%. The deposit base also fully financed lending activities which stood at TZS 77.2 billion and investment in Treasury Bills which increased by 39% from TZS 13.0 billion in 2013 to TZS 18.1 billion in 2014 reflecting a net growth of TZS 5.1 billion.

FUTURE DEVELOPMENT PLANS

The Bank's future strategy is to expand into other regions of the Country in order to have a wide geographical presence that can enable the Bank to serve its customers better by providing them with easier access to banking services. In implementing this plan, the bank is planning to open new branches in Mwanza and Mbeya in 2015, other new branches will be opened in Mtwara, Morogoro, Iringa, Tanga and Songea within the next two to three years.

The Bank plans to interface the system used for core banking activities with system for human resources management. This integration is intended to continue to streamline the Bank's internal operations and management reporting.

The introduction of mobile phone banking has enabled customers to access basic banking and utility services such as electricity, water, DSTV subscription payments, purchase of airtime for all Tanzania registered mobile phone companies, balance inquiry, money transfers, bank statements, cheque book requests, and foreign exchange rate requests, among others. Similarly, the Bank is considering introduction of agency banking in order to serve customers in areas where the Bank does not have a physical branch presence.

Finally, the Bank intends to continue being profitable through the introduction of innovative products, focusing on value-added customer services and selective expansion of its branches while carefully managing both costs and risks. The Bank will continue to focus on improving productivity and introducing new products to the market.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control system of the Bank.

It is the task of management to ensure that adequate internal, financial and operational control systems are developed and maintained in an on-going basis in order to provide reasonable assurance regarding:

- Effectiveness and efficiency of operations;
- Safeguarding of the Bank's assets;
- Compliance with applicable laws and regulations;

- Reliability of accounting records;
- Business sustainability 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 prescribed measures. There is always a risk of non-compliance to such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank's systems are designed to provide the Board with a reasonable assurance that procedures in place are operating effectively.

The Board assessed the Bank's internal control systems throughout the financial year ended 31st December 2014 and is of the opinion that they met the generally accepted banking industry criteria. The Board carries out risk management and internal control assessment through Audit, Risk and ALCO Committees.

EMPLOYEE WELFARE

Management and employee relations

The relationship between employees and management continued to be good during the year 2014. There were no unresolved reported complaints from the employees during the year.

Management took measures to build strong workplace relations by ensuring that employees lived up to the standards of the institution's culture and values while maintaining effective communication at all levels. Staff meetings were conducted at branch, departmental and corporate levels whereby staff were able to participate in helping shape the future of the organization. The Bank worked closely with the trade union, Finance, Industrial, Banking, Utilities, Commercial and Agro Processing Industries Trade Union (FIBUCA) to ensure good labour relations.

Training Activities

During the year, the Bank spent TZS 500 million for staff training (2013: TZS 372 million). A total of 255 members of staff benefited from internal and external courses. The acquired new knowledge and skills led to the enhancement of business performance. By the end of the year 2014, a total of 22 members of staff were pursuing studies leading to qualifications such as CPAs, Master's Degrees and others.

Medical Assistance

The Bank, through an insurance scheme, provided medical support to members of staff and their respective dependants, a total of TZS 797 million was paid as insurance premium in 2014.

Occupational Safety, Health and Environment

The Bank took reasonable steps to safeguard the health, safety and welfare of its employees. For example, a safe and conducive working environment was availed to all employees by providing adequate working tools, proper personal protective equipment, hygiene, training and supervision. The Bank's workplaces were visited by labour inspectors and were found to fully comply with all appropriate government regulations.

Financial assistance to employees

The Bank provided different types of financial support to improve the welfare of its employees, including staff loans. The Bank's support was in line with industry best practice.

Persons with disabilities

It is the Policy of the Bank to recruit new staff regardless of their physical abilities. What matters is the candidate's merit for the job. In the event that members of staff become disabled, every effort is made to ensure that their employment with the Bank continues and appropriate re-training is arranged, if necessary.

Employee benefit scheme

The Bank makes contributions to publicly administered pension schemes on a mandatory basis. These schemes are defined contribution plans. A total of TZS 850 million was contributed in 2014.

Gender parity

The Bank is gender sensitive. During the year 2014, it ensured that female employees were given due priorities in all aspects of the Bank. For example, during the year 2014, 56% of the branch managers were women. In addition, the Bank had 561 employees, out of whom 292 were women and 269 were men (2013: 487 employees, out of whom 252 were women and 235 were men).

POLITICAL DONATIONS

The Bank did not make any political donations during the year (2013: Nil).

CORPORATE SOCIAL RESPONSIBILITY

The Bank recognizes its role and position in the society by undertaking several Corporate Social Responsibility (CSR) initiatives. These initiatives are geared towards giving back to society as well as looking into people's welfare as a caring companion. In the year 2014, the Bank donated TZS 3.7 million for purchase of hospital equipment at Dodoma referral hospital. The Bank also contributed TZS 1 million to Enaboishu Secondary School.

SOLVENCY

The state of affairs of the Bank as at 31st December, 2014 is set out on page 14 of the financial statements. The Directors consider the Bank to be solvent within the meaning ascribed by the Companies Act, 2002. In addition, the Bank has met all the Bank of Tanzania (BoT) regulatory capital requirements.

ENVIRONMENTAL CONTROL PROGRAMME

The Bank has a Corporate Social Responsibility Policy, part of which addresses environmental control programmes. The Bank acknowledges the seriousness of global environmental issues and therefore acts voluntarily and affirmatively to protect the environment by seeking to minimize any adverse environmental impact in the way the Bank operates. The Bank is committed to the prevention of environmental pollution and is in compliance with relevant environmental laws in the areas we operate as a minimum standard and seeks to implement best practices wherever possible.

AUDITORS

The auditors, PricewaterhouseCoopers have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing their re-appointment as the Bank’s auditors for the subsequent year will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

Mr. Ernest Massawe
Chairman

27th March 2015

Mr. Selestine Some
Director

27th March 2015

The Companies Act, CAP 212 Act No.12 of 2002 requires 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 for the year. 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 and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, CAP 212 Act No.12 of 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit in accordance with International Financial Reporting Standards (IFRS). 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

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.

Signed on behalf of the Board of Directors by:

Mr. Ernest Massawe	Mr. Selestine Some
Chairman	Director
27th March 2015	27th March 2015

Independent Auditors' Report

To the Members of Akiba Commercial Bank PLC

Report on the financial statements

We have audited the accompanying financial statements of Akiba Commercial Bank Plc (The "Bank"), which comprise the statements of financial position as at 31st December 2014 of the Bank, their statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act, CAP 212 Act No. 12 of 2002 and for such internal controls, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the the Bank's financial affairs at 31st December 2014 and of their profits and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act, CAP 212 Act No. 12 of 2002.

Report on Other Legal and Regulatory Requirements

This report, including the opinion, has been prepared for, and only for, the company's members as a body in accordance with the Companies Act, CAP 212 Act No. 12 of 2002 and for no other purposes.

As required by the Companies Act, CAP 212 Act No. 12 of 2002, we are also required to report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if the financial statements are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed. In respect of the foregoing requirements, we have no matter to report.

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Michael M. Sallu, FCPA-PP

For and on behalf of PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam

31st March 2015

Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 31st December 2014

	Notes	2014 TZS 000	2013 TZS 000
Interest income	7	27,638,911	23,327,475
Interest expense	8	(2,596,013)	(3,365,389)
Net interest income		**25,042,898**	**19,962,086**
Loan impairment charges	18	(1,888,162)	(2,016,155)
Net interest income after loan impairment charges		**23,154,736**	**17,945,931**
Fees and commission income	9	5,721,284	5,685,138
Foreign exchange income	10	141,410	178,733
Other operating income	11	204,330	68,475
Employee benefits expenses	12	(11,885,077)	(10,516,214)
General and administrative expenses	13	(10,044,085)	(8,868,992)
Depreciation and amortization	14	(1,981,847)	(1,991,218)
Profit before income tax		**5,310,751**	**2,501,853**
Income tax expense	15	(1,871,014)	(867,932)
Profit for the year		**3,439,737**	**1,633,921**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**3,439,737**	**1,633,921**

	Notes	2014 TZS 000	2013 TZS 000
Assets			
Cash and balances with Bank of Tanzania	16	23,113,962	21,361,322
Loans and advances to banks	17	9,775,107	7,629,191
Loans and advances to customers	18	77,219,211	74,869,030
Government securities	19	18,064,087	13,032,511
Unquoted equity investment	20	20,000	20,000
Property and equipment	21	1,949,833	2,737,308
Intangible assets	22	280,551	648,533
Leasehold improvements	23	2,308,228	2,777,688
Current income tax recoverable	15	443,222	811,534
Deferred income tax	24	-	128,183
Other assets	25	2,078,005	1,791,079
TOTAL ASSETS		**135,252,206**	**125,806,379**
Liabilities			
Deposits from customers	26	110,849,854	105,073,313
Other liabilities	27	2,727,989	2,642,912
Deferred income tax	24	184,467	-
Total liabilities		**113,762,310**	**107,716,225**
Shareholders' equity			
Share capital	28	8,607,135	8,247,184
Share premium		2,431,917	2,431,917
Retained earnings		6,614,747	6,104,385
General banking reserve		3,836,097	1,306,668
Total equity		**21,489,896**	**18,090,154**
TOTAL LIABILITIES AND EQUITY		**135,252,206**	**125,806,379**

The financial statements on pages 13 to 71 were approved and authorised for issue by the Board of Directors on 27th March 2015 and signed on its behalf by:

Mr. Ernest Massawe
Chairman

Mr. Selestine Some
Director

Statement of Changes in Equity

For the Year Ended 31st December 2014

	Share capital TZS 000	Share premium TZS 000	Retained earnings TZS 000	General banking reserve TZS 000	Total Equity TZS 000
At 1st January 2013	8,247,184	2,431,917	3,999,457	1,777,675	16,456,233
Profit for the year	-	-	1,633,921	-	1,633,921
Other comprehensive income	-	-	-	-	-
Total comprehensive income			1,633,921		1,633,921
Transfer from general banking reserve	-	-	471,007	(471,007)	-
At 31st December 2013	8,247,184	2,431,917	6,104,385	1,306,668	18,090,154
At 1st January 2014	**8,247,184**	**2,431,917**	**6,104,385**	**1,306,668**	**18,090,154**
Profit for the year	-	-	3,439,737	-	3,439,737
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	3,439,737	-	3,439,737
Transfer to general banking reserve	-	-	(2,529,429)	2,529,429	-
Transfer to share capital	359,951	-	(359,951)	-	-
Withholding Tax-Stock Dividend	-	-	(39,995)	-	(39,995)
At 31st December 2014	**8,607,135**	**2,431,917**	**6,614,747**	**3,836,097**	**21,489,896**

* General banking reserve represents the surplus of provision for credit losses over the provision for impairment of loans and advances computed in accordance with International Financial Reporting Standards.

	Notes	2014 TZS 000	2013 TZS 000
Cash flows from operating activities			
Interest receipts		23,564,298	22,451,542
Interest payments		(3,197,052)	(3,496,368)
Fee and commission receipts		4,810,038	4,935,719
Receipts from foreign currency dealings		141,410	178,728
Other income received		277,625	257,303
Recoveries of loans previously written off		465,680	95,756
Payments to employees and suppliers		(21,514,890)	(19,501,482)
Issue of loans and advances – net		355,962	(2,221,279)
Statutory Minimum Reserve requirements		(500,000)	(24,500)
Movement in other assets		(286,920)	(519,021)
Customer deposits received – net		5,776,542	985,166
Movement in other liabilities		85,078	702,127
Payments for government securities - net		(4,288,668)	(1,811,642)
Income taxes paid		(1,191,108)	(652,568)
Net cash generated from operating activities		**4,497,995**	**1,379,481**
Cash flows from investing activities			
Payments for intangible assets	22	(23,409)	(49,068)
Payments for property and equipment	21	(333,522)	(1,378,523)
Payments for leasehold improvements	23	-	(406,526)
Proceeds from sale of property and equipment		400	2,578
Net cash used in investing activities		**(356,531)**	**(1,831,539)**
Net increase in cash and cash equivalents		4,141,464	(452,057)
Cash and cash equivalent at the beginning of the year		22,142,398	22,594,455
Cash and cash equivalent at the end of the year	**29**	**26,283,862**	**22,142,398**

1 REPORTING ENTITY

Akiba Commercial Bank Plc (‘’The Bank’’) is a limited company incorporated in Tanzania under the Companies Act 2002 and is domiciled in Tanzania. The address of its registered office and principal place of business is:

3rd Floor, Amani Place
Ohio Street
PO Box 669
Dar es Salaam, Tanzania

The Bank provides retail, corporate banking and investment banking services.

The financial statements of Akiba Commercial Bank Plc for the year ended 31sthg December 2014 have been approved for issue by the board of Directors on 27th March 2015. Neither the entity owners nor others have the power to amend the financial statements after issue

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The Bank’s financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets and financial assets and financial liabilities held at fair value through profit or loss, which have been measured at fair value.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 3.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. Changes in the assumptions may have significant impact on the financial statements in the period the assumptions change. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.1.1 Changes in accounting policy and disclosures

(i) New and amended standards adopted by the bank

The following standards have been adopted by the bank for the first time for the financial year beginning on or after 1st January 2014 and have a material impact on the bank:

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the bank financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The bank has applied the amendment and there has been no significant impact on the bank financial statements as a result.

IFRIC 21, 'Levies' sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Bank is not currently subjected to significant levies so the impact on the Bank is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1st January 2014 are not material to the bank.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1st January 2014, and have not been applied in preparing these financial statements.

None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1st January 2018. Early adoption is permitted. The bank is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' Deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1st January 2017 and earlier application is permitted. The bank is assessing the impact of IFRS 15.

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

2.2 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

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

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

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

(ii) Fees and commission income

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

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

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

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

(b) Fee income from providing transaction services

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

(c) Operating income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

Other income is recognized in the period in which it is earned.

(d) Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

2.3 Employees' benefits including post-employment benefits

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

(i) Post-employment benefits

The Bank operates a defined contribution plan whereby each of its employees and the Bank contribute 10% each of the employee's monthly salaries to the state owned and managed (statutory) Funds, namely, the Parastatal Pension Fund (PPF) or the National Social Security Fund (NSSF). The Bank has no further payment obligations once the contributions have been paid. The contributions are recorded as an expense under "Personnel expenses" in the year to which they relate. Unpaid contributions are recognised as a liability.

(ii) Other employee benefits

The Bank provides free medical treatment for existing staff and their dependants. The cost is recorded as an expense under "Personnel expenses". The estimated monetary liability for employees' accrued leave entitlement at the reporting date is recognised as an expense accrual. In addition, the employer also provides long term service awards. The estimated monetary liability for employees' long term service award entitlements at the reporting date is recognised as an expense accrual.

(iii) Bonus Scheme

A liability for employee benefits in the form of bonus scheme is recognised when there is a formal scheme and the amounts to be paid are determined before the end of the reporting period or past practice has created a valid expectation in employees that they will receive a bonus subject to satisfactory performance and the amount can be determined before the financial statements are issued. Liabilities for bonus scheme are expected to be settled within 3 months and are measured at the amounts expected to be paid when they are settled.

2.4 Provision

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

2.5 Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, excluding the costs of day-to-day servicing. Costs of replacing part of the property and equipment and major inspection cost are capitalised if the recognition criteria are met as required by IAS 16. Borrowing costs for long-term projects are capitalised if they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other repair and maintenance costs are recognised in profit or loss as incurred. Depreciation is calculated on reducing balance basis to write down the cost of the asset to its residual value over the estimated useful life as follows:

Description of assets	Rate (%)
Leasehold improvement	10
Motor vehicles	25
Furniture, fittings and equipment	20
Computer equipment and software	20

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed at each financial year end, and adjusted prospectively, if appropriate.

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

2.6 Intangible assets

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

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

Directly attributable costs that are capitalised as part of the software product including the software development employee costs and an appropriate portion of relevant overheads.

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

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

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

2.7 Leasing

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

Bank as a lessee

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

Bank as a lessor

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

Leasehold improvements

Leases of leasehold improvements are classified as operating leases; these include improvements made on leased Bank buildings for its head office and branches. The total payments made under operating leases are charged to profit or loss on a straight-line basis over the life of the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

The annual amortisations of operating leasehold in use are:

Leasehold improvements 10 years

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

2.8 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices and other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

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

2.9 Financial instruments - initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the statement of profit or loss and other comprehensive income. The losses arising from impairment of such investments are recognised in profit or loss.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

2.10 Balances with banks and loans and advances

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

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss.
- Those that the Bank, upon initial recognition, designates as available for sale.
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'Balances with banks' and 'Loans and advances' are measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in profit or loss.

2.11 Reclassification of financial assets and liabilities

The bank is permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale 'category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For financial assets reclassified out of the' Available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the Effective Interest Rate (EIR). If the asset is subsequently determined to be impaired then the amount recycled in equity is recycled to profit or loss.

The Bank may reclassify a non-derivative trading asset out of the 'Held-for-Trading' category into the 'Loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimate of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that receipt is recognised as an adjustment to the EIR from the date of change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. There are no reclassified financial assets.

2.12 De-recognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Determination of fair value

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

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

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss and is shown separately.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Renegotiated loans

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

Offsetting financial instruments

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

2.13 Cash and cash equivalents

Cash and cash equivalents referred in the cash flow comprise cash on hand, non-restricted current accounts with Bank of Tanzania, deposits held at call with banks with an original maturity of three months or less, due from banks on demand and investments with maturity periods of three months or less in money market instruments.

2.14 Foreign Currency Translation

a) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates (''the functional currency).The financial statements are presented in Tanzanian Shillings and figures are in thousands of Tanzania Shillings.

b) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other operating income' in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.15 Taxes

Current tax

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

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

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 either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity or other comprehensive income are also recognised in equity or other comprehensive income and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.16 Value added tax

Revenues, expenses and assets are recognised inclusive of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is recoverable from the taxation authority, in which case the value added tax is recognised as an asset or liability in the statement of financial position.

2.17 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.18 Earnings per share

Earnings per share are calculated based on the profit attributable to shareholders divided by the weighted number of ordinary shares. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year. During the year, there were no dilutive potential shares.

2.19 Contingent liabilities

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

3 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are inevitable consequences of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

Risk management is carried out by the Risk and Compliance department under policies approved by the Board of Directors.

The Board provides written principles for overall risk management, as well as written policies covering specific areas. In addition, the Internal Audit department is responsible for the independent review of risk management and the control environment. The most significant risks are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest risk and price risk.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that the counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; Directors therefore carefully manage its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The credit risk management and controls are centralised in Commerce, Risk and Compliance departments of the Bank and reported to the Board of Directors and Heads of Departments regularly.

3.1.1 Credit risk measurement

(a) Loans and advances

In measuring credit risk of loan and advances to customers and to Banks at a counterparty level, the Bank assesses the financial condition by looking at the trend of key ratios as well as conducting site visits to gauge feasibility of the prospective businesses.

For microfinance loans which form greater part of the Bank's portfolio, the Bank depends on in-built mechanisms like peer pressure, graduated lending and character-based lending to mitigate inherent risk embedded in offering loans to the sector hence little emphasis is stressed in measuring the credit risk at individual level.

Aging analysis is used to give ex-post information on the extent of exposure assumed by the Bank. Below is the continuum used by the Bank in ranking the level of exposure.

Bank's internal ratings scale except for group loan:

Description of the grade	Ageing	% used for Regulatory provisioning	Solidarity group loan provisioning
1. Current	0 - 30 days	-	2% (no default)
2. Especially mentioned	31 - 60 days	5%	25%
3. Sub-standard	61 - 90 days	10%	50%
4. Doubtful	91 - 180 days	50%	75%
5. Loss	181 days and above	100%	100%

For larger loans, qualitative factors are considered along with aging analysis to determine the level of exposure. These include information like the account operation, loan collateral, insurance and tax status of the client and carried on a cost basis.

(b) Debt securities

Debt securities are Treasury Bills and Bonds issued by the Government of the United Republic of Tanzania. These investments are internally graded as current.

3.1.2 Credit risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties 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.

The exposure to any one borrower including Banks is further restricted by sub-limits covering on and off balance sheet exposures. 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 employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

The internal rating systems described in Note 4.1.1 focuses more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the internal rating system that is used for internal operational management and Banking regulation purposes.

The impairment provision shown in the financial statements at the reporting period is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two grading. The table below shows the percentage of the Bank's on and off balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

	31st December 2014		31st December 2013	
Bank's rating	Loans and advances	Impairment provision	Loans and advances	Impairment provision
	(%)	(%)	(%)	(%)
1. Current	93.51	2.07	93.80	1.66
2. Especially mentioned	0.79	2.31	1.79	2.85
3. Sub-standard	0.43	1.24	1.17	2.06
4. Doubtful	1.13	12.12	0.85	14.15
5. Loss	4.15	82.26	2.39	79.29
	100	100	100	100

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions;
- Initiation of Bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

	2014 TZS 000	2013 TZS 000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with the Bank of Tanzania	13,815,316	12,078,054
Loans and advances to banks	9,775,107	7,629,191
Loans and advances to customers	77,219,211	74,869,030
Government securities held to maturity	18,064,087	13,032,511
Other assets (excluding prepayments)	397,297	396,059
	119,271,018	**108,004,845**
Credit risk exposures relating to off-balance sheet items are as follows:		
Unutilised facilities and other commitments to lend	219,991	352,000
Acceptances, guarantees and letters of credit	358,438	405,395
	578,429	757,395
	119,849,447	**108,762,240**

The above table represents a worst case scenario of credit risk exposure to the Bank at 31st December 2014 and 2013, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, of the total maximum exposure of 64.7% is derived from loans and advances to customers (2013: 69.3%) 15.1% represent investments in Government securities (2013: 12.1%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- 93% of the loans and advances portfolio are considered to be neither past due nor impaired (2013: 94%);
- A stringent selection process using widely accepted industry best practices upon granting loans and advances.

3.1.4 Loans and advances

a) Loans and advances are summarised as follows:

	31st December 2014		31st December 2013	
	Loans and advances to customers TZS 000	Deposits and balances due banking institutions TZS 000	Loans and advances to customers TZS 000	Deposits and balances due from banking institutions TZS 000
Neither past due nor impaired	74,278,386	9,775,107	71,467,845	7,629,191
Past due but not impaired	1,005,288	-	1,368,281	-
Impaired	4,179,836	-	3,375,347	-
Gross	79,463,510	9,775,107	76,211,473	7,629,191
Less: allowances for impairment	(2,244,299)	-	(1,342,443)	-
	77,219,211	9,775,107	74,869,030	7,629,191

The total impairment provision for loans and advances is TZS 2.4 billion (2013: TZS 1.3 billion). This amount represents individually as well as portfolio impaired loans. Further information of the impairment allowance for loans and advances to customers is provided in Note 18.

During the year ended 31st December 2014, the Bank's total loans and advances increased by 3.1% (2013: 3.0%) as a result of the expansion of the lending business. When entering into new markets or new industries, the Bank focused more on the business with small and medium corporate enterprises with good performance records in order to contain the level of delinquency.

b) Loans and advances neither past due nor impaired

The portfolio of loans and advances that were neither past due nor impaired can be analysed as follows:

	2014 TZS 000	2013 TZS 000
Classes		
Micro and Small Enterprises (MSEs)	55,243,238	52,940,543
Consumer Loans	7,038,165	8,816,077
Term loans	8,292,055	5,853,408
Overdrafts	3,704,928	3,857,817
Total loans and advances to customers	**74,278,386**	**71,467,845**
Amounts due from Banks	9,775,107	7,629,191

c) Loans and advances past due but not impaired

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Individual (retail) customers		Corporate entities		
	Micro and Small Enterprises TZS 000	Consumer loans TZS 000	Term loans TZS 000	Overdraft TZS 000	Total TZS 000
31st December 2014					
Especially mentioned (31-60 days)	517,998	149,508	-	-	667,506
Substandard (61-90 days)	298,268	39,514	-	-	337,782
	816,266	**189,022**	**-**	**-**	**1,005,288**
31st December 2013					
Especially mentioned 31-60 days)	681,413	156,905	18,316	-	856,634
Substandard (61-90 days)	265,446	87,094	159,107	-	511,647
	946,859	**243,999**	**177,423**	**-**	**1,368,281**

(d) Loans and advances impaired

Individually impaired loans and advances to customers before taking into consideration the anticipated cash flows from collateral held are TZS 4.2 billion (2013: TZS 3.4 billion). The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

	Individual (retail) customers		Corporate entities		
	Enterprises TZS 000	Consumer TZS 000	Term Loans TZS 000	Overdraft TZS 000	Total TZS 000
31st December 2014					
Doubtful	660,200	216,238	9,169	-	885,607
Loss	2,070,602	739,626	449,576	34,425	3,294,229
	2,730,802	**955,864**	**458,745**	**34,425**	**4,179,836**
31st December 2013					
Doubtful	536,928	282,122	64,558	-	883,608
Loss	1,068,079	963,698	424,715	35,248	2,491,740
	1,605,007	**1,245,820**	**489,273**	**35,248**	**3,375,348**

There were no amount of individually impaired loans and advances to Banks as at 31st December 2014 (2013: Nil). No collateral is held by the Bank and no impairment provision has been made against the gross amounts.

3.1.6 Debt securities, treasury bills and other eligible bills

The only investment securities held by the Bank are treasury bills issued by the Government of Tanzania. These investments are internally graded as current.

3.1.7 Concentration of risks of financial assets with credit risk exposure

Industry sectors

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as categorised by the industry sectors of its counterparties:

	Financial institutions TZS 000	Trading and commercial TZS 000	Wholesale and retail trade TZS 000	Individuals TZS 000	Others TZS 000	Total TZS 000
Loans and advances to banks	9,775,107	-	-	-	-	9,775,107
Investment securities	18,064,087	-	-	-	-	18,064,087
Loans and advances to customers	-	62,729,329	5,977,341	3,766,988	4,745,553	77,219,211
Other assets**	-	-	-	-	397,297	397,297
As at 31st December 2014	**27,839,194**	**62,729,329**	**5,977,341**	**3,766,988**	**5,142,850**	**105,455,702**
31st December 2013						
Loans and advances to banks	7,629,191	-	-	-	-	7,629,191
Investment securities	13,032,511	-	-	-	-	13,032,511
Loans and advances to customers	-	57,549,809	5,547,423	7,320,632	4,451,166	74,869,030
Other assets**	-	-	-	-	396,059	396,059
As at 31st December 2013	**20,661,702**	**57,549,809**	**5,547,423**	**7,320,632**	**4,847,225**	**95,926,791**

**For financial instruments disclosure purposes, other assets category excludes prepayments and stock

3.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates.

3.2.1 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. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

At 31st December 2014, if the functional currency had strengthened/weakened by 10% against the USD, GBP and EURO with all other variables held constant, post-tax profit for the year would have been TZS 43 million (2013: TZS 36 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated financial assets and liabilities. The exposure to foreign currencies other than the US Dollar is minimal.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31st December 2014. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

The Bank operates wholly within Tanzania and its assets and liabilities are reported in the local currency. The Bank's currency risk is managed within the Bank of Tanzania exposure guideline of 7.5% of core capital. The Bank's currency position as at 31st December 2014 was as follows:

As at 31st December 2014	TZS TZS 000	USD TZS 000	EURO TZS 000	GBP TZS 000	KES TZS 000	UGX TZS 000	Total TZS 000
Financial assets							
Cash and balances with Bank of Tanzania	21,071,895	2,000,161	25,486	10,940	2,496	2,984	23,113,962
Loans and advances to banks	4,032,910	5,643,544	76,111	22,542	-	-	9,775,107
Loans and advances to customers	76,529,099	690,112	-	-	-	-	77,219,211
Other assets excluding prepayments	397,297	-	-	-	-	-	397,297
Total financial assets	**101,766,410**	**8,333,817**	**101,597**	**33,482**	**2,496**	**2,984**	**110,240,786**
Financial liabilities							
Deposits from Customers	102,365,457	8,466,295	61,695	1,407	-	-	110,894,854
Other Liabilities (excluding statutory deductions)	2,100,918	99,777	33,722	-	-	-	2,234,417
Total financial liabilities	**104,466,375**	**8,566,072**	**95,417**	**1,407**	**-**	**-**	**113,129,271**
Net position	**(2,699,965)**	**(232,255)**	**6,180**	**32,074**	**2,496**	**2,984**	**(2,888,485)**

As at 31 December 2013	TZS TZS 000	USD TZS 000	EURO TZS 000	GBP TZS 000	KES TZS 000	UGX TZS 000	Total TZS 000
Financial assets							
Cash and balances with Bank of Tanzania	19,869,506	1,468,242	12,440	11,134	-	-	21,361,322
Loans and advances to banks	2,115,733	5,391,062	98,634	23,762	-	-	7,629,191
Loans and advances to customers	74,569,460	299,570	-	-	-	-	74,869,030
Other assets excluding prepayments	396,059	-	-	-	-	-	396,059
Total financial assets	**96,950,758**	**7,158,874**	**111,074**	**34,896**	**-**	**-**	**104,255,602**
Financial liabilities							
Deposits from Customers	98,125,839	6,876,254	69,816	1,404	-	-	105,073,313
Other Liabilities (excluding statutory deductions)	2,003,920	130,918	35,300	-	-	-	2,170,138
Total financial liabilities	**100,129,759**	**7,007,172**	**105,116**	**1,404**	**-**	**-**	**107,243,451**
Net position	**(3,179001)**	**151,702**	**5,958**	**33,492**	**-**	**-**	**(2,987,849)**

3.2.2 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 Banks Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate reprising 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 an interest rate risk on off balance sheet items.

Interest rate risk - stress tests

The Bank monitors the impact of risks associated with the effects of fluctuations in prevailing interest rates. At 31st December 2014, the following table summarizes the estimated impact of an immediate hypothetical increase or decrease in interest rates of 125 basis points on profit before income tax expense, and current interest rate risk profile.

	2014 TZS 000	2013 TZS 000
125 basis points increases or decrease in interest rates	**326,225**	380,823

The effective interest rates for the principal financial assets and liabilities at 31st December 2014 and 2013 were as follows:

	Year 2014	Year 2013
Government securities	**12.91%**	14.08%
Loans and advances	**4.85%**	5.26%
Loans and advances to customers	**34.02%**	32.78%
Deposit from Customers	**2.41%**	3.23%

The following is the Interest rate risk analysis of the bank as at 31st December 2014

	Non-interest bearing TZS 000	Up to 1 month TZS 000	1-3 month TZS 000	3-12 month TZS 000	1-5 years TZS 000	Total TZS 000
Financial assets						
Cash and balances with Bank of Tanzania	23,113,962	-	-	-	-	23,113,962
Government Securities	-	2,494,934	9,504,106	6,065,047	-	18,064,087
Loans and advances to banks	2,968,259	6,806,848	-	-	-	9,775,107
Loans and advances to customers	-	1,925,577	4,819,569	50,206,879	20,267,186	77,219,211
Other Assets	397,297	-	-	-	-	397,297
Total financial assets	**26,479,518**	**11,227,359**	**14,323,675**	**56,271,926**	**20,267,186**	**128,569,664**
Financial liabilities						
Deposits from Customers	51,519,713	47,184,242	5,406,749	6,739,150	-	110,849,854
Other Liabilities (excluding statutory deductions)	2,234,417	-	-	-	-	2,234,417
Total financial liabilities	**53,754,130**	**47,184,242**	**5,406,749**	**6,739,150**	**-**	**113,084,271**
Interest rate sensitivity gap	**(27,274,612)**	**(35,956,883)**	**8,916,926**	**49,532,776**	**20,267,186**	**15,485,393**

The following is the Interest rate risk analysis of the bank as at 31st December 2013

	Non-interest bearing TZS 000	Up to 1 month TZS 000	1-3 month TZS 000	3-12 month TZS 000	1-5 years TZS 000	Total TZS 000
Financial assets						
Cash and balances with Bank of Tanzania	21,361,322	-	-	-	-	21,361,322
Government Securities	-	-	8,778,360	4,254,151	-	13,032,511
Loans and advances to banks	3,097,756	4,531,435	-	-	-	7,629,191
Loans and advances to customers	-	4,607,183	4,596,780	44,177,021	21,488,046	74,869,030
Other assets(excluding prepayments)	396,059	-	-	-	-	396,059
Total financial assets	**24,855,137**	**9,138,618**	**13,375,140**	**48,431,172**	**21,488,046**	**117,288,113**
Financial liabilities						
Deposits from Customers	45,465,195	42,000,563	9,024,024	8,583,530	-	105,073,312
Other Liabilities (excluding statutory deductions)	2,170,138	-	-	-	-	2,170,138
Total financial liabilities	**47,635,333**	**42,000,563**	**9,024,024**	**8,583,530**	**-**	**107,243,450**
Interest rate sensitivity gap	**(22,780,196)**	**(32,861,945)**	**4,351,116**	**39,847,642**	**21,488,046**	**10,044,663**

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Bank's Asset and Liability Committee (ALCO), includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that cash 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 balance sheet liquidity ratios against internal and regulatory requirements; and

- Managing the concentration and profile of debt maturities.

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

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by the Bank's Asset and Liability Committee to maintain a wide diversification by currency, geography, provider, product and term.

3.3.3 Non-derivative cash flows

The following is the liquidity profile of the Bank as at 31st December 2014

	Up to 1 month TZS 000	1-3 month TZS 000	3-12 month TZS 000	Over 1 year TZS 000	Total TZS 000
Financial assets					
Cash and balances with Bank of Tanzania	23,113,962	-	-	-	23,113,962
Government Securities	2,494,934	9,504,106	6,065,047	-	18,064,087
Loans and advances to banks	9,775,107	-	-	-	9,775,107
Loans and advances to customers	1,925,577	4,819,569	50,206,879	20,267,186	77,219,211
Other Assets (excluding prepayments)	397,297	-	-	-	397,297
Total financial assets	**37,706,877**	**14,323,675**	**56,271,926**	**20,267,186**	**128,569,664**
					-
Financial liabilities					-
Customer deposits	98,703,955	5,406,749	6,739,150	-	110,849,854
Other Liabilities (excluding statutory deductions)	2,234,417	-	-	-	2,234,417
Total financial liabilities	**100,938,372**	**5,406,749**	**6,739,150**	**-**	**113,084,271**
Net liquidity gap	**(63,231,495)**	**8,916,926**	**49,532,776**	**20,267,186**	**15,485,393**

The following is the liquidity profile of the Bank as at 31st December 2013

	Up to 1 month TZS 000	1-3 month TZS 000	3-12 month TZS 000	Over 1 year TZS 000	Total TZS 000
Financial assets					
Cash and balances with Bank of Tanzania	21,361,322	-	-	-	21,361,322
Government Securities	-	8,778,360	4,254,151	-	13,032,511
Loans and advances to banks	7,629,191	-	-	-	7,629,191
Loans and advances to customers	5,970,885	4,596,780	44,177,021	20,124,344	74,869,030
Other Assets (excluding prepayments)	396,059	-	-	-	396,059
Total financial assets	**35,357,457**	**13,375,140**	**48,431,172**	**20,124,344**	**117,288,113**
					-
Financial liabilities					-
Customer deposits	87,465,759	9,024,024	8,583,530	-	105,073,313
Other Liabilities	2,170,138	-	-	-	2,170,138
Total financial liabilities	**48,065,197**	**9,024,024**	**8,583,530**	**-**	**107,243,451**
Net liquidity gap	(54,278,440)	4,351,116	39,847,642	20,124,344	10,044,662

3.3.3 Non-derivative cash flows (continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, Bank of Tanzania balances, items in the course of collection, treasury bills, deposits and balances due from financial institutions and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

3.3.4 Off-balance sheet items

(a) *Loan commitments*

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 30), are summarised in the table below.

(b) *Financial guarantees and other financial facilities*

Financial guarantees (Note 30) are also included below based on the earliest contractual maturity date.

	No later than 1 year TZS 000
As at 31st December 2014	
Unutilised facilities and other commitments to lend	2,302,072
Acceptances, guarantees and letters of credit	358,438
Total	**2,660,510**
As at 31st December 2013	
Unutilised facilities and other commitments to lend	1,535,725
Acceptances, guarantees and letters of credit	405,395
Total	**1,941,120**

3.4 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

	Carrying value		Fair value	
	2014 TZS 000	2013 TZS 000	2014 TZS 000	2013 TZS 000
Financial assets				
Cash and balances with Bank of Tanzania	**23,113,962**	21,361,322	**23,113,962**	21,361,322
Loans and advances to banks	**9,775,107**	7,629,191	**9,775,107**	7,629,191
Loans and advances to customers	**77,219,211**	74,869,030	**77,219,211**	74,869,030
Other Assets (excluding prepayments)	**397,297**	396,059	**397,297**	396,059
Investment securities (held-to-maturity)	**18,064,087**	13,032,511	**18,064,087**	13,032,511
Financial liabilities				
Deposits from customers	**110,849,854**	105,073,313	**110,849,854**	105,073,313
Other liabilities (excluding statutory obligations)	**2,234,417**	2,170,138	**2,234,417**	2,170,138
Off-balance sheet financial instruments				
Loan commitment	**3,923,777**	2,478,069	**3,923,777**	2,478,069
Guarantees, acceptances and other financial facilities	**358**	352	**358**	352

(i) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities

The fair value for loans and receivables and held-to-maturity financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Investment securities (available-for-sale) disclosed in the table above comprises only those equity securities held at cost less impairment. The fair value for these assets is based on estimations using market prices and earning multiples of quoted securities with similar characteristics. All other available-for-sale financial assets are already measured and carried at fair value.

(iv) Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) Off-balance sheet financial instruments

The estimated fair values of the off-balance sheet financial instruments are based on markets prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

(b) Fair value hierarchy

IFRS 13 requires the Bank to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The Bank 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 while unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following fair value hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

3.4.1 Assets and liabilities measured at fair value

The following table analyses within the fair value hierarchy the Bank's financial assets and financial liabilities (by class) measured at fair value at 31st December 2014.

Fair value hierarchy

	Level 1 TZS '000	Level 2 TZS '000	Level 3 TZS '000	Total TZS '000
31st December 2014				
Available for sale financial assets				
- Investment securities - debt	-	-	20,000	20,000
Total	**-**	**-**	**20,000**	**20,000**
31st December 2013				
Available for sale financial assets				
-Investment securities - debt	-	-	20,000	20,000
Total	**-**	**-**	**20,000**	**20,000**

There were no transfers between levels for the year ended 31st December 2014 (2013: Nil).

3.5 Capital management

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

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

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

The BoT requires each Bank or Banking group to: (a) hold the minimum level of the regulatory capital of TZS 15 billion by 31st December 2015, and (b) maintain a ratio of core capital and total capital to the risk-weighted asset (the 'Basel ratio') at or above the internationally agreed minimum of 10% and 12% respectively.

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

- **Tier 1 capital:** share capital, retained earnings and reserves created by appropriations of retained earnings. Prepaid expenses, intangible assets and deferred charges are deducted in arriving at Tier 1 capital; and

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

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of the asset and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees

A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31st December 2014 and 31st December 2013 year end respectively. During those two periods, the Bank complied with all of the externally imposed capital requirements to which they are subject.

Tier 1 capital	2014 TZS 000	2013 TZS 000
Share capital	8,607,136	8,247,184
Share premium	2,431,917	2,431,917
Retained earnings	6,614,747	6,104,385
Prepaid expenses	(1,365,931)	(1,135,264)
Deferred charges	-	128,183
Intangible assets	(280,551)	(648,534)
Total qualifying Tier 1 capital	**16,007,318**	**16,356,716**
Tier 2 capital		
Loan portfolio provision	3,836,097	1,306,668
Total qualifying Tier 2 capital	**3,836,097**	**1,306,668**
Total regulatory capital (Tier 1 & Tier 2)	**19,843,415**	**17,663,384**
Risk-weighted assets		
On-balance sheet	64,936,239	65,018,074
Off-balance sheet	364,521	272,000
Total risk-weighted assets	**65,300,760**	**65,290,074**

	Bank's ratio 2014	Bank's ratio 2013
	%	%
Tier 1 capital (BoT minimum 10%)	25.56	25.05
Tier 1 + Tier 2 capital (BoT minimum 12%)	30.39	24.99

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements the Bank makes estimates and assumptions that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances. The most significant uses of judgment and estimates are as follows:

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Were the net present values of estimated cash flow to differ by +/- 10%, the impairment loss would have been TZS 33 million lower or higher (2013: TZS NIL).

The impairment loss on loans and advances is disclosed in more detail in note 18.

Property and equipment

Critical estimates are made by the directors in determining depreciation rates for equipment and their residual values. The rates used are set out in the accounting policies section of these financial statements under Note 2. There is no significant risk of these estimates changing in the next 12 months that may lead to a material change in the carrying value of property and equipment and intangible assets.

Deferred tax assets

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

Held to maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

If all held-to-maturity investments (Treasury bills and bonds) were to be so reclassified, the carrying value would decrease by TZS 106 million, with a corresponding entry in the fair value reserve in shareholders' equity.

7 INTEREST INCOME

	2014 TZS 000	2013 TZS 000
Interest on loans and advances to customers	22,439,028	21,686,790
Income from Government securities	2,048,879	1,390,315
Interest from placement with other banks	327,701	250,370
Unrealised interest on loans and advances to customers	2,823,303	-
	27,638,911	23,327,475

The unrealised interest is attributed to recognition of interest income using effective interest rate as opposed to flat rate basis based on agreement with customers.

8 INTEREST EXPENSE

Saving deposits	896,093	753,474
Time deposits	1,699,800	2,608,993
Other borrowings	120	2,922
	2,596,013	3,365,389

9 FEES AND COMMISSION INCOME

	2014 TZS 000	2013 TZS 000
Commission income	158,607	102,634
ATM Card	153,830	156,888
ATM Fees	189,608	191,562
Loans and Advances set up fees	3,369,905	3,274,917
Withdrawal charges	403,622	438,043
Ledger fees	1,076,434	1,143,028
Telegraphic transfer	158,367	150,045
Salary processing	134,602	145,041
Other fees	76,309	82,980
	5,721,284	**5,685,138**

10 FOREIGN EXCHANGE INCOME

Foreign currency trading	141,410	178,733

11 OTHER OPERATING INCOME

Insurance income	94,745	16,057
Profit on disposal of property and equipment	400	-
Other income	109,185	52,418
	204,330	68,475

12 EMPLOYEE BENEFITS EXPENSES

Salaries and allowances	8,334,792	7,476,522
Social security costs	849,554	757,768
Medical insurance	797,286	573,988
Leave allowance	510,286	526,450
Staff welfare	117,688	154,845
Staff Incentives	422,448	353,221
Skill and development levy	454,811	468,142
Other staff cost	398,212	205,278
	11,885,077	10,516,214

13 GENERAL AND ADMINISTRATIVE EXPENSES

	2014 TZS 000	2013 TZS 000
Operating leases	2,276,405	2,051,974
Umoja Switch expenses	379,546	462,185
Advertising and Marketing	571,124	567,323
ICT expenses	959,659	931,015
Technical assistance fees (Note 31 (iii))	185,531	193,914
Auditors' remuneration	96,416	104,628
Directors' fees and other emoluments (Note 31)	149,199	149,616
Training	500,066	372,095
Travel and lodging	619,518	435,758
Maintenance equipment	295,014	204,845
Fuel Motor vehicles and generators	317,714	218,996
Withholding Tax and VAT	117,427	164,038
Telephones	171,272	124,566
Stationery expenses	402,892	392,839
Insurance	258,920	243,602
Subscription and professional fees	196,993	122,214
Legal expenses	391,697	383,745
Security	872,677	828,964
Premises expenses	888,720	737,095
Provision other assets	276,991	18,105
Miscellaneous expenses	116,305	161,475
	10,044,085	**8,868,992**

14 DEPRECIATION AND AMORTISATION

Depreciation (Note 21,22 and 23)	1,981,847	1,991,218

15 TAXATION

(a) Tax expense for the year is arrived at as follows:		
Current income tax - current year	1,505,465	877,805
Current income tax – Prior year	53,955	-
Deferred income tax - current year	155,254	(44,758)
Deferred income tax - prior periods	156,340	34,885
	1,871,014	**867,932**

(b) Reconciliation of tax expense to the expected tax based on accounting profit.

	2014	2013
	TZS 000	TZS 000
Accounting profit before tax	5,310,751	2,501,853
Tax calculated at the statutory income tax rate of 30%	1,593,225	750,556
Tax effect of:		
Expenditure permanently disallowed	4,364	82,491
Other adjustment	63,130	-
Prior year current tax adjustment	53,955	-
Prior year deferred tax adjustment	156,340	34,885
Income tax expense	**1,871,014**	**867,932**

(c) Current income tax recoverable

At 1st January	811,534	1,036,771
Payments made during the year	1,191,108	652,568
Charge to profit or loss	(1,559,420)	(877,805)
	443,222	**811,534**

16 CASH AND BALANCES WITH THE BANK OF TANZANIA

Cash balances	8,959,296	9,283,268
Balances with Bank of Tanzania:		
Clearing account - local currency	2,073,171	1,652,458
Clearing account - foreign currency	1,793,995	638,096
Statutory minimum reserve (SMR)	10,287,500	9,787,500
	23,113,962	**21,361,322**

16 CASH AND BALANCES WITH THE BANK OF TANZANIA (CONTINUED)

The SMR deposit is not available to finance the Bank's day-to-day operations and is excluded from cash and cash equivalents for the purpose of the cash flow statement (Note 29).

Cash and balances with Bank of Tanzania are non-interest bearing.

17 LOANS AND ADVANCES TO BANKS

	2014 TZS 000	2013 TZS 000
Maturing within 90 days		
Placement with local banks	3,501,795	1,800,855
Placement with banks abroad	3,305,053	2,730,580
Cheques and items in the course of clearing	437,058	267,297
Balances with other banks	2,531,201	2,830,459
	9,775,107	7,629,191

18 LOANS AND ADVANCES TO CUSTOMERS

	2014	2013
Loans and advances to customers	74,701,440	71,760,307
Staff loans	4,762,070	4,451,166
Gross loans and advances	79,463,510	76,211,473
Less: allowance for impairment	(2,244,299)	(1,342,443)
	77,219,211	74,869,030

Gross loans and advances to customers by class are as follows:

	2014	2013
Microfinance loans	57,951,299	55,492,407
Salaried workers and personal loans	4,218,419	5,854,730
Corporate loans	8,792,369	6,520,104
Overdrafts	3,739,353	3,893,066
	74,701,440	71,760,307

Reconciliation of allowance account for losses on loans and advances is as follows:

	2014	2013
Balance at 1st January	1,342,443	788,180
Impairment losses for the year	2,353,842	2,111,911
Loans and advances written off during the year	(1,451,986)	(1,557,648)
	2,244,299	1,342,443

18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Reconciliation of allowances account for losses on loans and advances by class is as follows:

	Individual (retail) customers		Corporate entities		
	Small and Medium Enterprises	Consumer	Term loans	Overdrafts	Total
	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000
Balance at 1st January 2014	452,914	403,281	458,092	28,155	1,342,443
Increase in provision for loan impairment	2,183,632	154,279	-	15,931	2,353,842
Write offs	(901,674)	(550,312)	-		(1,451,986)
At 31st December 2014	**1,734,872**	**7,248**	**458,092**	**44,086**	**2,244,299**
Balance at 1st January 2013	125,402	624,287	-	38,491	788,180
Increase in provision for loan impairment	1,020,835	185,228	916,184	(10,336)	2,111,911
Write offs	(693,322)	(406,234)	(458,092)	-	(1,557,648)
At 31st December 2013	**452,915**	**403,281**	**458,092**	**28,155**	**1,342,443**

19 GOVERNMENT SECURITIES

	2014 TZS 000	2013 TZS 000
Treasury bills:		
Maturing within 91 days or less (from acquisition)	3,682,293	2,939,385
Maturing after 91 days	14,381,794	10,093,126
	18,064,087	**13,032,511**

Treasury bills are debt securities issued by the Government of the United Republic of Tanzania and are classified as held to maturity.

20 UNQUOTED EQUITY INVESTMENT

Investment in shares	20,000	20,000

Investments in shares represent 20 ordinary shares in Umoja Switch Company Limited. The investment represents 9.1% of the Company's total issued and paid up ordinary share capital. The shares are accounted for at cost.

Umoja Swicth Company Limited is a jointly controlled operation whereby 11 banks have pulled together resources to invest in a nationwide ATM network. Each bank has an equal voting right in respect of decision making.

21 PROPERTY AND EQUIPMENT

	Motor vehicles	Fixtures fittings and equipment	Total
	TZS 000	TZS 000	TZS 000
COST			
As at 1st January 2014	693,726	5,441,555	6,135,281
Additions	302,123	1,076,400	1,378,523
Disposals	-	(4,780)	(4,780)
As at 31st December 2014	995,849	6,513,175	7,509,024
Additions	5,000	328,522	333,522
Disposals	(6,076)	-	(6,076)
As at 31st December 2014	**994,773**	**6,841,697**	**7,836,470**
DEPRECIATION			
As at 1st January 2014	498,385	3,148,259	3,646,644
Charge for the year	178,104	948,455	1,126,559
Disposals	-	(1,487)	(1,487)
As at 31st December 2014	676,489	4,095,227	4,771,716
Charge for the year	120,517	1,000,480	1,120,997
Disposals	(6,076)	-	(6,076)
As at 31st December 2014	**790,930**	**5,095,707**	**5,886,637**
NET BOOK VALUE			
At 31st December 2014	**203,844**	**1,745,990**	**1,949,833**

21 PROPERTY AND EQUIPMENT (CONTINUED)

	Motor vehicles	Fixtures fittings and equipment	Total
	TZS 000	TZS 000	TZS 000
As at 1st January 2013	580,074	5,220,917	5,800,991
Additions	113,652	516,499	630,151
Disposals	-	(295,861)	(295,861)
As at 31st December 2013	693,726	5,441,555	6,135,281
Additions	302,123	1,076,400	1,378,523
Disposals	-	(4,780)	(4,780)
As at 31st December 2013	995,849	6,513,175	7,509,024
DEPRECIATION			
As at 1st January 2013	324,953	2,584,499	2,909,452
Charge for the year	173,432	859,621	1,033,053
Disposals	-	(295,861)	(295,861)
As at 31st December 2013	498,385	3,148,259	3,646,644
Charge for the year	178,104	948,455	1,126,559
Disposals	-	(1,487)	(1,487)
As at 31st December 2013	676,489	4,095,227	4,771,716
Net book value			
At 31st December 2013	319,360	2,417,948	2,737,308

None of the premises and equipment has been pledged as security for liabilities (2013: Nil).

22 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2014 TZS 000	2013 TZS 000
COST		
At start of year	2,706,050	2,656,982
Additions	23,409	49,068
At end of year	2,729,459	2,706,050
AMORTISATION		
At start of year	2,057,517	1,672,403
Current year charge	391,391	385,114
At end of year	2,448,908	2,057,517
NET BOOK VALUE	280,551	648,533

23 LEASEHOLD IMPROVEMENTS

COST		
At start of year	5,074,917	4,668,391
Additions	-	406,526
At end of year	5,074,917	5,074,917
AMORTISATION		
At start of year	2,297,230	1,817,943
Current year charge	469,459	479,286
At end of year	2,766,689	2,297,229
NET BOOK VALUE	2,308,228	2,777,688

24 DEFERRED INCOME TAX

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

24 DEFERRED INCOME TAX (CONTINUED)

	2014 TZS 000	2013 TZS 000
At start of year	128,183	118,310
Prior years over provision	(57,537)	(34,885)
(Debit)/Credit to profit or loss	(255,113)	44,758
At the end of year	**(184,467)**	**128,183**

Deferred income tax liabilities and deferred income tax charge to the profit and loss account are attributed to the following items:

	1 January **2014**	(Debit)/ Credit to profit or loss	31 December **2014**
2014	TZS 000	TZS 000	TZS 000
Property and equipment	86,483	68,667	155,150
Other timing differences	41,700	(381,317)	(339,617)
	128,183	(312,650)	(184,467)
2013			
Property and equipment	78,851	7,632	86,483
Other timing differences	39,459	2,241	41,700
	118,310	9,873	128,183

25 OTHER ASSETS

Prepayments	1,365,932	1,135,264
Head office and main branch refurbishment work in progress	555,745	299,689
Other receivables	450,407	396,059
Less: Provision for losses	(294,079)	(39,933)
	2,078,005	1,791,079

26 DEPOSITS FROM CUSTOMERS

	2014 TZS 000	2013 TZS 000
Current accounts	25,851,998	20,222,616
Biashara accounts	25,667,714	25,242,579
Savings accounts	42,391,588	35,694,786
Time deposit accounts	13,968,541	21,233,692
Solidarity savings	2,970,013	2,679,640
	110,849,854	105,073,313
MATURITY ANALYSIS:		
Payable within three months	104,110,704	96,489,783
Payable within three to twelve months	6,739,150	8,583,530
	110,849,854	105,073,313

27 OTHER LIABILITIES

Statutory deductions	493,572	472,774
Bills payable	109,609	188,949
Deferred facility fees	852,570	849,702
Accrued leave	135,951	139,002
Other accrued expenses	188,322	51,042
Trade creditors	227,973	404,698
Auditors fees payable	48,535	52,935
Directors fees payable	125,750	134,723
Mobile service payable	123,420	43,380
Loan insurance premium	95,287	90,892
Customer suspense	237,733	138,418
Other accounts payable	89,267	76,396
	2,727,989	2,642,911

28 SHARE CAPITAL

Authorised		
10,000,000 ordinary shares of TZS 1,000 each	10,000,000	10,000,000
Issued and fully paid		
8,607,136 (2013: 8,247,184) ordinary shares of TZS 1,000 each	8,607,136	8,247,184

29 CASH AND CASH EQUIVALENTS

	2014 TZS 000	2013 TZS 000
Cash and balances with Bank of Tanzania (Note 16)	23,113,962	21,361,322
Less: Statutory Minimum Reserves (Note 16)	(10,287,500)	(9,787,500)
Government securities maturing within 3 months (Note 19)	3,682,293	2,939,385
Loans and Advances to Banks (Note17)	9,775,107	7,629,191
	26,283,862	22,142,398

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with Bank of Tanzania, Government securities, and deposits and balances due from Banking instructions. Cash and cash equivalents exclude the Statutory Reserve requirement held with the Bank of Tanzania.

30 OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

In common with other Banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Acceptances are a draft or bill of exchange drawn upon and accepted by a Bank.

Guarantees are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

At the end of the reporting period the Bank had outstanding Acceptances, guarantees and letters of credit amounting to TZS 358 million (2013 - TZS 405 million).

Commitments to extend credit

At the end of the reporting period the Bank had outstanding commitments to extend credit amounting to TZS 2.3billion (2013 - TZS 1.5 billion).

30 OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Legal claims

The Bank is currently involved in legal proceedings and has in consultation with its legal counsel assessed the outcome of these proceedings. Following this assessment, the Bank's management has determined that no provision is required in respect of these legal proceedings as at 31st December 2014 Nil (2013: Nil). Litigations, current or pending, are not likely to have a material adverse effect to the Bank.

As at 31st December 2014, contingent liabilities and contingent assets relating to pending cases with approximate financial effect of TZS1.94 billion and TZS 1.79 billion respectively (2013: TZS 1.68 billion and TZS 1.54 billion).

Various employees have sued the Bank for unfair dismissal. Furthermore, some loan customers have also sued the Bank. In the opinion of the Directors, in combination with the Bank's legal advisors, the ultimate liability to the Bank in respect of the amounts claimed in these two situations is not expected to be material.

Capital commitments

	2014 TZS 000	2013 TZS 000
Authorized and contracted for	2,532,569	1,835,583
Authorized not yet contracted for	1,391,208	642,486
	3,923,777	2,478,069

Capital commitments authorized but not yet contracted for relates to purchase of fixed assets, data warehousing and reporting project, branch remodelling and money counting machines (2013: Purchase of fixed assets, and Biometric and EFT bridge project.

Operating lease commitments

At the end of the reporting date, the Bank had outstanding commitments under operating leases, payable as follows:

	2014 TZS 000	2013 TZS 000
Not later than 1 year	1,456,283	1,278,308
Later than 1 year but not later than 5 years	4,419,158	4,722,933
	5,875,441	6,001,241

Operating lease commitments represent rentals payable by the Bank for its office premises, branches and residence houses for employees. Leases are negotiated for an average term of one to three years during which rentals are fixed.

31 RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of Banking transactions are entered into with related parties in the normal course of business and on the Bank's normal commercial terms. The values of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

(i) Loans and advances to related parties

Advances to shareholders and their related companies were as follows:

	2014 TZS 000	2013 TZS 000
At start of year	2,722,533	2,028,696
Advanced during the year	755,000	700,000
Repaid during the year	(164,324)	(6,163)
At end of year	3,313,209	2,722,533
Interest income earned	93,701	97,160

Advances to key management personnel were as follows:

	2014 TZS 000	2013 TZS 000
At start of year	372,087	489,589
Advanced during the year	285,917	84,774
Repaid during the year	(308,162)	(202,275)
At end of year	349,842	372,088
Interest income earned	13,015	18,565

Loans and advances to related parties were fully performing as at 31st December 2014.

(ii) Deposits from related parties

a) Deposits received from shareholders.

	2014 TZS 000	2013 TZS 000
Inter Consult Limited	123,500	27,635
Parastatal Pensions Fund	1,372,441	1,987,978
ERNCON Holdings Limited	23,396	18,348
Others	548,937	381,714
	2,068,274	2,415,675

b) Deposits by Directors and key management personnel

	2014 TZS 000	2013 TZS 000
At start of year	355,862	680,116
Net movement during the year	(164,111)	(324,254)
Balance as at 31st December	191,751	355,862
Interest expense incurred	2,440	3,126

c) Deposits by shareholders

	2014 TZS 000	2013 TZS 000
At start of year	2,415,675	3,569,418
Net movement during the year	(347,402)	(1,153,743)
At end of year	2,068,273	2,415,675
Interest expense incurred	197,932	193,114

(iii) Technical assistance fees

	2014 TZS 000	2013 TZS 000
Accion International	185,531	193,914

(iv) Key management compensation

	2014 TZS 000	2013 TZS 000
Salaries and other short-term benefits	1,683,044	1,128,789

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.

(v) Directors' remuneration

Fees and other emoluments paid to Directors of the Bank during the period are as follows:

	2014 Directors fees	2014 Other emoluments	2013 Directors fees	2013 Other emoluments
Name	TZS 000	TZS 000	TZS 000	TZS 000
Elizabeth Minde Maro	5,950	2,949	12,048	10,900
Joseph Rugumyamheto	4,250	4,500	-	-
Rita Van den Abbeel	4,250	-	8,607	12,672
Brian Kuwik	8,500	16,450	8,607	12,415
John Fischer	8,500	12,450	8,607	10,330
Dr. Richard Kasungu	8,500	9,000	3,586	2,000
Patrice Mwaigomole	-	-	8,607	6,500
Ernest Massawe	10,200	7,000	8,607	6,000
Selestine Joseph Some	8,500	8,000	8,607	11,503
Liesbeth Soer	8,500	21,700	5,020	5,000
	67,150	**82,049**	**72,296**	**77,320**

32 COUNTRY OF INCORPORATION

The Bank is incorporated under the Companies Act, 2002 and domiciled in Tanzania.

33 ASSETS PLEDGED AS SECURITY

As at 31st December 2014, there were no assets which had been pledged by the Bank to secure any liabilities and the Bank did not have any secured liabilities.

34 FAIR VALUE

The Directors consider that there is no material difference between the fair value and the carrying value of the Bank's financial assets and financial liabilities where fair value details have not been presented.

35 SUBSEQUENT EVENTS DISCLOSURE

At the date of signing the financial statements, the Directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in these financial statements, which significantly affected the financial position of the Company and results of its operations.

Ukonga Branch

Head Office and Branch Addresses

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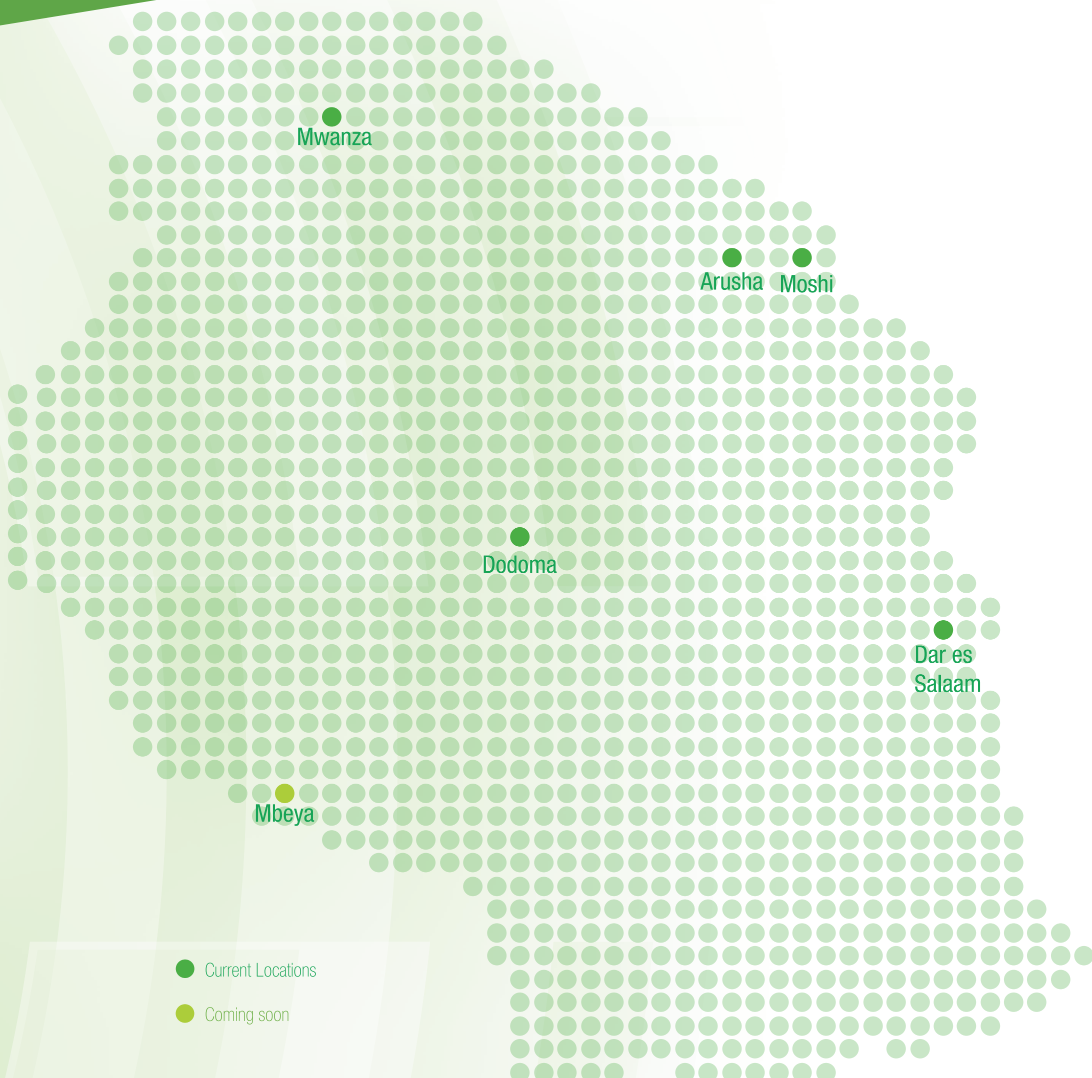
OPENING SOON

***Mbeya Branch**



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