

Your Partner for Growth
ANNUAL REPORT - 2014



**TIB
DEVELOPMENT
BANK**
Your Partner for Growth

TIB Development Bank Ltd
Annual Report 2014

TIB Development Bank,
P. O. Box 9373 Dar Es Salaam,
Date: 2nd April, 2015.

Hon. Saada Mkuya,
Minister for Finance,
P.O.Box 9111.
Dar es Salaam.

Dear Honourable Minister,

I hereby formally present you on behalf of the Board of Directors with the Annual Report with audited financial statements for TIB Development Bank Ltd. for the year ended 31st December, 2014.

Yours faithfully,

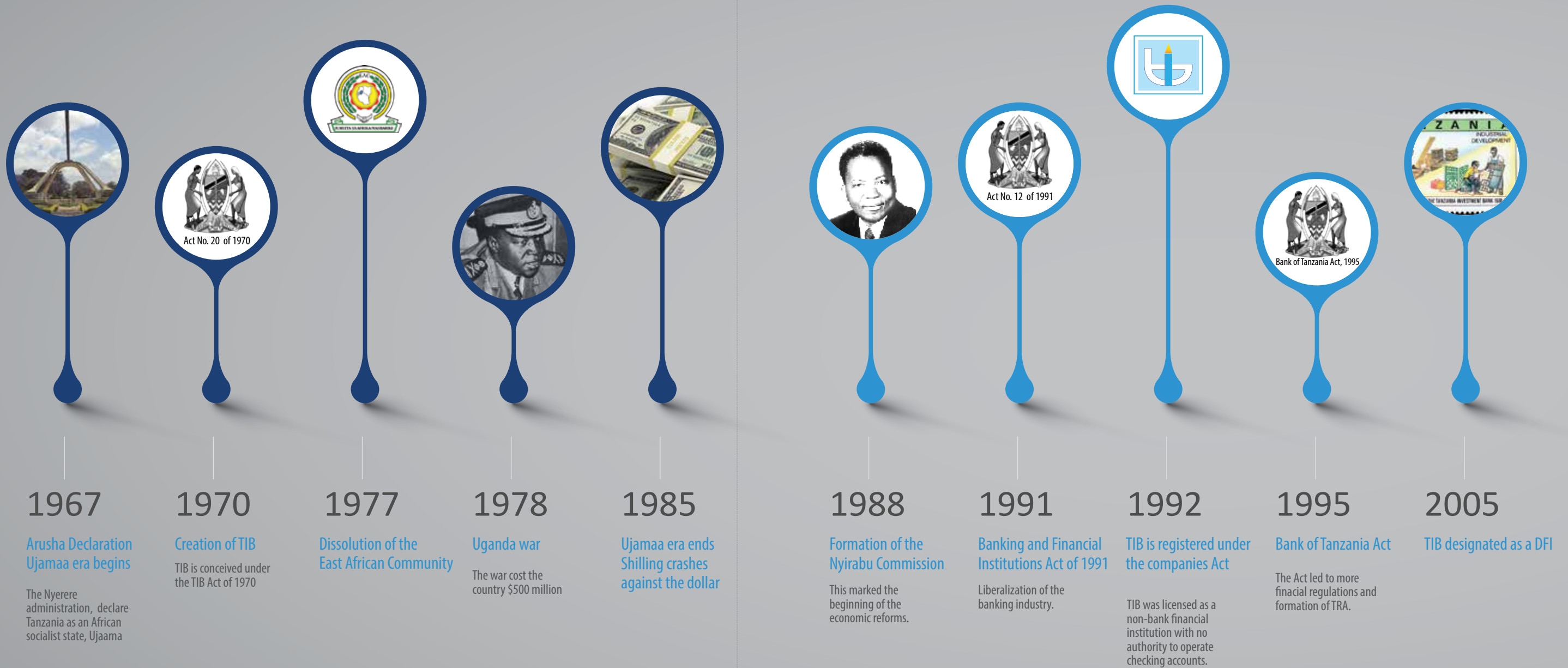
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Professor William Lyakurwa,
Chairman of the Board of Directors

The Directors have the pleasure of presenting this report along with the audited financial statements for the year ended 31st December, 2014 which, disclose the affairs of TIB Development Bank (the 'bank'). These financial statements can be amended by the directors and regulatory bodies if the financial statements are found misleading after they have been issued to the public. The financial statements can be amended by the directors and regulatory bodies if they are found misleading after they have been issued to the public. The report and audited financial statements were authorised for issue in accordance with a resolution of the board of directors.

The bank is incorporated in Tanzania under the Companies Act, 2002, and is licensed to undertake banking business under Section 7 of the Banking and Financial Institutions Act, 2006.

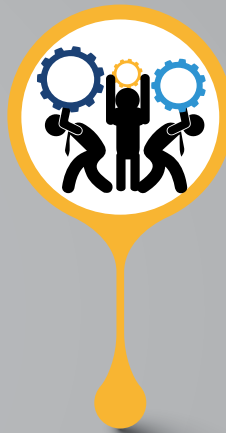
History of TIB

The TIB journey from it's conception to present day



Stable growth

Macro economic shocks / Profitability decreased



2010

- Cabinet approve recommendations to split TIB into both a DFI and a Commercial Bank
- TIB formally inaugurated as a DFI

2012

- TIB applies for DFI licensing
- TIB applies for corporate licensing
- TIB Rasimali Limited registered

2012

- Tanzania Investment Bank (TIB) changes its name to: **TIB Development Bank Ltd**, and has incorporated a Commercial Bank subsidiary, TIB Corporate Finance Limited.

2013

The beginning of the structural split

2015

The completion of the split



Mission

To provide development financing and complementary services for a diversified, vibrant and competitive national economy.

Vision

To be the premier national development financing bank for promoting sustainable economic growth and poverty alleviation.

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Ownership

TIB remains a 100% Government owned entity with an option to invite other development oriented partners to take up to 40% of the bank's equity stake and allow enjoyment of the benefits from knowledge, technical expertise sharing and provision of additional funding

Capital structure and shareholding

The bank's capital structure for the years ended 31 December 2014 is shown below.

	2014	
	TZS '000	TZS '000
Authorised share capital (1,000,000,000 ordinary shares of TZS 1,000 each)	1,000,000,000	1,000,000,000
Issued and fully paid up shares (152,137,661 shares @ TZS 1,000) – 2013: 142,137,661 shares @ TZS 1,000.	152,137,661	142,137,661

The paid up share capital of the bank increased by TZS 10 billion during the year following an equity injection from the Government.

We have stood the true test of time and continue to
push the wheels of development



General information

Registered office

Company Secretary
 Consolidated Holding Corporation Building Ms. Martha Maeda
 Plot number 53/40 P.O. Box 9373,
 Corner of Samora Avenue and Zanaki Street Dar es Salaam,
 Dar es Salaam,

Physical address

Mlimani City Office Park
 Building No. 3
 Sam Nujoma Road

Other contact details

P.O. Box 9373,
 Dar es Salaam
 Tel: (0)255 (0)22 2411101-9
 Telefax: (0)255 (0)22 2411095
 E-mail: md@tib.co.tz
 Website: www.tib.co.tz
 Swift: TAINZTZ

Main bankers

Stanbic Bank (Tanzania) Limited
 Main Branch
 P. O Box 72647
 Dar es Salaam, Tanzania

Bank of Tanzania
 P.O. Box 2939
 Dar es Salaam, Tanzania

NBC Limited
 Corporate Branch
 P.O. Box 9062
 Dar es Salaam, Tanzania

The Bank of Tokyo Mitsubishi UFJ, Limited
 P.O. Box 191
 Nihonbashi
 Tokyo, Japan

Standard Chartered Bank
 London, EC2V 7SB
 Aldermanbury Square

Standard Chartered Bank
 New York, NY 10010- 3663
 One Madison Avenue

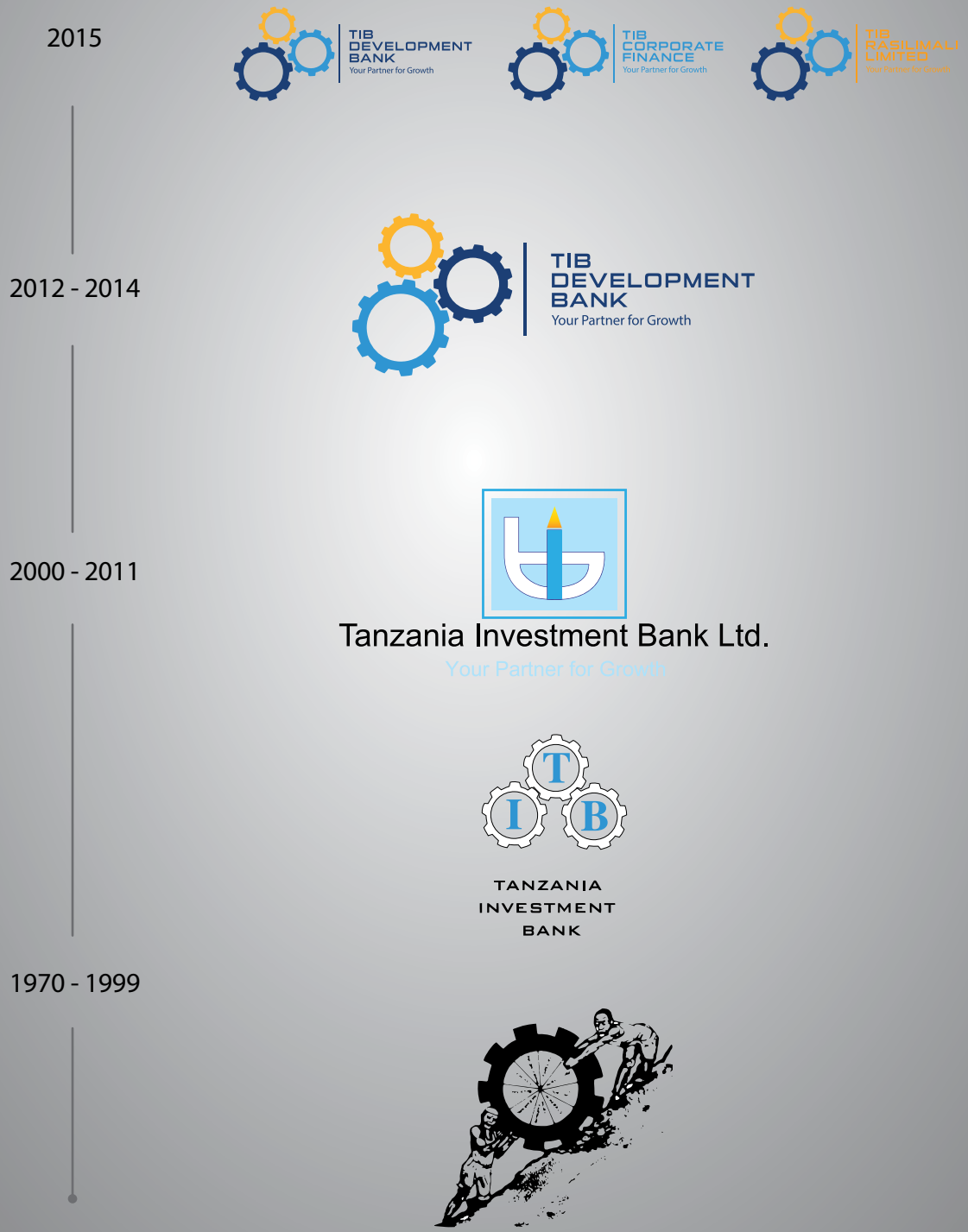
The Standard Bank of South Africa Limited
 Standard Bank Centre
 5 Simmonds Street, Johannesburg 2001
 P.O. Box 7725
 Johannesburg

Auditors

Principal auditors:
 The Controller and Auditor General
 National Audit Office
 Corner of Samora Avenue and Ohio Street
 P. O. Box 9080
 Dar es Salaam, Tanzania

Sub-contracted auditors:
 KPMG (Certified Public Accountants)
 11th PPF Tower
 Corner of Ohio Street and Garden Avenue
 P.O. Box 1160
 Dar es salaam, Tanzania.

Logo timeline



Chairman's statement

With the culmination of the transformation and the five years of work towards this, the bank can now focus on financing long term development projects and better servicing the government's development goals.

In 2010 cabinet approved the recommendations to split the bank into both a Development Financial Institution and a Commercial Bank. Within that year the bank was formally inaugurated as a DFI. However it wasn't until the end of 2014 that the three entities, TIB Development Bank, TIB Corporate Bank and Rasimali all formally came to life. In December, 2014 TIB Development Bank and TIB Corporate Bank were issued with provisional licenses by the Bank of Tanzania (BOT).

Reflecting on the highlights that have brought the bank to this pivotal point in its history are examples such as: - Profit before tax grew from, TZS 3 billion in 2009 to TZS 11.3 billion in 2014, representing an average annual growth rate of over 30%. During the same period, the balance sheet recorded a growth of 145% from TZS 167 billion to TZS 470 billion. Similarly, the loan portfolio expanded by 274% reaching TZS 356 billion in 2014 from TZS 82 billion in 2009. The agro-processing and the agriculture sectors are the largest share of the portfolio at 33%. This is followed by investments made in the real estate sector 13% followed by tourism and manufacturing.

There has been considerable achievement in the Agriculture Financing Window, with investments made in poultry farming, horticulture, cereal crops and beekeeping projects. These ventures have been noteworthy in primary agricultural production activities. The beneficiary farmers have contributed to creating hundreds of jobs in line with the bank's vision of providing development finance that promotes sustained economic growth and alleviates poverty.

Focus on local government authority infrastructure will open up and stimulate new sources of revenue for the local government. Concurrently at a national level the bank is also supporting the government in financing infrastructure development. Financing directed to the improvement of national infrastructure includes railways, ports, telecommunication, aircrafts and airports.

Marked portfolio growth in the real estate sector are mainly with housing projects by National Housing Corporation (NHC) and private investors.

The overall operations during the year under review have been good despite missing out on some of our annual targets.

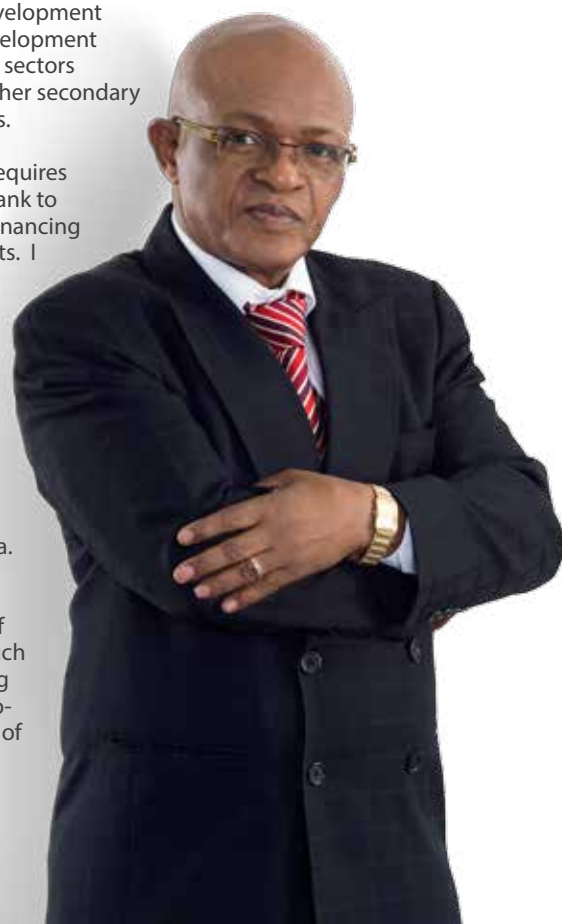
The good performance was contributed by an overall favorable and encouraging economic

environment during the year with GDP growing at an average of 7.1% during the first half of 2014 compared to the annual GDP growth of 6.9% in 2013. Inflation rate on the other hand reached a low of 4.8% by December 2014 from a high of 7.9% at the beginning of the year.

With the imminent conclusion of its transformation, the bank embarked on a process to re-focus its strategy during the year. The new Strategic Plan described in this Report sets exactly the right course for the bank – spearheading the TIB group of companies into a financial 'One Stop Shop' and turning the organization into an effective modern bank with good governance.

Apart from remaining relevant to its core objectives, this exercise re-sharpens the bank's overall approach to economic and development matters. It also allows it to have a more effective and visible impact as a Development Finance Institution (DFI) in the following areas: industrial, infrastructure, mining, gas and oil and service sectors. With the Government's decision to establish Tanzania Agricultural Development Bank (TADB), TIB's role and focus in agricultural development will be on agro-processing under the industrial sector. In that regard, TADB will handle all primary agriculture development matters leaving TIB to handle development requirements from the rest of the sectors including agro-processing and other secondary post-harvest agricultural activities.

Such an ambitious undertaking requires partnerships that will allow the bank to fulfill its medium and long term financing mandate for development projects. I am glad to report that the bank continues to collaborate with various local and national partners given the limitations of its balance sheet size which requires leveraging out to create room for participation in large scale development projects. The bank's partnership with other DFIs is therefore critical to its development agenda. In February, 2014, Development Bank of Southern Africa (DBSA) and TIB signed a Memorandum of Understanding (MOU) towards such collaborative efforts of supporting sustained economic growth by co-financing the rapid development of infrastructure projects.



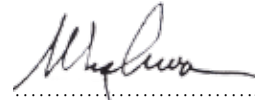
Chairman's statement

I am confident about the partnership the bank has established with Local Government Authorities (LGAs) towards construction of vital Municipal infrastructures that provide services to communities across Tanzania. The work with LGAs in identifying economically and financially viable projects has been years in the making and will assist the LGAs by bridging the existing financing gap but also create the necessary revenue for them to improve on delivery of services that will improve the quality of people's lives. The progress to date is impressive having made headway with projects in the areas of land development, markets and bus terminals. A Memorandum of Understanding (MoU) to streamline the bureaucracy involved and speed the process of getting approvals for debt funding for the LGA projects was in the process of being signed between the Bank and the Ministry responsible for Regional Administration and Local Government Authorities by the end of the year.

One of the greatest challenges to the bank's strategic plan continues to be the much needed government support of capital injection that will capacitate the bank to intervene effectively as a leading bank in major and large national development projects. To partly address this, the bank will also continue to adopt and apply innovative financing mechanisms aimed at expanding its capital base that will enable it to meet its mandate as a Development Bank in collaboration with other DFIs.

It has been a privilege to serve as Chairman of the Board over the last six years together with my fellow board members who have made invaluable contributions to the strategic development and governance of the bank. It has also been an enriching experience in my professional life to have worked with an exceptional and committed Management team that has diligently been a part of the journey to the actualization of a fully transformed TIB!

This is a great bank with excellent people and a robust strategy that will ensure continued growth. The bank is now well positioned to grow and make an impact in fulfilling its mandate of being a catalyst towards the economic development of Tanzania.



.....
Professor William Lyakurwa,
Chairman of the Board of Directors

Our impact



Regional distribution of approved loans.

Managing Director's statement

It gives me great pleasure to present to you the annual report for TIB Development Bank for the year 2014. This has been a very engaging year in which the bank finally recorded a remarkable milestone; the issuance of provisional licenses by the Bank of Tanzania (BOT) to both TIB Development Bank Ltd (DFI) and its subsidiary TIB Corporate Finance Ltd. These licenses represent a major step towards the realization of the transformation of Tanzania Investment Bank (TIB) into a full-fledged development finance institution, with a subsidiary commercial bank. It marks the last step before the cabinet approved two-tier transformation plan for the Tanzania Investment Bank Limited is concluded; the final being the issuance of the full banking licenses for the development bank and the commercial bank by the BOT. With the conclusion of the transformation, the bank is now well positioned to carry out its mandate to assist in funding the Nation's development agenda so as to achieve the National goals specified under the Tanzania Development Vision 2025.

Financial Performance

During the year, the bank recorded a slightly lower profit before tax of TZS 11.3 billion from TZS 12.4 billion that was achieved in 2013. Interest income during the year recorded 22% growth from TZS 49.0 billion in 2013 to TZS 59.8 billion. Interest expense increased by 30% to TZS 14.7 billion due to an increase in deposits and long term borrowing. However, impairment losses on loans and advances amounted to TZS 15.2 billion from TZS 8.8 billion thereby undermining the otherwise impressive financial performance. The huge impairment losses were largely a result of applying commercial banking regulations on medium and long terms loans, as well as delays in implementation of some big development projects. Loan disbursements amounted to TZS 93 billion, with real estate taking the largest share of 27%, followed by mining (20%), manufacturing (9%), agriculture (8%), education (7%), leasing (5%), transport and communication 3%, tourism 2%, gas 2%, building and construction 1% and hotels and restaurants 1%. Assets on the other hand grew by 24% from TZS 419.1 billion in 2013 to TZS 522.0 billion.

Overview of the year

Together with the activities leading to the conclusion of the transformation, the bank also continued to refocus its strategy to better align it with economic sectors that address immediate development challenges. These sectors include industry, infrastructure, mining, services, and oil and gas. In this regard, the bank engaged the Government, local governments and the private sector with a view to identifying priorities with respect to development projects and in other

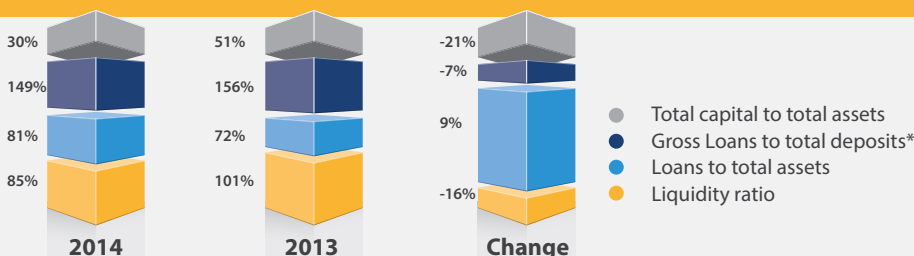
related matters such as the structure of funding and how well to implement the agreed projects.

During the year, the bank approved two significant infrastructure development projects, namely Tanzania Railways Ltd (TRL) and Wentworth Gas Ltd., both of which demonstrate the bank's support in financing infrastructure. The bank approved an overdraft/guarantee facility of TZS 12 billion to cover operational costs for TRL and a USD 21 million loan to Wentworth Gas Limited project, intended to increase gas production for generation of electric power in the country. This increase in gas production is in line with the increased capacity of the newly constructed TPDC pipeline for transportation of gas from the Mtwara-Lindi gas fields to Dar es Salaam and beyond, that will be available upon its completion.

The bank continued to work closely with Local Government Authorities (LGAs) in the structuring and development of municipal infrastructures thus spearheading efforts for improvements in the delivery and quality of services to local communities. A number of proposals have been approved for funding in this sector but most of them are awaiting approval to borrow from the parent Ministry, the PMO/TAMISEMI, before they can access the approved bank loans.

The year under review saw the bank strengthening its local and international strategic partnerships. With the Development Bank of Southern Africa (DBSA), a Memorandum of Understanding (MOU) was signed in February 2014, for a collaboration that is specifically geared towards catalyzing the implementation of infrastructure projects in the country.

TZ 93 billion
in loans disbursed amongst various sectors



*Due to the nature of its mandate, the bank has been using other sources of funding including capital to issue loans and does not entirely rely on deposits.

Through the Managed Funds Division, the bank entered into two major partnerships; with the National Economic Empowerment Council (NEEC) for a Credit Guarantee Scheme and SNV Netherlands Development Organization for the administration of the Results Based Financing (RBF) Fund for the suppliers and retailers of Pico-Solar products. The NEEC scheme will principally target and benefit budding graduate entrepreneurs wishing to establish the MSME businesses. The SNV Fund on the other hand operates as an incentive scheme to retailers/ distributors of solar products for them to continue and expand the availability of solar equipment to light up rural areas that do not have access to the national power grid or stand-alone fossil fuel power generators. Currently the Fund's operational area geographically is confined to the Lake Victoria regions.

During this year's Saba Saba trade fair and Nane Nane Agricultural show in July and August 2014 the bank emerged the Winner in the Financial Institutions Category. The wins were proud moments for the bank as we won at the first opportunity of not only showcasing the TIB brand to the public for the first time, but also by incorporating development partners that demonstrated the bank's funding capabilities in undertaking major national economic development projects.

In compliance with both local and international legislation, the bank adopted the Environmental and Social Management System (ESMS) during the year. The system provides guidelines for a systematic approach to assessing and mitigating the environmental and social risks of the bank

financed projects. Going forward, the bank's handling of environmental and social matters will be at par with international best practices.

Capacity Building

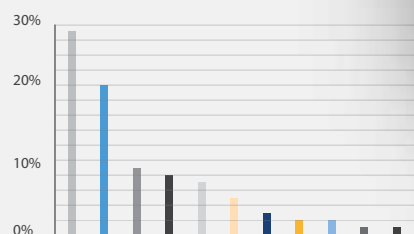
The bank's involvement in infrastructure development requires the expertise of a specialized and dedicated team. A Technical Department was therefore created in the bank during the year for purposes of strengthening our internal capacity and meeting the capacity requirements for infrastructure development projects. New staff members with various technical backgrounds i.e. engineering, quantity surveying, architects etc. will join other development finance professionals in the bank, in project appraisal, implementation and monitoring. In other words, technical expertise will be involved in all areas of the project management cycle, and specifically in the evaluation and ascertaining of the technical viability of the projects that the bank intends to pursue.

Capitalization

Given the limits of our capital base, funding partnerships will be part of the bank's strategies



- Real Estate
- Mining
- Manufacturing
- Agriculture
- Education
- Leasing
- Transport And Communication
- Tourism
- Gas
- Building And Construction
- Hotels And Restaurants



Managing Director's statement

in reducing dependency on government capital injections. Nevertheless, consultations with local institutions with surplus funds were initiated with a view to floating a domestic bond that will service the bank's lending programme. The funds mobilization drive is in support of the bank's strategic objectives of lessening the pressure on the Government budget by investing in infrastructure projects that are economically and financially viable in order to catalyze development. Indeed, I am grateful to the Government for the continued support in this funds mobilization drive, especially the commitment to recapitalize the bank annually over the next ten years, and in supporting the transformation of the bank. The Bank's actions in the infrastructure sphere will help shape the functioning of the economy through improving the business environment that will also enable the private sector to improve the delivery of goods and services in the economy, thereby bringing about macroeconomic stability.

Appreciation

I am grateful to the Board and Management of the bank, and would like to express my appreciation to all of them for their dedication and perseverance leading to the realization of the transformation of TIB into a two tier structure organization. I also take this opportunity to record my gratitude to Chairman of the Board, Professor William Lyakurwa who completes his second term in 2015. I have benefited greatly from his wise counsel and support throughout his tenure. Indeed, I would also like to recognize the support the bank has been enjoying from the shareholders represented by the Ministry of Finance.

Last but not least, I am grateful for the support and cooperation extended to me by all the employees across the bank. They have served the bank with dedication and have also demonstrated a high level of professionalism. Despite the prevailing challenges, much has been accomplished in the past year. However, the coming years will be crucial in delivering a strong and sustainable outcome which calls for hard work and cooperation so as to assist the Government its reaching the developmental goals. With the policies and strategies that we have put in place, I am confident that the bank is well prepared and in good stead to meet the challenges ahead.

The bank will enter its 45th year of operations in 2015. The tumultuous journey of TIB has been captured in a historical timeline that is featured in the report making the TIB brand one that is synonymous with resilience. From its inception, the symbolic wheels have signified the bank's purposeful support in the country's development efforts. We have come from a proud past and are headed toward a promising future.



P. M. Noni
Managing Director

Rural Electrification Agency

 **16,632** HT (KM)

 **9121** LT (KM)

Number of Projects 212

 HH Beneficiaries
257,453

TZS **300b**

Agricultural Window

 **236** Tractors

 **145** Power Tillers

 **7** Trucks

 Beneficiaries
5000

TZS **56b**

Small scale mining grants and facilities

 **10** Grants

 **500,000** USD

 **3** Credits

TZS **623m**

SNV - RBF Fund

 **3** Beneficiaries EURO **108,000**

Tanzania Energy Development and Access Project

 **4** Beneficiaries

TZS **9.2b**

The Board of Directors



Members of board of directors from left to right Ms Elipina Mlaki, Mr H. S. Masebu, Mr. P. M. Noni Managing Director, Prof. W. M. Lyakurwa Chairman, Ms M. J. Maeda, DrJ. M. Wanyancha, Prof. D. Rutatora, Dr. H. M. Nguluma and Dr. H. Mwinyimvua not in the picture

Name	Position	Age
Prof. William Lyakurwa	Chairman	66
Mr. Haruna Masebu	Director	59
Mrs. Elipina Mlaki	Director	62
Mr. Peter Noni	Managing Director	59
Dr. James Wanyancha	Director	62
Dr. Hamisi Mwinyimvua	Director	54
Prof. Deogratias Rutatora	Director	60
Dr. Huba Mary Nguluma	Director	55
Ms. Martha J. Maeda	Board Secretary	59



Qualification/ Discipline

PhD Economics, Cornell University, Ithaca New York

MBA, Msc. (Reading University) UK

MBA, Diploma in Economics & Advanced Diploma in Accountancy.

M.A Economics

PhD Forest Genetics- Canada, MSc Forest Genetics- UK and BSc Forestry –Agriculture, Morogoro

Ph.D Economics University of Dar Es Salaam

Post-Doctorate (Rural Sociology) University of Kyoto/CAAS, BSc (Agric.) University DSM

PhD in Built Environmental analysis, Royal Institute of Technology Stockholm, 2003

LLM, LLB, Post Graduate Diploma in Business Studies

Refocusing the strategy

Your Partners for Growth

At the end of 2014, TIB Development Bank has completed a transition process that has structurally split the bank into a commercial bank, a DFI and a brokerage company, collectively known as TIB Group.

The new structure will better support the institution's work towards the various national development goals that include reducing poverty and becoming a semi-industrialized nation by 2025 in a sustainable manner. This goal is now at the core of TIB's work.

To support these goals, the institution has come up with five focus areas, -industrial, infrastructure, mining, oil and gas and the service sectors.

Implementation of the strategy supporting these goals involves sweeping institutional changes designed to significantly raise the bank's financial capacity as well as its operational efficiency. Under the new structure, the institutions of TIB Corporate Finance Ltd, TIB Development Bank Ltd. and Rasimali Ltd. will strengthen their collaboration to deliver effective solutions. Leveraging the strengths and resources of the three institutions will produce a stronger, more nimble, and financially sustainable bank that is better able to deliver proven development solutions to its clients.

Delivering results for clients

The long term 2009-2018 strategic objectives have the following three different goals. These will assist in transforming TIB into a strong, sustainable and profitable development financial institution. The three goals include:

National economic growth through development financing.

This should produce the following results -a strengthened operational capacity, a clear response to the changing economic environment, creating synergies with subsidiaries to facilitate development financing and strengthening stakeholder relationships, networking and partnering in the economy

Developing local entrepreneurships for a well-diversified economy.

This should produce the following results -strategically enhanced SMEs and management, improve the bank's legal, regulatory and business environment.

Good corporate governance and efficient corporate services.

This involves strengthening human resources and management capacity

Improving operations

The new structure that embodies the TIB Group of companies will effectively transform the Group into a financial 'One Stop Shop' in the process of fostering national development.

A medium term 2015- 2019 strategic plan was prepared on the background of the completed transformation process, the operational landscape and key fundamentals of the long term 2009-2018 strategic objectives, using the Management by Objectives (MBO) framework. This will center on ushering in the bank's operations under its three closely interrelated companies, TIB Corporate Finance Limited, Rasimali Limited and TIB Development Bank Limited.

The bank is using the MBO framework to emphasize a common way forward for the organization. By means of this process it is also able to highlight the national business environment, performance reviews of the previous financial year, strategic objectives, strategies, targets with respective financial projections and key success factors for the coming years.

Management's focal point will be to ensure that operations are optimal; - that systems and process are efficient, bank staff is sufficiently trained and that appropriate policies and credit processes are in place.

TIB Development Bank and Rasimali will both benefit from commercial banking services extended by TIB Corporate Finance Bank. Rasimali Limited is expected to provide enhanced commercial services in the capital market space on behalf of TIB Development Bank as well as for its own clients.

The new structure that embodies the TIB Group will effectively transform the Group into a financial

'ONE STOP SHOP'

in the process of fostering national development.

Promoting growth, opportunity and sustainability

Five focus areas have been derived from the strategic goals in terms of how to position TIB in the economic development of Tanzania in line with the government's national development goals. To be more effective as a DFI the Bank's work has been strategically aligned to these goals. The economic focus areas identified reflect the opportunities brought about by the expanding economic potential and business opportunities across the country.

They will strategically position the Bank's commitment in addressing the economic prospects. This will allow TIB to take on further investment opportunities as a Development Bank in line with the original objectives that led to its establishment.

The five specialized focus areas of development are:

Industry
Infrastructure
Mining
Oil and Gas
Services

Developing **Industry**. Expanding Income.

In alignment with the Government's objective to build the country into a semi industrialized nation by 2025, TIB's strategic focus on the industrial sector is crucial.

History shows that industry was never a priority for the colonialists, producing raw commodities to export back to Europe was their focus.

The consequent eras followed this approach with strong intentions to develop the sector, however internal and external factors prevented this.

The sector is now well positioned to excel. In 2009 it contributed to 18 % of the GDP and in 2012 it contributed to 22.9% of the GDP.

However, there is a strong need to enhance quality, production and cost at various levels to be able to compete with foreign imports. Government intervention is critical and TIB is committed to mobilizing the necessary long term resources regionally and locally in order to finance the appropriate development projects. TIB's engagement in the sector during 2014 included a disbursement of TZ 8.5 billion in loans..

In 2014 TIB disbursed

**TZ 8.5
Billion**

in loans to the industrial sector

Agro processing

TIB Development Bank is committed to mobilizing long term resources to finance development projects affiliated with agro processing. The sector falls under the bank's Industry focus area. Currently, most of the crops produced in the country are sold as raw commodities to world markets. In some instances these crops are processed in the countries which import them and then re-imported into Tanzania. Prices of raw commodities are lower in world markets and more prone to erratic fluctuations. Processed goods add value to as much as three times the price of the raw commodity. The bank's engagement in the sector over 2014 included 35 projects and disbursement of TZ 7.29 billion in loans for 14 projects.

Refocusing the strategy

Building **Infrastructure**. Sustainable Development.

A solid infrastructure is imperative to fueling the Government's developmental objectives towards building a semi-industrialized nation. Investment on infrastructure creates production facilities, stimulates related economic activities, reduces transaction and trade costs, improves competitiveness and more significantly provides employment opportunities and wealth creation. The current state of infrastructure in Tanzania poses significant challenges. The financing gap has proven to be the thorn in the flesh of efforts to alleviate this difficulty. These include, the non-availability of long-term capital, absence of risk sharing financial structures, lack of clarity around the governance issues a good Public Private Partnership (PPP) framework, and a lack of expertise in the preparation of bankable projects are some of the challenges that are hampering development efforts in financing development projects in Tanzania.

TIB aims to assist the Government to finance and speed up infrastructure developments. This will also reduce pressure on the government budget by financing economically viable projects through innovative mechanisms.

The bank has been entrusted with the role to lend for infrastructure development projects that under reference include: ports, airports, railways, roads, power supply, water supply, sewerage and ICT. Traditionally, development of these infrastructural systems has been undertaken by respective public agencies, local government, appointed private operators and respective supervising ministries. Development that has been executed under respective ministries has not been effective.

TIB recognizes that well-functioning infrastructure can promote agribusiness and agro-processing activities that will contribute directly to poverty reduction by providing jobs to the low income workforce in the rural economy as well as by adding value to agricultural products.

The bank's engagement in the infrastructure sector over 2014 included

25.74b
projects

Agro-processing

Kagera Sugar Limited

Client profile:

A privately owned sugar plantation and sugar mill.

Project description:

Kagera Sugar deals with the production of sugar. The company has more than 10 000 acres of which 4 000 are planted as well as a sugar mill. They are located in the Kagera region and currently employ 6000 workers.

TIB's role:

TIB began a business relationship with Kagera in 2008. The company has benefited from three facilities which include – two syndications (one has eight lenders of which the TIB contributed 8% of the costs) the other of which TIB has contributed 60% of the loan contributed to the purchasing and installation of an irrigation system. The third facility is a term loan to meet the cost overruns.

Impact:

The project also supports more than 300 out growers in the area who bring their crop to the mill. The presence of the project has improved the local infrastructure; roads and access to water. Special workshops and training has been conducted for the out-growers.

Economic benefits are generation of income for the out-growers, as well as the workers which has contributed to boosting the local economy.

Developing **Mining**. Harnessing Wealth.

TIB has identified that the growing mining sector can contribute to the economic development of the country, consequently leading it to scale up its investment in the sector. The bank's mission is to respond to market discontinuities and one way, is in the allocation of long-term loans to bankable mining projects with sizeable upfront investment. Most mining projects have been obtaining financing from the markets, as they don't meet the criteria for DFI investment. Small mining players and junior exploration companies often lack resources to practice the best environmental and industry standards.

The development in extraction of most minerals is at the infancy stages of production, and the potential to further develop is high. Reserves of a variety of metallic minerals including Gold, Silver, Platinum, Nickel, Iron, Copper, Tin, Tungsten, Titanium, Vanadium, Zinc, and Cobalt have been acknowledged in Tanzania. Strengthening the linkages of the sector to the rest of the economy will increase local participation in the industry.

The developmental impact of mining investments is gauged by the direct and indirect employment created and by the scale of fiscal revenue levied by the Government. To support the sector further, the tax regime is using tools that will allow the industry to make a greater contribution towards the economic development of the country.

The bank's engagement in the sector over 2014 included a disbursement of TZ18.4 billion in project loans.

Manufacturing

Connect Wire

Project description:

Connect Wire, manufactures cables for construction and power transmission. They are located in Dar es Salaam and currently employ 25 full-time staff.

Nature of project:

Start Up.

TIB's role:

TIB began a business relationship with the entity in 2011. The company has benefited from four facilities which include – a leasing facility to purchase the necessary machinery; an over-draft facility to meet the working capital requirements and two structured facilities one in TZS and one in USD. The customer has gained market share as a result of financing from bank.

Impact:

Job creation, tax to the government, transfer of skills

Exploring **Oil and Gas**. Powering the Future.

Tanzania has remarkable potential to produce oil and gas and related byproducts in fertilizer production and other chemical based industries. The setting of this resource potential is changing in ways that will increase the demand for upstream development finance and pull on funds from all sources.

Refocusing the strategy

The bank's engagement in the infrastructure sector over 2014 included

170
projects

Tanzania is entering the gas and oil economy for the first time, and new players that include local and international firms are carving out strategic roles in the sector. Although, commercial banks are strongly present and continue to maintain an interest in financing upstream development, the funding needs of the sector are massive and growing. TIB can generate a new stream of revenues that, if well managed investment can lead to improvements in national welfare, growth and development.

Opportunities for development in oil and gas include financing petro chemical industries, where TIB can intervene by financing local content players with bankable and viable projects. By forming strategic partnerships, the bank could impact local economic activities and develop diversified economies, - creating employment, building capacity and improving business competitiveness.

Developing **Service**. Growing Potential.

TIB's participation in the service sector will focus on the following areas:

Tourism
real estate
arts and culture

Tourism is a leading contributor to the GDP and the bank engaging stakeholders such as Tanzania National Parks Agency (Tanapa) and Tanzania Tourist Board (TTB) will allow it to further understand the needs that will inform strategies to grow the sector. Providing world class facilities to accommodate foreign visitors are in demand, and the bank is involved in several projects of this nature.

The growing number of tourists and related business activities constitute a large high value export market that is easily accessible within Tanzania. These constitute a wide range of products such as handicrafts and souvenirs; processed gemstones and minerals; textiles, garments and knitwear, as well as the hospitality and entertainment industry.

Arts and culture programs can provide more than quality of life to a community; It can be a major source of income. They provide valuable economic benefit that can be measured through event admissions, sales of items associated with program activities and increases in retail sales of local products and services as a result of these activities. TIB will strategically position itself to support and develop this sector.

Infrastructure

Tanzania Electric Company Limited (TANESCO)

Project description:

Power generation for thermal electricity and capacity charges.

Nature of project:

Government.

TIB's role:

TIB began a business relationship with the entity in 2010. TANESCO has benefited from two facilities which include – Two long-term loans

Impact:

Initiates the supply of electricity which is able to perpetuate the supply.
Is able to support the business functions

The real estate sector has not made significant contributions to the GDP over the last few years, but the government remains optimistic that the recent and planned developments will contribute to its continued growth. TIB's most significant real estate partner is the National Housing Cooperation. The partnership includes several development projects such as satellite cities. The bank disbursed TZ 8.5 billion in loans in the sector.

Agriculture

The current approach to industrial development is based on Vision 2025. One of the key objectives is to shift the focus from an agricultural economy (which engages approximately 70% of the population) to a semi-industrialized economy in the next 10 years. This will naturally emphasize development of agro processing sector.

The bank's current engagement in Agriculture includes several significant projects however these will shift to the Tanzania Agriculture Development Bank. Meanwhile the Bank will continue to engage with specific projects in agro-processing.

The bank's engagement through the Agricultural Window in 2014 included a disbursement of TZ 10 billion in project loans.

Project Focus

Wentworth Gas Limited

Country:

Listed on the London and Oslo stock exchange

Business sector:

Oil and Gas

Disbursement of funding:

December 2014

Approval of project:

April 2014

Status:

Implementation

Project description and objectives

TIB is disbursing \$21 million in syndication with Stanbic Bank (\$5 million), releasing a total of \$26 million.

Wentworth Gas acquired Mnazi Bay Concession in 2008, where it presently has two wells flowing with natural gas. While additional wells are currently being drilled the focus of the project is on the infrastructure development that will connect the wells to the TPDC pipeline. The 500km pipeline which is presently under construction will supply gas from Mtwara to Dar es Salaam. The gas will be used to generate electricity at three of TANESCO's key thermal power stations – Kinyerezi, Tegeta and Ubungu power plants, who are currently upgrading their systems to generate electricity using gas.

The pipeline has the capacity to pump 750 million cubic feet of gas per day, and Wentworth plan to begin by pumping up to 220 million cubic feet per day. Completion is expected in the 1st quarter of 2015.

Currently there are other companies that are in the process of creating similar systems and infrastructure.

Transition impact

Tanzania has one of the lowest electrification levels in the world. In 2010 only 10% of the population had access to electricity and in rural areas only 2% had access. The current demand does not meet the supply. With the Government's development goal of becoming a semi-industrialized nation by 2025, there is significant focus on developing the industrial sector. Consequently the demand for electricity is increasing considerably.

Tanzania's Electric Supply Company (TANESCO), generates three fifths of the country's electricity, the remaining two fifths is imported from Uganda and Zambia. Of the electricity generated, hydro makes up 57% of the power source while gas, coal and thermal make up the remaining 43%. This has



contributed to a considerably high cost for electricity. There are only two power plants producing electricity using gas, one is located in Mtwara and the other is Songas, they provide up to 30% of the power generated to TANESCO.

The Wentworth Gas project will have considerable impact to the country's supply and cost of electricity. Once this project is in place the use of thermal power will no longer be required. It will also significantly reduce the need to import large quantities of electricity, also saving on costs.

The client

Wentworth Resources is an independent energy company with gas production and a committed oil and gas exploration program in the Ruvuma Basin of southern Tanzania and northern Mozambique. The Company and its concession partners are exploring over 12,700 km² of the prolific Ruvuma Basin and own two producing natural gas fields in Tanzania. Wentworth Resources is publicly-traded on the Alternative Investment Market of the London Stock Exchange (AIM: WRL) and the Oslo Stock Exchange (OSX: WRL)

TIB financing

US\$ 21 million long-term loan

Total project cost

US\$ 64 million



Management Team



R. J. Ndaki
 Director of Information & Communication Technology

E. B. Hamissi
 Director, Portfolio Management

S. M. Nghambi
 Director of Human Resources & Administration

B. P. Mono
 Director of Finance & Treasury

M. K. Kungu
 Director, Development Financing

Peter M. Noni
 Managing Director

Business Structure



The Managing Director reports to the Board and in turn all Directors of Divisions and Managers of independent departments report to the Managing Director except the Chief Internal Auditor who although he reports to the Managing Director administratively, he functionally reports to the Audit and Risk Committee of the Board.



M. J. Maeda
Legal Counsel &
Secretary to the Board

I. E. Kiputa
Chief Internal Auditor

P. V. Changa
Acting Director
Managed Funds

J. S. Machano
Director, Strategic Planning
and Corporate Affairs

J. B. Mukoji
Head of Risk &
Compliance



Divisional Performance Reviews

STRATEGIC PLANNING AND CORPORATE AFFAIRS DIVISION

The Division's mandate is to develop and communicate the bank's strategic focus both internally and in the market. The bank's strategy is derived from the country's five year development programs and internal studies managed through three units; Research and Planning, Advisory and Business Development.

Division structure and department reviews

In 2014, the Strategic Planning and Corporate Affairs Division had 13 staff members and consisted of four departments -Business Development, Research and Planning, Advisory Services and Marketing and Corporate Affairs.

The Business Development unit's core role is to identify and develop potential projects for funding. It consisted of three staff members.

During 2014, MOUs were signed for the development of bus terminals for Kibaha, Moshi and Dar es Salaam (Mbezi Louis) as well as markets for Kibaha, Kisutu in Dar es Salaam and Lokolova in Moshi.

The Strategic Planning and Research unit is responsible for enabling the implementation of earmarked bankable projects. The unit also oversees the monitoring and evaluation of the Division's performance reviews, library services and carries-out internal and sector related research to enable informed decision making. The unit supports Advisory Services and other divisions in the bank with sector related data. In 2014 it had four staff members.

The Advisory Services unit is responsible for project structuring and preparation. The unit works hand in hand with the Business Development team to move the project from concept level to a well-structured and bankable project. The unit also coordinates the functions of the consultant where the service is required

during the project preparation period. The unit works closely with the bank's technical team to ensure projects are structured properly to ensure efficiency during implementation. The unit had one staff member.

The highlights of the unit included the bank approving a project in the oil and gas sector for Tanzania Petroleum Development Corporation (TPDC), and the acquisition of two aircrafts for Air Tanzania Corporation Limited (ATCL), which was also designed and structured by the division.

The Marketing and Corporate Affairs department is responsible for marketing and communicating strategic elements internally and externally. In 2014 it consisted of four staff members. The department is also responsible for conducting several key staff and stakeholder events during the course of the year. They included: Saba Saba, Nane Nane, Town Hall Meetings, staff quarterly reviews, media breakfasts, road shows, production of the quarterly newsletter, content management for the website, awareness campaigns and corporate branding.

The department's highlights include a first place win for Bank's showcase at the 38th Dar es Salaam Trade Fair (Saba Saba) in the financial services category; a first place win for the Bank's showcase at the Farmers Trade Fair (Nane Nane) also in the financial services category; the re-launch of the organizations' in house newsletter, The Wheel.

The Transition

The Marketing and Corporate Affairs department will assist TIB Corporate Finance with all its marketing related activities. The required resources will be shared with the parent company under a shared service level agreement.



The department's highlights include a first place win for Bank's showcase at the 38th Dar es Salaam Trade Fair (Saba Saba) in the financial services category; a first place win for the Bank's showcase at the Farmers Trade Fair (Nane Nane) also in the financial services category; the launch of the organizations' first in house newsletter, The Wheel

DEVELOPMENT FINANCING DIVISION

The Division's mandate is to identify and appraise projects that will have a positive impact on the economy. This entails taking a long-term perspective in financing which involves an indepth appraisal process. The Division is entrusted to ensuring that projects financed by the Bank make a positive social and economic impact.

Division structure and department reviews

The respective roles of units in the Development Financing Division are as follows:

Project Finance is responsible for medium and long term financing of medium and large scale borrowers. The unit's mandate is to do project appraisals, seek approvals, ensure fulfillment of conditions precedent and then transfer the relationship to Portfolio Management Division for disbursements and project monitoring. The unit is also engaged in some business development activities.

Infrastructure and Real Estate was introduced in the third quarter of 2014. Prior to this, current projects under this unit were handled by Project Finance. The department is responsible for medium and long term financing in the real estate and infrastructure sector.

The Small and Medium Enterprises (SMEs) Lending and Leasing department is dedicated to financing of small and medium sized enterprises.

Financial Modeling reviews and monitors the financial models prepared by all of the units within the Division. It was newly introduced during the course of 2014.

During the year, the Division obtained approvals for loans worth Tanzanian Shillings TZS 452.774 billion. Out of the approvals obtained, TZS 13.744 billion or 3.04% was in respect of the Agriculture Window while Trade Credits Department amounted to the tune of TZS 155.481 billion which is equal to 34.34%.

Loans under the SME Lending & Leasing, reached TZS 33.602 billion, equivalent to 7.42% of the total loans for the period of 2014. In addition to that, the Project Finance unit approved loans of TZS 190.440 million, which is 42.06%. At the same time, the Zonal offices in Arusha, Mwanza and Mbeya cities accounted for TZS 25.600 billion (5.65%), TZS 24.977 billion, (5.52%) and TZS 8.930 billion (1.97%) respectively.

Challenges

The Division continues to encounter challenges with preparation of project proposals requiring more effort and input by the team. Delays in the fulfillment of Loan condition which led to the slow pace of disbursements; offer cancellations especially by public borrowers; client's inability to meet the lending criteria; information on the various sectors; availability of accurate and reliable data and a skills gap in Tanzania in development financing space.

During 2014, a different approach for the appraisal of more complex projects was also initiated. The introduction of a special team called the Project Appraisal Team (PAT) that consists of a group of experts for the various elements of the process. This covers all areas including Legal, Risk, Compliance, Market Research (Know your customer -KYC), etc.

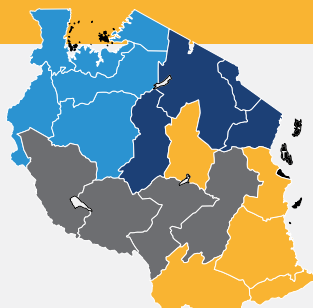
The change in the appraisal process has seen a rise in the quality of projects, for example, the Wentworth Gas project.

The Transition

As a consequence of the split the Division has seen the Trade Finance department shift to Corporate Finance, although there are some elements of Trade Finance that will remain in DFI.

The Transition

As a consequence of the split the Division has seen the Trade Finance department shift to Corporate Finance, although there are some elements of Trade Finance that will remain in DFI.



The Division has four departments and three zonal offices located in the cities.

Arusha City

Arusha, Kilimanjaro, Manyara, Singida and Tanga

Mwanza City

Mwanza, Geita, Shinyanga, Simiyu, Mara, Kagera, Tabora and Kigoma regions

Mbeya City

Mbeya, Iringa, Njombe, Ruvuma, Rukwa, Katavi and southern Morogoro regions

Divisional Performance Reviews

PORTFOLIO MANAGEMENT DIVISION

The Portfolio Management Division monitors and supervises disbursements, implementation, administration and operations of projects financed by the bank. The Division is also responsible for the workout and recovery of non-performing and charged off loans, respectively.

The monitoring and supervision processes ensure that projects are implemented according to the approved plans which are in line with the bank's investment policy. This guarantees that the funds are being used only for purposes approved by the bank. The disbursement of funds for project implementation is a very delicate step in the investment cycle, because without the funds being used as intended, the chances of the facilities being redeemed are minimal.

Division structure and department reviews

The Division is comprised of four departments:
 - Projects Under Implementation, Completed Projects, Credit Administration and Loan Work Out and Recovery Departments. It consisted of 23 staff members.

Monitoring and Supervision of Projects under Implementation

This department is led by a manager who oversees the implementation of approved projects. The role of the department is to ensure that project implementation is carried out according to the terms and conditions in the approved project contract. This process involves the sequencing of disbursements, verification of suppliers and costs/prices, site visits to monitor progress, use of suitable technical experts/consultants, etc. The process of monitoring projects under implementation continues until the project starts operation and a completion report is prepared. The project is then transferred to the Completed Projects department.

Monitoring and Supervision of Completed Projects

This department monitors the performance of projects in the TIB portfolio that have completed implementation according to credit policy standards and the approved business strategies. Continual feedback on the projects progress is provided and the information collected enables the bank to improve the chances of a project's success. Project monitoring only begins after the projects under implementation fully repaid their loans.

Credit Administration

This department acts as the 'intelligence' for the Division and the bank as a whole. It provides checks and balances to ensure that loans are disbursed and repaid according to their respective terms and conditions. It is also responsible for booking all credit accommodations into the system and providing portfolio performance reports to Management and BOT.

Loan Recovery

This department is mandated to conduct recovery measures on bad loans.

Overview

As at December 31st 2014, the bank had an on-balance sheet gross portfolio amounting to TZS 420.370 billion. The on balance sheet portfolio is comprised of 170 projects (out of which 60 are under implementation and 110 are completed.) Term Loans accounted for TZS 289.986 billion or 69%; % of the gross portfolio while overdrafts accounted for TZS 124.767 billion or 30% and staff loans accounted for TZS 5.615 billion or 1% of the gross portfolio. The concentration of resources towards Term Financing in 2014 was in line with the National Development Agenda.

From a sector perspective Agriculture/Agro-processing and Real Estate led in the bank's investment with 46% of the total investments, followed by the manufacturing at 9%, tourism at 9%, trade at 9%, mining and quarrying at 6% while the rest of the sectors at 21% of the total on the bank's balance sheet portfolio. The distribution according to priority sectors was in compliance with the TIB Development Bank Limited's Investment Policy.

Regionally the distribution of the portfolio in terms of monetary value of investments, in 2014, was as follows; leading is Dar es Salaam zone comprising of Dar es Salaam, Coast, Morogoro, Lindi, Mtwara and Dodoma with TZS 199.170 billion (47%); followed by Lake Zone which is comprised of Mwanza, Mara, Kagera, Kigoma, Tabora Shinyanga Geita and Simiyu regions, with TZS 144.992 billion or 35% of the total portfolio; Arusha Zone which includes the Arusha, Kilimanjaro, Tanga and Singida regions with TZS 64,846 million or 15%; Zanzibar Zone made up of Unguja and Pemba islands, with TZS 7.206 billion or 2% of the total portfolio and Mbeya Zone made up of Mbeya, Iringa, Njombe, Katavi, Rukwa and Ruvuma regions with TZS 4.156 billion or 1%.

By December 31st 2014, the portfolio under recovery category had a total exposure of TZS 40.729 billion. The amount of recoveries from this portfolio however, decreased to TZS 1.186 billion from TZS 1.891 billion that was recovered during the year.

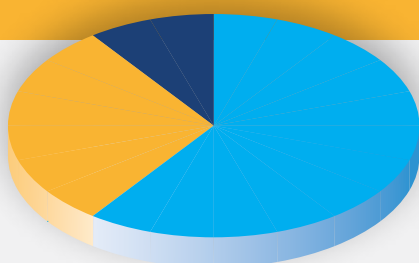
The Portfolio Management Division continued to face similar challenges that affected the Division the previous year which led to disbursement delays, delaying projects' implementations consequently compromising the bank's interest income projections. The challenges included promoters' failure for timely equity injections, promoters' failures to fulfill attendant loan conditions.

On the other hand, some projects operated under tight liquidity positions, while others faced financial constraints due to high operational costs. A number of projects failed to meet their regular repayment obligations precipitating an increase in Non-Performing Loans (NPL) that negatively impacted on the bank's books by way of additional provisioning and impairment. This was further aggravated by the need to restructure projects, but under the existing commercial bank regulations and classification, thereby increasing the NPL level.

Bureaucratic court procedures and poor conditions of security assets at the time of disposals was another hurdle with adverse impact on activities of the Division. More than TZS 25 billion of the portfolio under recovery was locked in court cases. To avoid the long-winding litigation measures, the Division intends to pursue settlement agreements with promoters of NPLs, where applicable, as among measures to shorten the time demands on the bank to recover some of its investments.

The Transition

All the projects that are not developmental in nature will move to the corporate bank which includes those with a tenure below 5 years. This is about 30% of the current portfolio that the corporate bank will be taking over.



Lake Zone 35%
 Dar es Salaam zone 47%
 Arusha zone 15%

MANAGED FUNDS DIVISION

The Managed Funds Division manages funds on behalf of fund owners at a fee. The Managed Fund's portfolio is composed of funds from the Government of Tanzania through its ministries and agencies, the World Bank and SNV Development Organization to support various developmental programs in the Agriculture, Energy and Mining sectors. The Division was upgraded at the beginning of the year in review to a Directorate as the portfolio size had increased significantly.

Division structure and department reviews

The Division comprises of one department with three supporting units – Funds Solicitation, Monitoring and Supervision and Disbursement.

The Funds Solicitation unit sources funds for projects.

During the year in review one agreement was signed with the National Economic Empowerment Council (NEEC) for TZS 1 Billion. Three applications were submitted for the following - Rural Energy fund for TZS 800 billion, Public Private Partnership (PPP) and M/s Engility –IRG for \$25 million.

The Monitoring and Supervision unit administers funds. The units' role is primarily determined by the nature of the fund. However it generally includes disbursement of funds, monitoring and supervision of projects, collections of loan repayments, submission of monthly and quarterly reports, project verifications, issuing of Completion of Works certificates. The unit also manages government grants. Loan collections in year 2014 have increased compared to 2013. In 2014, the bank collected TZS 7.5 billion while in 2013 collected TZS 6.8 billion.

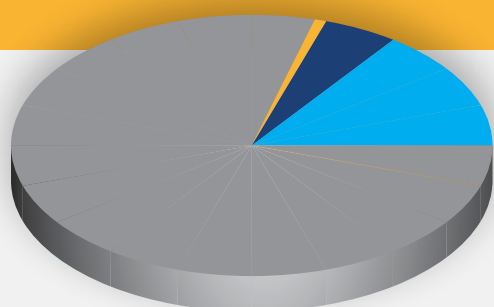
Table 1: Funds Disbursed up to 31st December 2014 "TZS"

S/N	Fund	Amount Disbursed
1	Rural Energy Fund	219,929,379,784.76
2	TEDAP	904,209,000.00
3	Agriculture Financing Window	10,101,764,589.00
4	Small Scale Development Scheme for small scale miners-Credit facility	316,426,000.00
5	Small Grant Program for small scale miners- Grants	574,063,275.75
6	Result Based Financing (RBF) Fund	177,252,700.88
TOTAL		232,003,095,350.39

*Disbursement table

Overall review

The Managed Fund's portfolio has expanded by 56% during the year, from TZS 383.117 billion in 2013 to TZS 597.016 billion as at 31st December 2014. The increase is accounted for by the Government's placement of additional funds for rural energy projects and the placement of NEEC Guarantee Scheme and Results Based Financing (RBF) fund.



79% Agriculture **17%** Energy **3%** Mining **1%** Others

These funds are either deposited at TIB or received for immediate onward disbursement to project developers.

The division encountered the following challenges during the period under review: - competition from other financial institutions to administer government funds; delays in receiving status implementation reports from clients; delays in receiving responses from principals; and variations in scope of works.

Table 2: Funds Managed by the bank as at 31st December 2014

Name	Principal	Amount in TZS '000'
Refinancing Facility	Bank of Tanzania	2,614,000
Structured Financing Facility	Bank of Tanzania	58,048,589
Rural Energy Funds	Rural Energy Agency	432,643,718
TEDAP	World Bank/REA	39,330,000
Agriculture Window Funds	Ministry of Finance	42,000,000
Commodity Import Support	Ministry of Finance	16,802,318
Small Scale Mining Development Scheme – Credit Facilities	MEM	2,300,00
Small Scale Mining Development Scheme – Grants	World Bank/MEM	855,000
Results Based Financing (RBF) Fund	SNV	2,173,000
Credit Guarantee Scheme	NEEC	250,000
TOTAL		597,016,625

*Funds for Rural Energy and TEDAP have been received for onward disbursement to project developers.

HUMAN RESOURCES AND ADMINISTRATION

The Human Resources and Administration Directorate comprises of two departments, namely Human Resources and Administrative Services. The Directorate’s objective is to ensure efficient and effective provision of human capital and administrative services to enable the bank meet its set objectives and targets. In implementing its functions the Directorate amongst others facilitated recruitment of qualified staff and coordinated their training and development to improve required skills and knowledge. The Directorate also facilitated acquisition of working tools to enable staff members to live in conducive working environments and perform their functions effectively and efficiently.

Administrative Services

During this period, the department embarked on fit-out works for TIB Corporate Limited and Rasilimali offices. Samora branch was also relocated to a new building. In pursuit of service excellence, the bank has managed to install a fuel calibration system for Dar es Salaam and all Zonal Offices vehicles in order to improve administrative related duties and control fuel consumption.

Human Resources

The bank also continued the recruitment process to fill positions in TIB Corporate Finance Limited, a bank which has been established as a subsidiary company of TIB Development Bank Limited. The department took a leading role in preparing job descriptions, advertising job vacancies, shortlisting applicants and coordinating interviews.

The bank succeeded in retaining about 95% of its workforce as a result of continuous efforts at improving staff welfare through review, formulation and implementation of a range of sound human resources policies and practices.

GENDER PARITY

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind. As at 31 December 2014 the bank had the following distribution of employees by gender.

Gender	2014	2013
Male	132	133
Female	70	73
Total	202	206

EMPLOYEE WELFARE

There were continuous good relations between Employees and Management as well as Management with the Trade Union.

The bank is an equal opportunity employer.

The bank gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors such as gender, marital status, ethnicity, religion or disability which does not impair ability to discharge duties.

Training

During this period, to ensure the bank's human capital have the appropriate job related knowledge and skills needed for the desired productivity, training and development assumed a more focused approach in line with core banking programmes that are geared towards imparting staff with development financing knowledge and skills. The bank spent TZS 731 million during the year (2013: TZS 799 million) to train staff on various programs. In that regard, 31 employees attended short term trainings abroad while 65 attended technical and professional local courses. More importantly, the bank hosted Credit –Investment Appraisal & Financial Modelling course organized by the Association of African Development Finance Institutions (AADFI) in which 8 TIB employees participated. The department also organized in house training on financial modelling in order to improve financial analysis on credit applications.

The bank continued to partner with institutions like the Development Bank of Southern Africa (DBSA) and Industrial Development Corporation of South Africa (IDC) in order to benefit from their extensive knowledge in development financing. In this regard, one (1) TIB staff from Portfolio Management was attached at DBSA for one month. The bank also continued to partner

with the Southern Africa Development Cooperation – Development Finance Resource Centre (SADC-DFRC), where TIB staff continued to get opportunities to participate in their partially funded courses. Through this partnership, TIB staff attended courses on Risk Management, Investment Appraisal & Risk Analysis as well as Rehabilitation of Non-Performing Loans.

Staff loans and advances

Loans are available to all employees in compliance with the Staff Loan Policy. The bank also supports staff to run a Savings and Credit Cooperative Society (SACCOS) to assist in promoting their welfare.

Medical facilities

All members of staff plus a maximum of four dependents for each employee are availed with medical insurance paid for by the bank. Currently these services are provided by AAR Health Insurance.

Disabled persons

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the bank continues and appropriate training is arranged.

Retirement benefits

The bank pays contributions to publicly administered pension plans on a mandatory basis which qualifies as a defined contribution plan.

A post service award is paid to retiring employees who have served the bank continuously for ten or more years at the rate of 12 months basic salary. However, when an employee who was employed on contract terms retires before working for ten years, the employee's post service award will be prorated based on the rate of 12 months basic salary for 10 years' service period.

INFORMATION AND COMMUNICATION TECHNOLOGY DIVISION

The Information and Communication Technology Division (ICT) is responsible for preparing, implementing, monitoring, and evaluating ICT's strategic plan for the bank to achieve its business objectives. The Division manages the IT resources innovatively to enable the bank to generate business value from its IT based investments. This helps the bank achieve its strategic goals and realize business benefits through effective and efficient use of the Information and Communication Technology by:-

1. Achieving operational excellence by ensuring the reliable and efficient application of technology
2. Maintaining IT- related risks at an acceptable level
3. Optimizing costs of ICT services
4. Compliance with the law, regulations, contractual agreements and policies.

Division structure and department reviews

The division is made up of two departments; - Hardware and Network and Systems and Applications. The division has eight staff members.

Hardware and Networking

This department maintains and manages the banks' network infrastructure and ICT equipment.

Systems and Applications

This department manages systems applications used by the bank to support business processes.

Overview

During the year, apart from of routine activities the division involved itself mainly in restructuring and customization of application systems in order to support TIB's two-tier structure transformation.

This process involved restructuring of the T24 Core Banking system, Financial Management system (SmartStream) and Payroll and Human Resources Management system (InsprieHRM). All these systems have been restructured into three environments to support the three entities i.e. TIB Development Bank, TIB Corporate Finance, and TIB Rasilimali Ltd. The division also managed to customize various reports to support both DFI and corporate bank new business needs.

Implementation of network infrastructure at the new headquarters for TIB Corporate Finance and TIB Rasilimali was another major focus area. The specific activities involved the LAN and WAN setup, configuring the VoIP telephone system, and configuring the sub-domain and email systems for TIB Rasilimali Ltd.

The division finalized procurement of a consultant to customize the core banking system ATM interface to support new UmojaSwitch products and services. This includes mobile banking, agency banking, various funds transfer options and others. The division also managed to develop credit reference databank interface as per BOT requirements to facilitate reporting of credit facilities.

The division successfully re-engineered the website to accommodate all three entities, however only the development bank website was completed.

In order to improve the ICT infrastructure, the division coordinated preparation of business requirement specifications for procurement process of IT/IS application systems and hardware equipment. Procurement of these items is done by Prime Minister's Office (PMO) in collaboration with the Bank of Tanzania (BOT) under Private Sector Competitiveness Project (PSCP) financial support.

THE INTERNAL AUDIT DEPARTMENT

The Internal Audit department uses a systematic approach to evaluate and improve the bank's efficacy in governance, risk management and control processes. The department conducts reviews of internal controls, including TIB's overall operational compliance and risk management. It also performs evaluations and recommends improvements.

Department structure and department reviews

The department is headed by the Chief Internal Auditor assisted by four senior internal auditors and one internal auditor.

Internal audit activities are categorized into four groups: - operational audit assignments, governance activities, financial audits and other non-strategic activities.

During 2014, audit activities focused on how the corporate strategy is implemented.

To improve accountability and transparency within management, attention was drawn to strengthening corporate governance in terms of improving further the internal control system and risk management practices. Development banking was improved by ensuring compliance with the corporate policies, regulations, legal and regulatory requirements, including acceptable accounting standards.

Results of the audit were submitted to the Audit and Risk Committee, a subcommittee of the Board of Directors for directives and further guidance

The Transition

In 2014 the Department oversaw audit for the entire TIB group. During 2015 TIB Corporate Finance Bank will establish its own audit department and the required resources will be shared with the parent company under a shared service level agreement

RISK AND COMPLIANCE DEPARTMENT

The Department mandate is to ensure quality risk management structures are in place and that they are in alignment with the business plans and goals of the bank. This involves –planning, coordinating and implementing risk activities; reviews, risk assessments and reporting. The Department reports to the Executive Management.

Division structure and department reviews

A single department with five sections: - Credit Risk, Operational Risk, Compliance, Physical Security and Systems Security. The Department has seven staff members.

Credit Risk had the responsibility to ensure that the credit risk processes are in line with the bank policies and regulatory requirements.

2014 deliverables included continued improvements in the bank's capacity to source and analyze customer applications. The establishment and setting up of pre-appraisal assessment and portfolio review committees was recognized as a key deliverable to ensure effective and proactive credit management process in the bank.

Notable improvements were made in the assessment and appraisal processes. Better scrutiny of both the client and the business, enhanced the quality of client applications and the risk assessment of incoming projects. The portfolio review committee has been since transferred to the portfolio management division.

Operational Risk establishes a bank wide risk register to identify individual departmental risks and reporting processes.

During the year the Risk Register Project was initiated by the Operational Risk unit. The project involved creating a risks register within individual departments, motivation to management through presentation, and the identification of divisional risk coordinators was the key activities undertaken in the establishment process. These were followed by project awareness training for each department, to create their own Risk Registers. Each divisional head signed off on their Risk Register. In addition, more than 15 bank policies were newly established and approved by the Board during the year.

Compliance creates a compliance risk register of the policies that the bank must be compliant with, and monitors it.

The unit activities were fairly routine monitoring and reviewing. Several policies were updated including the anti-money laundering policy. The compliance policy was put in place during the last quarter, before the risk management framework was used.

Physical Security monitors and liaises with security and authorities of staff and coordinates with authorities on emerging threats.

The major threat to the bank's physical security is armed robbery and burglary.

The unit coordinates and manages the services of privately hired guards and police officers to make sure that they comply with the Bank's contract. The department also monitors the security systems of the Bank ensuring that they are efficient and effective.

There were no major incidents that occurred during the year in review.

Systems Security involves the daily monitoring of systems performance. It includes conducting vulnerability assessments and determines business continuity and assesses controls.

The main concern was to ensure that the security systems of the new structure were supported. The business continuity policy was updated and improvements were made on the User Assess guidelines. There was some implementation of internal and system controls. There was follow up on the regulator requirements and recommendations. The Information Technology policies were updated, specifically on the information security.

Overall review

During the year, Risk & Compliance department identified top ten risks that will need more focus and attention during the coming year, and established an attendant mechanism to deal with them. The identified risks are associated with the following;

- (a) Credit Process
- (b) Strategies
- (c) Control Standards
- (d) Regulatory Issues and Anti Money Laundering
- (e) Fraud
- (f) IT Infrastructure, Business Continuity and Project Management
- (g) People
- (h) Operational alignment of DFI and the Corporate Bank
- (i) Management and evaluation of collaterals
- (j) Weak Monitoring of the On lenders and Financial Capacity of Microfinance and Community Banks

Challenges

The biggest challenge was in maintaining a robust risk management structure around this group of entities sharing common objectives, but regulated under different regimes. This challenge is heightened with the operationalization of the two tier structure following the restructuring of TIB. A big part of the challenges of the department in the coming year is the management of the risks emanating from the restructuring and the expected increased business by the two institutions, and the management of the regulatory issues related to the operations of the two institutions.

LEGAL SERVICES DEPARTMENT

This is an independent Department which reports to the Managing Director and comprises of seven staff members, five of whom are lawyers and Advocates.

The Department is responsible for providing legal advice and other legal services to the TIB Group of Companies on all matters implicating the legal interest of the Group, including giving legal opinions to the Board of Directors, Executive Management and staff in respect to the laws of the country, rules and activities of the Group. All employees in the performance of their functions are expected to seek legal advice and any necessary legal services on all such matters. Departmental structure and reviews:

The Department consists of three Units/
Functions: – Secretariat, Litigation and Documentation and Conveyancing.

Secretariat – deals with all the meetings of the board, its committees, Executive Management and the Investment Committee., The Department also offers secretarial services to TIB Corporate bank and TIB Rasimali Ltd; these include coordination of the various meetings, documentation and the coordination around the appointment of the board.

Outside of routine activities, the Department coordinated meetings: 9 standard board meetings, 7 meetings for the Audit and Risk committee, 4 meetings for the Executive committee, 7 meetings for the Board Audit & Risk Committee and 7 for Rasilimali Ltd.

Litigation – The Department handles cases for or against the bank. They are sometimes handled solely by the bank or in cooperation with external retained lawyers. The Department is also involved in receiverships and liquidations, in cooperation with the retained lawyers.

During the course of the year, several meetings with defaulters were led by the Department with a view of sorting out pending cases which were also done with the intention of circumventing court delays. Some of the cases were finalized and one was dismissed - for want of prosecution in which the court ordered the bank's counter claim to be heard.

Documentation and Conveyancing – this involves the preparation of all legal documents that the bank enters into – i.e. anything that has to be reduced into legally binding writing. The Department also undertakes official searches in the registries to verify or check the status of the prospective borrowers and properties intended to be offered as collaterals; and other issues as part of 'know-your-customer' exercise.

Routine activities included preparation of various contracts and agreements such as; - credit facility agreements, debentures, mortgage deeds, and guarantees for both personal and corporate, in respect of credit facilities granted to the bank's borrowers. Conveyancing and registration of the securities at the various registries within the country; preparation of Memoranda of Understanding (MoUs) between the bank and its customers and other stakeholders of the bank; preparation of service contracts with all relevant service providers; preparation of agreements on staff related issues and so forth.

FINANCE, TREASURY AND OPERATIONS DIVISION

The division is responsible for two main activities in the bank namely, accounting issues with main focus on financial reporting and treasury management in the bank.

In reporting, the division produces all management, regulatory and statutory financial reports as required by management directives, legislation or regulations. Other accounting issues such as budgeting, receipts and payments as well as the bank's tax management are also performed by the division.

In Treasury management, the division handles both front office and back office transactions of the bank as well as back office transactions for trade credit operations.

As an interim measure pending conclusion of the transformation exercise the division is also responsible for branch operations.

Division structure

The division is comprised of three departments namely Finance, Treasury and Operations departments. In addition, the division continued to oversee branch banking operations consisting of five branches: two in Dar es Salaam, one in each city of Mwanza, Arusha and Mbeya. The following are key achievements during the year.

Finance Department

Finance division is responsible for reporting and other accounting issues. The department is comprised of nine staff and managed to

discharge the responsibilities as expected. All reports were timely and correctly produced and payments made on time. The clean audit report received by the bank is one of the achievements of the department.

Treasury Department

The department is mandated to conclude all money market and foreign exchange transactions involving the bank. The department is comprised of three staff and ensures that the bank is well funded and that liquidity and market risks are managed properly. The department has a target to control interest expense, generate foreign exchange income and interest income from the money market. During the year, the department experienced a remarkable growth in foreign exchange income from TZS 481 million recorded in 2013 to TZS 1,589 million in 2014

Operations Department

This department is the back office for both Treasury and Trade Credits. It is comprised of five staff and it is responsible to confirm all deals concluded by Treasury and process all letters of credit processed in the bank. The department also handles customer transfers and all correspondent banking issues at Head Office level.

During the year the department managed to process all transactions without causing penalties to the bank or complaints from customers.

Branch Operations


During the year the branch operations continued to be supervised by the division as an interim measure while concluding the transformation issues. As at the end of December 2014 the bank had five branches.

Arusha branch is comprised of seven staff and serves the Arusha region and surrounding regions of northern zone.

Mwanza branch is comprised of six staff and serves Mwanza region and surrounding regions of Lake Zone.

Mbeya branch is comprised of three staff and serves the Mbeya region and the surrounding regions in the Southern Highlands.

Two branches are situated in Dar es Salaam namely Mlimani City branch which is comprised of nine staff and Samora branch comprised of 12 staff. These branches serve the Dar es Salaam region as well as all other places in the country where the bank does not have branches. The use of technology and networks with other banks enables the bank to reach a wider customer base despite having few branches.



Our direction is always focused on positive development.



Our experience has taught us to be able to foresee the future and
make better decisions.



Directors' report

1. INTRODUCTION

The Directors have the pleasure to present this report together with the audited annual consolidated financial statements for the year ended 31 December 2014 which disclose the state of affairs of TIB Development Bank Limited (the "Bank") and its subsidiary Rasilimali Limited (together, the "Group"). These financial statements can be amended by the directors and regulatory bodies if found to be misleading after they have been issued to the public. The consolidated financial statements for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Directors.

2. INCORPORATION

The bank is incorporated in Tanzania under the Companies Act, 2002, and is licensed to undertake banking business under Section 7 of the Banking and Financial Institutions Act, 2006.

3. SUBSIDIARY

The Bank has a 100% controlling interest in Rasilimali Limited which is incorporated in Tanzania and licensed by the Capital Markets and Securities Authority to deal with securities brokerage and other related services.

4. VISION AND MISSION

Vision statement:

To be the premier national development financing bank for promoting sustained economic growth and poverty alleviation.

Mission statement:

To provide development financing and complementary services for a diversified, vibrant and competitive national economy.

5. PRINCIPAL ACTIVITIES

The principal activity of the bank is the provision of banking and related services as stipulated in the Banking and Financial Institutions Act, 2006. This includes among others, provision of:

- Short, medium and long term credit facilities as well as leasing and equity financing;
- Administration of Government Funds;
- Support services to Small and Medium-Sized Enterprises (SMEs) such as preparation of business plans and feasibility studies; and
- Other banking services such as deposit taking, fund transfers and trade financing (mainly guarantees and letters of credit)

Since 2005, the bank embarked on a transformation process which was aimed to split it into two entities i.e. a Development Financing Institution (DFI) as well as a Commercial Bank. During the year, the bank achieved an important milestone towards that goal by receiving provisional banking licenses for the two institutions namely the DFI license for the parent TIB Development Bank Limited and commercial banking license for the subsidiary of the bank i.e. TIB Corporate Finance Limited. The provisional licenses were issued subject to fulfilment of some conditions such as submission of some reports including breakdown of the balances to be transferred to each entity. The receipt of the provisional licenses means that the bank will now be officially operating under a two tier structure in 2015 as envisaged in the Plan. With the operations of Rasilimali Limited still ongoing, the bank will now be able to offer a wider range of financial services to its customers.

The DFI's principal function is to amplify the process of national economic growth through provision of technical, medium and long term financial support for agribusinesses, agro-industries, and infrastructure and service delivery projects in the country.

TIB Corporate Finance Limited, on the other hand, is expected to position itself within the market disciplines by providing commercial banking services to both TIB-DFI and Rasilimali Limited and their clients, and to the general public.

Rasilimali Limited is expected to continue providing investment services in the capital market space like investment advisory, share dealings and stock brokerage. Other activities of the Company include issuing and trading in fixed income products such as bonds and commercial papers, (on behalf of TIB-DFI and TIB-Corporate Finance Limited customers) and the general public.

Directors' report

6. COMPOSITION OF THE BOARD OF DIRECTORS

Majority of the members of the Board of Directors are non-executive directors. The tenure of the Board is three years. The Chairman of the Board and the Managing Director are presidential appointees, whereas all other members of the Board are appointed by the Minister for Finance. The Board is comprised of representatives from the Government of the United Republic of Tanzania and others not affiliated to the Government.

The directors of the bank who held office during the year and to the date of this report, except as where otherwise stated were:

Table 1: Members of the Board of Directors

Name	Position	Age	Qualification/ discipline	Nationality
Prof. William Lyakurwa	Chairman	66	PhD in Economics, Cornell University, Ithaca New York.	Tanzanian
Mr. Haruna Masebu	Director	59	MBA, Msc. (Reading University), UK.	Tanzanian
Mrs. Elipina Mlaki	Director	62	MBA, Diploma in Economics & Advanced Diploma in Accountancy.	Tanzanian
Mr. Peter Noni	Managing Director	59	M.A in Economics.	Tanzanian
Dr. James Wanyancha	Director	62	PhD in Forest Genetics- Canada, MSc. in Forest Genetics – UK and BSc. in Forestry – Agriculture, Morogoro.	Tanzanian
Dr. Hamisi Mwinyimvua	Director	54	PhD in Economics, University of Dar es Salaam.	Tanzanian
Prof. Deogratias Rutatora	Director	60	Post-Doctorate in Rural Sociology, University of Kyoto/CAAS, BSc. in Agriculture, University of Dar es Salaam.	Tanzanian
Dr. Huba Nguluma	Director	55	PhD in Built Environmental Analysis, Royal Institute of Technology, Stockholm	Tanzania

The tenure of the current Board ended on 13 November 2014, however, the Minister for Finance extended its tenure for three (3) more months while the new Board of Directors is being re-constituted.

7. CORPORATE GOVERNANCE

The Directors are committed to the principles of good corporate governance and recognize the need to conduct the business in accordance with generally accepted best practices. In so doing the Directors therefore confirm that:

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the bank and monitor executive management;
- The positions of Chairman and Managing Director are held by different people;
- The Chairman of the Board of Directors is non-executive;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance; and
- They bring skills and experience from their own spheres of business to complement the professional experience and skills of the management team. They are the driving force towards transforming TIB Development Bank into a fully-fledged development bank.

Board and committee meetings

During the year, the Board of Directors had seven (7) non-executive directors. The Board continued to carry out its role of formulating policies and strategies of the bank, reviewing the business plan, ensure that the accounting system is maintained in accordance with acceptable standards, the books of the bank are properly kept, and audited by authorized auditors, as well as overseeing the recruitment and development of key personnel of the bank. The Board is also responsible for managing the bank's risk profile and met at least once every quarter during the year to perform all these duties.

The Board Committees act on behalf of the Board to direct the bank effectively and accelerate the decision-making process. The Board has three (3) committees namely Board Executive Committee (BEC), Board Audit and Risk Committee (BARC) and Board Human Resources and Remuneration Committee (BHRRC). During the year, the Board and its committees held several meetings as detailed below:

- Full Board of Directors – 9 meetings
- Board Executive Committee – 4 meetings
- Board Audit and Risk Committee – 7 meetings
- Board Human Resources and Remuneration Committee – 3 meetings

Table 2: Number of Meetings attended by Board members

Name of director	Full Board	BEC	BARC	BHRRC
Prof. William Lyakurwa	09	02	N/A	N/A
Mrs. Elipina Mlaki	08	04	07	N/A
Mr. Peter Noni	09	04	N/A	N/A
Mr. Haruna Masebu	09	N/A	07	03
Prof. Deogratias Rutatora	08	04	07	N/A
Dr. James Wanyancha	09	03	N/A	03
Dr. Hamisi Mwinyimvua	08	N/A	03	N/A
Dr. Huba Nguluma	05	04	N/A	03

N/A – This means the respective Board member is not a member to that Committee

Board Executive Committee

The Committee exercises the powers of the Board of Directors during the intervals between the meetings of the Board, to decide upon matters which go beyond the authority of Management such as deliberation of credit applications when it is not possible for the full Board to be convened at a short notice. The Committee also deliberates on other things as may be referred to it from time to time by the Board.

The Executive Committee members who served during the year are as detailed below:

Table 3: The Board Executive Committee Members

Name	Position	Nationality	Qualifications
Prof. William Lyakurwa	Chairman	Tanzanian	PhD in Economics, Cornell University, Ithaca New York
Dr. James Wanyancha	Member	Tanzanian	PhD in Forest Genetics- Canada, MSc. in Forest Genetics – UK, BSc. in Forestry – Agriculture, Morogoro
Mrs. Elipina Mlaki	Member	Tanzanian	MBA, Diploma in Economics & Advanced Diploma in Accountancy.
Prof. Deogratias Rutatora	Member	Tanzanian	Post-Doctorate in Rural Sociology, University of Kyoto/CAAS, BSc. in Agriculture, University of Dar es Salaam
Mr. Peter Noni	Member	Tanzanian	M.A Economics

The Executive Committee reports to the main Board and met 4 times during the year.

Human Resources and Remuneration Committee

The primary function of this Committee is to assist the Board in fulfilling its oversight responsibility to shareholders by ensuring coherent remuneration policies and practices that fairly and responsibly reward staff. It considers, recommends and approves changes in philosophy and/or general composition of remuneration packages including that for the Managing Director and fees and allowances to the other Directors. It also considers and recommends appointments, retirements, resignation or dismissals of members of the bank's Executive Management and oversees all human resource policies within the bank.

Directors' report

The Human Resources and Remuneration Committee members who served during the year are as indicated below:

Table 4: Human Resources and Remuneration Committee Members

Name	Position	Nationality	Qualification
Dr. James Wanyancha	Chairman	Tanzanian	PhD in Forest Genetics- Canada, MSc. in Forest Genetics – UK, BSc. in Forestry – Agriculture, Morogoro. PhD in Forest Genetics- Canada, MSc. in Forest Genetics – UK, BSc. in Forestry – Agriculture, Morogoro.
Dr. Hamisi Mwinyimvua	Member	Tanzanian	PhD in Economics, University of Dar es Salaam.
Mr. Haruna Masebu	Member	Tanzania	MBA, MSc. (Reading University), UK.
Dr. Huba Nguluma	Member	Tanzania	PhD in Built Environmental Analysis, Royal Institute of Technology, Stockholm

The Human Resources and Remunerations Committee reports to main Board and meets when there is an agenda to discuss. During the year the committee met 3 times.

Audit and Risk Committee

The functions of the Audit and Risk Committee are to assist the Board in meeting its responsibilities for an effective system of financial reporting, internal control and risk management; and to assist Board in discharging its responsibilities under the Banking and Financial Institutions Act, 2006 for 'keeping under review the internal financial controls of the bank with a view to securing the proper conduct of its financial affairs'.

The Committee is responsible for providing independent assurance to Board that the bank's risk and control procedures are adequate. The Committee, which meets regularly, has detailed terms of reference that include: receiving reports from, and reviewing the work of, the internal and external auditors; reviewing the annual financial statements prior to their submission to Board; considering the appropriateness of the accounting policies and procedures adopted and reviewing the bank's risk matrix and specific business controls.

Audit and Risk Committee (Continued)

The members who served on the Committee during the year are as shown below:

Table 6: Audit and Risk Committee Members

Name	Position	Nationality	Qualification
Mr. Haruna Masebu	Chairman	Tanzanian	MBA, MSc. (Reading University), UK.
Prof. Deogratias Rutatora	Member	Tanzanian	Post-Doctorate in Rural Sociology, University of Kyoto/CAAS, BSc. in Agriculture, University of Dar es Salaam.
Mrs. Elipina Mlaki	Member	Tanzanian	MBA, Diploma in Economics & Advanced Diploma in Accountant
Dr Hamisi Mwinyimvua	Member	Tanzania	PhD in Economics, University of Dar es Salaam.

The Audit and Risk Committee reports to main Board and met seven times during the year.

8. CAPITAL STRUCTURE AND SHAREHOLDING

Shareholding

The total number of shareholders during the year was three (3) (2013: three (3) shareholders). None of the directors hold any shares of the bank. The number and value of shares held by each shareholder during the year, which has remained the same from last year, is as shown in the table below:

Table 7: List of Shareholders

Name of the shareholder	Number of shares held	Value (TZS '000)	%
Treasury Registrar (on behalf of the Government of Tanzania)	152,097,661	152,097,661	99.97
Consolidated Holding Corporation	30,000	30,000	0.02
National Insurance Corporation of Tanzania Limited	10,000	10,000	0.01
	152,137,661	152,137,66	100

Capital structure

The bank's capital structure for the years ended 31 December 2014 is shown below.

Authorised, called up and fully paid	2014 TZS '000	2013 TZS '000
Authorised share capital (1,000,000,000 ordinary shares of TZS 1,000 each)	1,000,000,000	1,000,000,000
Issued and fully paid up shares (152,137,661 shares @ TZS 1,000) – 2013: 142,137,661 shares @ TZS 1,000.	152,137,661	142,137,661

The paid up share capital of the bank increased by TZS 10 billion during the year following equity injection from the Government.

9. MANAGEMENT OF THE BANK

The bank is under the supervision of the Board of Directors and the day-to-day management is entrusted to the Managing Director who is assisted by Directors of divisions and Managers of independent departments and units.

The organisational structure of the bank comprises of the following divisions

- Strategic Planning and Corporate Affairs;
- Development Financing;
- Portfolio Management;
- Finance, Treasury and Operations;
- Information and Communications Technology;
- Human Resources and Administration; and
- Managed Funds

In addition there are the following independent departments and units:

- Risk and Compliance;
- Internal Audit;
- Legal and Secretarial Services; and
- Procurement Management Unit

The Managing Director reports to the Board and in turn all Directors of Divisions and Managers of independent departments report to the Managing Director except the Chief Internal Auditor who functionally reports to the Board Audit and Risk Committee and administratively to the Managing Director.

10. PERFORMANCE FOR THE YEAR

Income statement

The bank's results are set out on page 63 of these financial statements. During the year under review, the bank recorded profit before tax of TZS 10,358 million (2013: TZS 11,638 million). The group made a profit before tax of TZS 11,301 million (2013: TZS 12,390 million). The following operational performance details refer to bank only and does not include the subsidiary (Rasilimali) as the amounts are not significant.

Interest income

Interest income during the year amounted to TZS 59,817 million compared to TZS 49,040 million in prior year, representing an increase of TZS 10,778 million or 22% (2013: TZS 7,608 million or 18%). The increase in income levels emanates mainly from growth in the loan book during the year. Loans reached TZS 413,044 million on 31st December 2014 against TZS 305,757 million on 31st December 2013.

Directors' report

Interest expenses

Interest expenses during the year amounted to TZS 14,697 million compared to TZS 11,312 million in prior year, representing an increase of TZS 3,385 million or 30% (2013: an increase of 4%). The increase was mainly due to increased deposits and long term borrowing.

Gross profit margin

Gross profit margin ((interest income less interest expenses)/total interest income *100) was 75% compared to 77% in 2013. The ratio decreased mainly due to substantial increase in deposits and borrowing as well as interest rates which led to higher interest expense during the year.

Non - interest Income

Non-interest income amounted to TZS 8,133 million compared to TZS 6,773 million earned during 2013; representing an annual increase of 20% (2013: 18%). The increase was due expanding banking operations which increased fee based and commission earned to the bank.

Impairment losses on loans and advances

Impairment expenses amounted to TZS 15,223 million compared to TZS 8,779 million incurred during 2013; representing an annual increase of 73% (2013: 12%). The increase was partly a result of continual use of commercial banking regulations as well as delays in implementation of some projects.

Operating expenses

Operating expenses include personnel costs, occupancy costs, depreciation of property and equipment, amortization of intangible assets, amortization on leasehold improvements and general administrative costs.

During the year, Operating expenses amounted to TZS 27,673 million as compared to TZS 24,084 million in prior year, implying an increase of 15% (2013: Increased by 11%). The increased operating expenses were due to expanding business activities.

Key performance ratios

The key performance ratios of the bank are indicated hereunder:

	2014	2013	Change
Return on total assets	2%	3%	-1%
Return on Equity	3%	5%	-2%
Non-interest income to interest income	14%	14%	-
Operating expenses to total assets	5%	6%	-1%
Interest margin to average earning assets	11%	11%	-
Non-interest expense to gross income	63%	59%	4%

Financial position

The bank's financial position is set out on pages 64 to 66 of these financial statements. The major movements during the year are briefly explained below:

Cash and balances with Bank of Tanzania

Cash and balances with Bank of Tanzania increased by TZS 595 million or 12% from prior year figure of TZS 4,985 million to close at TZS 5,580 million.

Balance with other banks

Balances with other banks increased by TZS 1,743 million or 38% from prior year figure of TZS 4,645 million to close at TZS 6,388 million.

Placements with other banks

Other money market placements increased by TZS 12,439 million 250% from prior year's TZS 4,974 million and closed the year at TZS 17,414 million. The increase was due to pending disbursements which required the bank to hold liquid funds.

Government securities held to maturity

Investment in Government securities decreased by TZS 24,573 million or (35%) from last year's 71,060 million to close the year at TZS 46,487 million. The decrease was mainly due to the fact that most funds were directed towards loans.

Loans and advances

Net Loans and advances increased by TZS 107,287 million or 35% from prior year's TZS 305,757 million to close the year at TZS 413,044 million. The growth was in line with bank's strategy to increase lending to sectors that spur development.

Equity investment – Available for sale

Equity investment – available for sale increased by 1,482 million or 22% from last year's TZS 6,751 million to close the year at TZS 8,233 million.

Investment in subsidiary

There were no changes in the investment by the bank in the equity shares of Rasilimali Limited during the year.

Investment property

The bank owns four plots, three are allocated along Ohio Street-Plot No. 223/50, 184/50 and 190/50 in the Dar es Salaam City Center and plot no. 1763 is allocated at Msasani Peninsular. All the plots are reported on the Statement of Financial Position at TZS 11,500 million and there was no movement during the year.

Property and equipment

Property and equipment increased by TZS 46 million 2% from prior year's 2,277 and closed the year at TZS 2,323 million. The increase was due to assets acquisition during the year.

Leasehold improvements

Leasehold improvements increased by TZS 707 million or 150% from prior year's 471 million and closed the year at TZS 1,178 million. The increase was due to partitioning expenses for Samora branch offices.

Other assets

Other assets increased by TZS 1,931 million 62% from previous year's TZS 3,125 million and closed at TZS 5,056 million.

Deposits

Deposits increased by TZS 70,217 million (33%) from last year's TZS 212,463 million to close the year at TZS 282,680 million. The increase was mainly caused by improved deposits mobilization for investment purposes.

Other liabilities

Other liabilities decreased by TZS 2,677 million 58% from previous year's TZS 4,587 million and closed at TZS 1,910 million.

Non-distributable reserve

Non-distributable reserves increased to TZS 34,899 million from TZS 21,771 million, which is an increase of TZS 13,128 or 60%. The increase is mainly due to increase of Risk Regulatory reserves on loan losses accounted for in accordance to Bank of Tanzania prudential guidelines on provisioning for loan losses, which requires a creation of a special non-distributable reserve to cushion for the difference between IFRS provisioning and BOT provisioning on non-performing portfolio loans.

Key efficiency ratios

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

	2014	2013	Change
Total capital to total assets	44%	47%	-3%
Non-performing loans to total advances	26%	23%	3%
Gross Loans to total deposits*	149%	148%	1%
Loans to total assets	79%	73%	6%
Liquidity ratio	85%	82%	3%

*Due to the nature of its mandate, the bank has been using other sources of funding including capital to issue loans and does not entirely rely on deposits.

Directors' report

11. TRANSFORMATION PROCESS TO SPLIT THE BANK INTO A DEVELOPMENT FINANCIAL INSTITUTION (DFI) AND COMMERCIAL BANK

The bank continued with its transformation process and significant progress was made. By the end of year, some key personnel for the commercial subsidiary were recruited as well as appointment of the Board of Directors. This paves the way for a fully separation early 2015 such that the subsidiary company will be operational by the second quarter of 2015.

12. FUTURE DEVELOPMENT PLANS

With completion of the separation process, the TIB group will be well equipped to offer a full range of services. The parent DFI will continue with the development financing activities while the commercial banking subsidiary will offer full commercial banking services to DFI and other customers. Rasilimali will continue to offer advisory services and will be a key player in DFI resource mobilization strategies.

13. RESULTS AND DIVIDEND

During the year 2014, the bank made a net profit after tax of TZS 6,608 million (2013: TZS 11,328 million). The Board of Directors does not recommend the payment of a dividend for the year ended 31 December 2014 because the bank is still under transformation and requires additional capital (2013: Nil).

14. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control system of the bank. The management ensures that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the bank's assets;
- Compliance with applicable laws and regulations;
- The reliability of 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 of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2014 and the Directors are satisfied that they met accepted criteria. The Board carries risk and internal control assessment through its Audit and Risk Committee.

15. ADMINISTRATION OF GOVERNMENT AND OTHER STAKEHOLDERS FUNDS

The bank administers certain Special Project Funds on behalf of the Government and other stakeholders. The administrative activities in respect of those Funds among others include, vetting applications for advances received from eligible applicants, monitoring the performance of the advances provided as well as collection/and or recovery of the advances from the borrowers, except for grants.

The table below presents information about the activities in the Funds during the year ended 31 December 2014 as well as the status of the Funds as at 31 December 2014.

Table 8: The movement in Funds / Grants during the year is as follows:

	AFW	FF	REA	RBF	WGL	SAAFI Limited	CIS	TEDAP	SMDG	NEEC
2013	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Balance at 1 January 2013	8,505,910	-	2,139,187	-	-	-	508,408	-	-	-
Funds received from the Government during the year	-	-	94,313,949	-	-	-	-	2,694,500	249,406	-
Funds disbursed during the year	(4,877,576)	(797,366)	(96,618,900)	-	(10,213,335)	(36,390)	-	(2,748,000)	-	-
Funds collected from the customers during the year	3,853,986	600,000	-	-	10,184,144	-	108,090	-	-	-
Management fees and other operating expenses	(218,937)	197,366	166,900	-	29,191	36,390	(100,000)	53,500	-	-
Balance at 31 December 2013	7,263,383	-	1,136	-	-	-	516,498	-	249,406	-
2014	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Balance at 1 January 2014	7,263,383	-	1,136	-	-	-	516,498	-	249,406	-
Funds received from the Government during the year	143,469	-	221,229,203	1,120,155	-	-	-	904,209	652,409	250,000
Funds disbursed during the year	(7,424,477)	-	(219,929,380)	(178,862)	-	-	-	(904,209)	(636,272)	-
Funds collected from the customers during the year	4,677,418	2,287,129	-	(14,888)	25,750	39,748	700,657	-	-	-
Management fees and other operating expenses	(143,469)	(187,129)	(203,796)	-	(25,750)	(142,700)	-	-	-	-
Funds invested	-	-	-	-	-	-	-	-	-	(250,000)
Interest earned on funds invested	21,275	-	-	8,328	-	-	-	-	-	-
Balance at 31 December 2014	4,537,599	2,100,000	1,097,163	934,732	-	-	413,545	700,657	265,543	-

Directors' report

Key:

SAAFI	Sumbawanga
AFW	Agricultural Financing Window
FF	Floriculture Funds
REA	Rural Energy Agency
RBF	Results Based Fund
WGL	Wentworth Gas Limited
CIS	Commodity Import Support
TEDAP	Tanzania Energy Development and Access Expansion Programme
SMDG	Small Miners Development Grant
NEEC	National Economic Empowerment Council

The aging analysis of the balance outstanding on the Funds is as presented in the table below:

	Total carrying amount	Current	1 – 3 months	3 – 6 months	6 – 12 months	Over 1 year
31 December 2013	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Agricultural Financing Window	30,966,730	-	-	-	-	28,558,924
SAAFI	14,950,00	30,498,588	-	-	-	17,614,000
Floriculture Funds	48,112,588	-	-	-	-	47,512,589
Tanzania Housing Bank (THB)	9,363,812	-	-	-	-	9,363,812
	88,458,080	30,498,588	-	-	-	95,341,731
31 December 2014						
TEDAP	203,552	203,552	-	-	-	-
Agricultural Financing Window	33,713,789	22,700,732	-	-	-	11,282,539
Commodity Import Support	15,871,163	-	-	-	-	15,871,163
Floriculture Funds	46,012,588	28,398,588	-	-	-	7,614,000
Small Miners Development Credit Facility	313,655	313,655	-	-	-	-
SAAFI	14,950,000	-	-	-	-	14,950,000
	111,064,747	51,616,527	-	-	-	27,453,702

Under structured and refinancing facilities, flower companies started repayment of the loans in December 2013 throughout 2014. A total of TZS 2.1 billion was collected during the year. Generally, there has been significant improvement of flower farms in terms of production, servicing of Government loans.

Administration of Rural Energy Projects (REA) continued during the year whereby a total of TZS 221 billion was received to finance various rural energy projects in the country. The main responsibility of TIB is to administer grant payments made from Rural Energy Fund this includes verifying disbursements requests for correctness, propriety and eligibility, maintaining up to date accounting records of all transactions of activities related to disbursements, project monitoring, supervision and evaluation which includes site visits etc.

The bank continued to administer Participating Financial Institutions under the Tanzania Energy Development and Expansion Project (TEDAP). As at 31st December 2014 number of banks recommended by BOT to participate into TEDAP Credit Line were seven (7) namely NMB Bank Plc, NBC Ltd, CRDB bank Plc, Azania Bancorp, United Bank for Africa, Stanbic Bank Ltd and Ecobank.

Administration of Agricultural Financing Window Fund continued during the year. For the year 2014, TIB approved total loans of TZS 10.8 billion to 33 projects under the specified categories (i.e. Corporate, Microfinance institutions and SACCOS/Associations). Total disbursements under the review period amounted to TZS 10.1 billion. In February 2014, TIB signed Agreement with SNV Netherlands Development Organization to administer a total of EURO 1.075 million for Pico solar project. TIB continued to play its role as fund administrator by participating in various activities. The Trust Agent is responsible for the day to day administration of the Result Based Financing (RBF) fund.

Under the Small Scale Mining Development Scheme, TIB is responsible for credit appraisal, management of funds disbursement as per the terms and conditions specified in the agreement, monitor progress of the project, collect repayment and preparation of periodic report and submit the same to MEM and other authorities concerned.

Between 1st January and 31st December 2014 TIB received a total of 72 credit applications valued TZS 20.5 billion. TIB approved only eight (8) applications worth TZS 1,894,300,000.00.

Under CIS and THB, the bank continued to collect repayments from the beneficiaries. However, there were no significant improvements in terms of collections.

16. SOLVENCY

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

17. EMPLOYEE WELFARE

Relationship between management and employees

There were continuous good relations between Employees and Management as well as Management with the Trade Union.

The Bank is an equal opportunity employer

The bank gives equal access to employment opportunities to all and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, ethnicity, religion or disability which does not impair ability to discharge duties.

Training

Training and development of staff capacity is one of the key priorities of the bank as re-orientation to development banking continues. The bank spent TZS 755 million during the year (2013: TZS 799 million) to train staff on various programs. This is in addition to training programs that were either fully or partially funded by partner institutions such as SADC-DFRC and World Bank through Second Generation Financial Sector Reforms operated by the Bank of Tanzania. The bank will continue to train, re-train and develop staff in order to improve their service delivery and innovation in development financing.

Staff loans and advances

Loans are available to all confirmed employees depending on the assessment of the need and ability to pay in compliance with the Staff Loan Policy. The bank also supports staff to run a Savings and Credit Cooperative Society (SACCOS) to assist in improving their welfare.

Medical facilities

All members of staff plus a maximum of four dependents for each employee are availed with medical insurance paid for by the bank. Currently these services are provided by AAR Health Insurance (AAR).

Directors' report

Persons with Special Needs

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the bank continues and appropriate training is arranged. It is the policy of the bank that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Retirement benefits

The bank pays contributions to publicly administered pension plans on a mandatory basis which qualifies as a defined contribution plan. The average number of employees during the year was 202 (2013: 206 employees).

18. GENDER PARITY

The bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind. As at 31 December 2014 the bank had the following distribution of employees by gender.

Gender	2014	2013
Male	132	133
Female	70	73
Total	202	206

19. RELATED PARTY TRANSACTIONS

Transactions with related parties during the year as well as balances outstanding from those transactions as at 31 December 2014 are disclosed in Note 37 to the financial statements.

20. POLITICAL AND CHARITABLE DONATIONS

The bank did not make any political donations during the year. However, some donations amounting to TZS 122 million (2013: TZS 171 million) were made to charitable organisations as part of the bank's Corporate Social Responsibility activities.

21. CORPORATE SOCIAL RESPONSIBILITY

The TIB CSR Policy approach to the funding of community development projects takes on a developmental approach in a manner that will upgrade the quality of life to under privileged communities. The aim is to develop an environment conducive to wealth creation, self-sufficiency and economic growth.

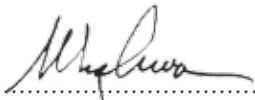
During 2014, the bank allocated about 40% of its Corporate Social Responsibility (CSR) budget for development of the Coco Beach Project. As outlined in the bank's CSR policy, the Coco Beach Project falls under Section 8.3, 'flagship projects' in which the bank focus its Corporate Social Investment (CSI) on long term projects spanning a period of 3-5 years to ensure sustainability. These projects fall within the focus areas of the bank namely Education, Health, Job Creation and Entrepreneurship. The Coco Beach Project will have a multiplier effect as it will not only be a source of revenue for the Kinondoni Municipal Council but it will also create employment to hundreds as well as enriching the lives of Tanzanians by having free access to a well-planned, safe beach development with accompanying infrastructure. Other donations were made to the following charitable organisations or projects:

- Paediatric Association of Tanzania;
- Kisesa Development Fund for Education Development;
- Tanzania Deaf Development Organization;
- Contribution towards a laboratory in Singida region; and
- National Beekeeping Supplies


22. AUDITORS

The Controller and Auditor-General (CAG) is the statutory auditor for the bank pursuant to the provisions of Article 143 of the Constitution of the United Republic of Tanzania of 1977 (as revised in 2005). However, in accordance with sections 30 – 33 of the Public Audit Act No. 11 of 2008, the CAG appointed Messrs KPMG to carry out on his behalf, the audit of the bank's financial statements for the year ended 31 December 2014.

BY ORDER OF THE BOARD


.....
Prof. William Lyakurwa
Chairman

02/04/.....2015


.....
Prof. Deogratias Rutatora
Director

02/04/.....2015


.....
Peter Noni
Managing Director

02/04/.....2015

Directors' report

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

The Company's Directors are responsible for the preparation of consolidated financial statements that give a true and fair view of TIB Development Bank Limited comprising the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' Report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002 as well as Banking and Financial Institutions Act, 2006.

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

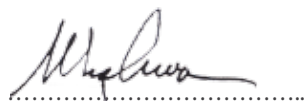
The Directors have made an assessment of the ability of the Company to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

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

Approval of financial statements

The consolidated financial statements of TIB Development Bank Limited, as identified in the first paragraph, were approved by the board of directors on 2nd April and signed by:

BY ORDER OF THE BOARD



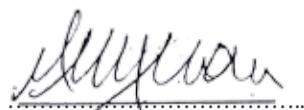
Prof. William Lyakurwa
Chairman

02/04/.....2015



Prof. Deogratias Rutatora
Director

02/04/.....2015



Peter Noni
Managing Director

02/04/.....2015

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To:

**Prof. William Lyakurwa,
The Chairman,
Board of Directors,
TIB Development Bank Limited
P. O. Box 9373,
Dar es Salaam.**

**REPORT OF THE CONTROLLER AND AUDITOR GENERAL
ON THE CONSOLIDATED FINANCIAL STATEMENTS OF TIB DEVELOPMENT BANK LIMITED FOR THE YEAR ENDED 31ST
DECEMBER 2014**

Introduction

I have audited the accompanying consolidated financial statements of TIB Development Bank Limited and its subsidiary which comprises the consolidated statement of financial position as at 31st December 2014, and the consolidated statements of Profit or Loss and other Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 22 to 105.

Directors' Responsibility for the financial statements

The Bank's directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002, Banking and Financial Institutions Act, 2006 and Public Corporations Act, 1992, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditor

My responsibility as an auditor is to express an independent opinion on the financial statements based on my audit. The audit was conducted in accordance with International Standards on Auditing (ISA) and such other audit procedures I considered necessary in the circumstances. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on my 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, I consider internal control relevant to the bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Director's, as well as evaluating the overall presentation of the consolidated financial statements.

In addition, Sec. 10 (2) of the PAA No. 11 of 2008 requires me to satisfy myself that the accounts have been prepared in accordance with the appropriate accounting standards and that; reasonable precautions have been taken to safeguard the collection of revenue, receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed, expenditures of public monies have been properly authorized.

Further, Sect 48(3) of the Public Procurement Act No.7 of 2011 and the Public Procurement (Goods, Works, Non-consultant services and Disposal of Public Assets by Tender) Regulations of 2013 requires me to state in my annual audit report whether or not the TIB Development Bank Limited has complied with the provisions of the Law and its Regulations.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

REPORT OF THE CONTROLLER AND AUDITOR GENERAL (Continued)

Opinion

In my opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of TIB Development Bank Limited and its subsidiary as at 31st December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002, Banking and Financial Institutions Act, 2006 and Public Corporations Act, 1992.

Report on other legal and regulatory requirements

Compliance with Public Procurement Act, 2011

Based on the work performed during my audit of the consolidated financial statements of TIB Development Bank Limited, nothing has come to my attention that the bank has not complied with the Act and Public Procurement (goods, works, non-consultant services and disposal of public assets by Tender) Regulations 2013.

Companies Act, 2002

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

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



Francis Mwakapalila
Ag. Controller and Auditor General

National Audit Office,
Dar es Salaam.

2nd April, 2015



CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	GROUP		BANK	
		2014	2013	2014	2013
		TZS'000	TZS'000	TZS'000	TZS'000
		(Restated)	(Restated)		
Interest and similar income	6	59,817,268	49,039,569	59,817,268	49,039,569
Interest and similar expense	7	(14,697,202)	(11,312,495)	(14,697,202)	(11,312,495)
Net interest income		45,120,066	37,727,074	45,120,066	37,727,074
Fees, commissions and other income	8	5,318,453	4,787,616	4,811,153	4,400,687
Foreign currency dealing, gains on value of shares and exchange income	9	2,670,412	1,352,116	1,589,139	481,456
Recoveries on charged off loans	10	1,733,161	1,890,986	1,733,161	1,890,986
Total operating income		54,842,092	45,757,792	53,253,519	44,500,203
Impairment losses on loans and advances	20	(15,222,674)	(8,778,786)	(15,222,674)	(8,778,786)
Net operating income		39,619,418	36,979,006	38,030,845	35,721,417
Personnel expenses	11	15,271,552	14,337,360	14,762,902	13,939,920
Occupancy expenses	12	3,344,171	2,420,168	3,341,940	2,415,720
General and administration expenses	13	6,729,821	6,095,799	6,604,316	6,003,823
Depreciation of property and equipment	26	944,325	948,752	935,315	938,074
Provision for impairment in equity investment		1,500,000	-	1,500,000	-
Amortisation of leasehold improvements	27	250,425	520,898	250,425	520,898
Amortisation of intangible assets	28	278,492	265,879	278,179	265,254
Total operating expenses		28,318,786	24,588,855	27,673,077	24,083,689

Financial Statements

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

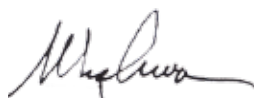
	Notes	GROUP		BANK	
		2014	2013	2014	2013
		TZS'000	TZS'000	TZS'000	TZS'000
			(Restated)		(Restated)
Interest and similar income	6	59,817,268	49,039,569	59,817,268	49,039,569
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Impairment losses on loans and advances	20	(15,222,674)	(8,778,786)	(15,222,674)	(8,778,786)
Net operating income		39,619,418	36,979,006	38,030,845	35,721,417
Personnel expenses	11	15,271,552	14,337,360	14,762,902	13,939,920
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General and administration expenses	13	6,729,821	6,095,799	6,604,316	6,003,823
Depreciation of property and equipment	26	944,325	948,752	935,315	938,074
Provision for impairment in equity investment		1,500,000	-	1,500,000	-
Amortisation of leasehold improvements	27	250,425	520,898	250,425	520,898
Amortisation of intangible assets	28	278,492	265,879	278,179	265,254
Total operating expenses		28,318,786	24,588,856	27,673,077	24,083,689
Profit before tax		11,300,632	12,390,150	10,357,768	11,637,728
Income tax expense	29	(4,017,001)	(505,321)	(3,749,472)	(310,161)
Profit for the year		7,283,631	11,884,830	6,608,296	11,327,567
Other comprehensive income					
Re-measurement (losses) / gains on employment benefit obligations		(999,874)	157,000	(999,874)	157,000
Income tax effect		299,962	(47,100)	299,962	(47,100)
Other comprehensive income, net of tax		(699,912)	109,900	(699,912)	109,900
Total comprehensive income for the year		6,583,719	11,774,930	5,908,384	11,437,467

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 2014

	Notes	GROUP		BANK		
		2014	2013	2014	2013	2012
		TZS '000	TZS '000 (Re-stated)	TZS '000	TZS'000 (Re-stated)	TZS'000 (Re-stated)
Assets						
Cash and balances with Bank of Tanzania	14	5,580,548	4,985,266	5,580,548	4,985,266	4,906,561
Balance with other banks	15	6,595,754	4,764,701	6,388,465	4,645,096	3,068,467
Placements with other banks	16	17,413,546	4,974,362	17,413,546	4,974,362	19,543,600
Financial investment held for trading	17	2,504,980	1,589,611	-	-	-
Government and corporate securities held - to - maturity	18	46,486,610	71,059,582	46,486,610	71,059,582	57,515,563
Loans and advances	20	413,045,794	305,756,700	413,044,192	305,756,700	241,883,197
Other assets	21	5,068,212	3,132,989	5,056,406	3,125,176	572,819
Grants receivable	22	73,539	26,737	73,539	26,738	98,725
Equity investment-available for sale	23	8,232,699	6,751,090	8,232,699	6,751,090	1,000,000
Tax recoverable	29	1,371,412	1,488,961	1,317,199	1,440,488	2,498,113
Investment in subsidiary	24	-	-	455,653	455,653	455,653
Investment property	25	11,500,000	11,500,000	11,500,000	11,500,000	11,500,000
Property and equipment	26	2,344,817	2,311,370	2,322,771	2,276,521	2,787,690
Leasehold improvements	27	1,177,641	470,590	1,177,641	470,590	955,948
Intangible assets	28	585,407	326,277	585,407	325,965	560,060
Deferred tax asset	29	68,889	-	531,579	90,739	-
Total assets		522,049,848	419,138,236	520,166,255	417,883,966	347,346,396
Liabilities and equity						
Deposits	30	282,643,225	212,407,859	282,680,369	212,463,235	159,419,612
Other liabilities	31	2,170,560	4,807,025	1,910,090	4,586,733	2,020,367
Deferred Income	32	2,314,130	1,902,014	2,314,130	1,902,014	1,181,793
Deferred tax liability	29	-	104,422	-	-	1,991,770
Long-term Borrowing	33	17,353,248	-	17,353,248	-	479,934
Government Grants	34	383,650	611,143	383,650	611,143	838,636
Employment benefit obligation	38	3,560,094	2,056,000	3,560,094	2,056,000	1,868,000
Total liabilities		308,818,707	221,888,463	308,201,581	221,619,125	167,800,112
Shareholders' equity						
Share capital	35	152,137,661	142,137,661	152,137,661	142,137,661	142,137,661
Advance towards share capital		5,281,090	5,281,090	5,281,090	5,281,090	-
Retained earnings		16,269,620	25,022,981	14,646,928	24,075,624	12,436,309
Non-distributable reserve		34,899,221	21,770,692	34,899,221	21,770,692	23,972,540
Other reserves		5,037,349	3,037,349	4,999,774	2,999,774	999,774
Total equity		213,624,941	197,249,773	211,964,674	196,264,841	179,546,284
Total liabilities and equity		522,049,848	419,138,236	520,166,255	417,883,966	347,346,396

Financial Statements

These financial statements were approved by the Board of Directors for issue on 2nd April, 2015 and were signed on its behalf by:



Prof. William Lyakurwa
Chairman



Prof. Deogratias Rutatora
Director



Peter Noni
Managing Director

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

GROUP	Share capital	Retained earnings	Non-distributable reserve*	Asset revaluation reserve	Technical assistance fund	Advance towards share capital	Total
	TZS' 000	TZS' 000	TZS' 000	TZS' 000	TZS' 000	TZS' 000	TZS' 000
2014							
At 1 January 2014 (as previously stated)	142,137,661	16,048,124	21,770,692	37,575	2,999,774	-	182,993,826
Prior year adjustment ¹	-	8,050,000	-	-	-	-	8,050,000
Prior year adjustment ²	-	(1,055,143)	-	-	-	-	(1,055,143)
Prior year adjustment ³	-	-	-	-	-	5,281,090	5,281,090
Prior year adjustment ⁴	-	(219,553)	-	-	-	-	(219,553)
Prior year adjustment ⁵	-	2,394,714	-	-	-	-	2,394,714
Prior year adjustment ⁶	-	(195,161)	-	-	-	-	(195,161)
At 1 January 2014 (as restated)	142,137,661	25,022,981	21,770,692	37,575	2,999,774	5,281,090	197,249,773
Profit for the year	-	7,283,631	-	-	-	-	10,044,899
Other comprehensive income	-	(699,912)	-	-	-	-	(699,912)
issue of new ordinary shares	10,000,000	-	-	-	-	-	10,000,000
Transfer to technical assistance fund	-	(2,000,000)	-	-	2,000,000	-	-
Transfer to non-distributable reserve	-	(13,128,529)	13,128,529	-	-	-	-
Other adjustments	-	(208,551)	-	-	-	-	(208,551)
At 31 December 2014	152,137,661	16,269,620	34,899,221	37,575	4,999,774	5,281,090	213,624,941

* Non distributable reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution and is excluded in calculation of the bank's core capital.

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

GROUP	Share capital	Retained earnings	Non - distributable reserve*	Asset revaluation reserve	Technical assistance fund	Advance towards share capital	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
2013							
At 1 January 2013 (as previously stated)	142,137,661	5,831,546	23,972,540	37,575	999,774	-	172,979,096
Prior year adjustment ¹	-	8,050,000	-	-	-	-	8,050,000
Prior year adjustment ²	-	(1,055,143)	-	-	-	-	(1,055,143)
At 1 January 2013 (as restated)	142,137,661	12,436,309	23,972,540	37,575	999,774	-	179,973,953
Profit for the year	-	11,884,830	-	-	-	-	11,884,830
Other comprehensive income	-	109,900	-	-	-	-	109,900
Issue of new ordinary shares	-	-	-	-	-	5,281,090	5,281,090
Transfer to technical assistance fund	-	(2,000,000)	-	-	2,000,000	-	-
Transfer to non-distributable reserve	-	2,201,848	(2,201,848)	-	-	-	-
At 31 December 2013	142,137,661	25,022,981	21,770,692	37,575	2,999,774	5,281,090	197,249,773

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

BANK	Share capital	Retained earnings*	Non - distributable reserve	Technical assistance fund	Advance towards share capital	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
2014						
At 1 January 2014 (as previously stated)	142,137,661	14,905,606	21,770,692	2,999,774	-	181,813,733
Prior year adjustment ¹	-	8,050,000	-	-	-	8,050,000
Prior year adjustment ²	-	(1,055,143)	-	-	-	(1,055,143)
Prior year adjustment ³	-	-	-	-	5,281,090	5,281,090
Prior year adjustment ⁴	-	(219,553)	-	-	-	(219,553)
Prior year adjustment ⁵	-	2,394,714	-	-	-	2,394,714
At 1 January 2014 (as restated)	142,137,661	24,075,624	21,770,692	2,999,774	5,281,090	196,264,841
Profit for the year	-	6,608,296	-	-	-	6,608,296
Other comprehensive income	-	(699,912)	-	-	-	(699,912)
Issue of new ordinary shares	10,000,000	-	-	-	-	10,000,000
Transfer to technical assistance fund	-	(2,000,000)	-	2,000,000	-	-
Transfer to non-distributable reserve	-	(13,128,529)	13,128,529	-	-	-
Other adjustments	-	(208,551)	-	-	-	(208,551)
At 31 December 2014	152,137,661	14,646,928	34,899,221	4,999,774	5,281,090	211,964,674

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Prior year adjustment¹ – relates to the correction of an omission with regard to recording of investment properties which were previously not included in the books of account of the Bank. For further details on this item please refer to Note 25 of the financial statements.

Prior year adjustment² – relates to the cumulative effect of the correction of omission of collective impairment as part of total IFRS provision for impaired advances for accounting periods prior to 31 December 2012. For further details on this item please refer to Note 20 of the financial statements.

Prior year adjustment³ – relates to the correction of an accounting error with regard to the value of the 400 shares of NORSAD Finance which the Bank received at no consideration from the principal shareholder i.e. the Government of Tanzania. This amount shall be converted into equity shares of the Bank once the legal formalities are finalised. The amount was previously recorded as an investment grant.

Prior year adjustment⁴ – relates to the increase in the provision for collective impairment as part of total IFRS provision for impaired advances for the year ended 31 December 2013. For further details on this item please refer to Note 20 of the financial statements.

Prior year adjustment⁵ – relates to the correction of an accounting error with regard to deferred taxes under provision for the year ended 31 December 2013.

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

BANK	Share capital	Retained earnings*	Non - distributable reserve	Technical assistance fund	Advance towards share capital	Total
	TZS' 000	TZS' 000	TZS' 000	TZS' 000	TZS' 000	TZS' 000
2013						
At 1 January 2013 (as previously stated)	142,137,661	5,441,452	23,972,540	999,774	-	172,551,427
Prior year adjustment ¹	-	8,050,000	-	-	-	8,050,000
Prior year adjustment ²	-	(1,055,143)	-	-	-	(1,055,143)
At 1 January 2013 (as re-stated)	142,137,661	15,886,309	23,972,540	999,774	-	179,546,284
Profit for the year	-	11,327,567	-	-	-	8,932,853
Other comprehensive income	-	109,900	-	-	-	109,900
Prior year adjustment ³	-	-	-	-	5,281,090	5,281,090
Transfer to technical assistance fund	-	(2,000,000)	-	2,000,000	-	-
Transfer to non-distributable reserve	-	2,201,848	(2,201,848)	-	-	-
At 31 December 2013 (as re-stated)	142,137,661	24,075,624	21,770,692	2,999,774	5,281,090	196,264,841

Prior year adjustment¹ – relates to the correction of an omission with regard to recording of investment properties which were previously not included in the books of account of the Bank. For further details on this item please refer to Note 25 of the financial statements.

Prior year adjustment² – relates to the cumulative effect of the correction of omission of collective impairment as part of total IFRS provision for impaired advances for accounting periods prior to 31 December 2012. For further details on this item please refer to Note 21 of the financial statements.

Prior year adjustment³ – relates to the correction of an accounting error with regard to the value of the 400 shares of NORSAD Finance which the Bank received at no consideration from the principal shareholder i.e. the Government of Tanzania. This amount shall be converted into equity shares of the Bank once the legal formalities are finalised. The amount was previously recorded as an investment grant.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	GROUP		BANK	
	2014	2013	2014	2013
	TZS'000	TZS'000	TZS'000	TZS'000
		(Re-stated)		(Re-stated)
Cash flow from operating activities				
Profit before tax	11,300,632	12,390,152	10,357,768	11,637,728
Adjustments for non-cash items:				
Depreciation and amortisation	1,222,817	1,214,631	1,213,494	1,203,328
Amortisation of leasehold improvements	250,425	520,898	250,425	520,898
Profit on disposal	(13,122)	(73,422)	(13,122)	(73,422)
Written off items	-	-	134,707	-
Impairment losses on loans and advances	15,222,674	8,778,786	15,222,674	8,778,786
Impairment on equity Investments	1,500,000	-	1,500,000	-
Impairment on sundry receivables	338,264	414,682	338,264	414,682
Re-measurement on employee obligations	999,874	(157,000)	999,874	(157,000)
Employment benefit obligations	1,504,094	(188,000)	1,504,094	(188,000)
Cash flow from operating profits before working capital changes	32,325,658	22,900,727	31,508,178	22,137,000
Changes in operating assets and liabilities				
(Increase)/decrease in placements with other banks more than 3 months	(3,961,125)	2,775,190	(3,961,125)	2,775,190
Increase in loans and advances	(126,831,208)	(55,094,716)	(126,977,107)	(55,094,716)
Increase in other assets	(2,320,289)	(2,871,215)	(2,316,295)	(2,895,052)
Increase in deposits	70,235,366	53,043,623	70,217,135	53,043,623
(Decrease)/ increase in other liabilities	(2,224,349)	3,156,956	(2,264,526)	3,286,586
Increase in investment securities (held to maturity)	13,618,578	7,320,249	13,618,578	7,320,249
Total changes in operating assets and liabilities	(19,157,369)	31,230,814	(20,175,162)	30,572,880
Tax paid	(3,772,800)	(1,382,144)	(3,767,060)	(1,382,144)
Net cash inflow from operating activities	(22,930,169)	29,848,670	(23,942,222)	29,190,736

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

	GROUP			BANK
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
	Notes	(Re-stated)		(Re-stated)
Cash flow used in investing activities				
Purchases of leasehold properties and equipment	(1,011,681)	(436,802)	(1,002,681)	(432,331)
Purchases of intangible assets	(537,620)	(31,159)	(537,620)	(31,159)
Additional leasehold improvements	(957,476)	(35,539)	(957,476)	(35,539)
Proceeds on disposal	14,947	82,148	14,947	82,148
Increase in financial assets held for trading	(915,370)	(708,839)	-	-
Net cash used in investing activities	(3,407,200)	(1,130,191)	(2,482,830)	(416,881)
Cash flow from financing activities				
Loan repayments	(322,632)	(479,934)	(322,632)	(479,934)
Proceeds from Borrowing	16,610,000	-	16,610,000	-
Proceeds from capital injection	10,000,000	-	10,000,000	-
	26,287,368	(479,934)	26,287,368	(479,934)
Increase in cash and cash equivalents	(50,000)	28,238,543	(137,684)	28,293,921
Cash and cash equivalents at the beginning of the year	37,051,051	8,812,509	36,931,447	8,637,526
At the end of the year	19 37,001,051	37,051,051	36,793,763	36,931,447

1. REPORTING ENTITY

TIB Development Bank Limited is domiciled in Tanzania and its registered offices are at Consolidated Holding Corporation Building, at the corner of Samora Avenue and Zanaki Street in Dar es Salaam. The current physical address of the bank is Mlimani City Office Park, Building No. 3 Sam Nujoma Road, Dar es Salaam. These financial statements are for the bank and its subsidiary namely Rasilimali Limited which is a registered stock brokerage and investment adviser. The group is primarily involved in providing development financing and other commercial banking services as well as investment advisory services.

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

The financial statements are presented in Tanzania Shillings (TZS) which is the functional currency of the bank. The figures have been rounded to the nearest thousand shillings except where explicitly stated.

Presentation of financial statements

The bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 38.

Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are explained in Note 5.

Basis of consolidation

a) Subsidiaries

The consolidated financial statements comprise the financial statements of TIB Development Bank Limited and its subsidiary, Rasilimali Limited for the year ended 31 December 2014.

Subsidiaries are those entities controlled by the Group. Control exists when the holding company is exposed to, or has rights, variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The bank owns 100% shares in Rasilimali Limited and has full control over the subsidiary.

b) Non-controlling interest

Non-controlling interest at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

The bank owns 100% shares in Rasilimali Limited and has full control over the subsidiary.

c) Transactions eliminated on consolidation

Inter-company transactions, balances and any unrealised income and expenses arising from intra company transactions are eliminated. Unrealised losses are eliminated on the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the bank.

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(i) Standards adopted during the year

The accounting policies adopted are consistent with those of the previous financial year, except for the following relevant amended standards and interpretations effective as of 1 January 2014:

Amendments to standards and interpretations effective and adopted during the year

New standard or amendments	Effective for annual periods beginning on or after
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Amendments to IAS 32 - Offsetting financial assets and financial liabilities (2011)	1 January 2014
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IFRIC 21 Levies (2013) 1 January 2014

Amendments to IAS 32: Offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014).

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The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The adoption of the amendments did not have any significant impact on the financial statements of the Bank.

IFRIC 21: Levies (effective for annual periods beginning on or after 1 January 2014).

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognizes a liability for a levy when – and only when – the triggering event specified in the legislation occurs. The adoption of the amendments did not have any significant impact on the financial statements of the Bank.

(ii) Relevant new and amended standards in issue but not yet effective for the year ended 31 December 2014

New standard or amendments	Effective for annual periods beginning on or after	
Defined benefit plans: Employee contributions (amendments to IAS 19)	1 July 2014	
Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciations and amortisation		1
January 2016		
Disclosure initiative (amendments to IAS 1)	1 January 2016	
IFRS 15 Revenue from contracts with customers	1 January 2017	
IFRS 9 Financial instruments (2014)	1 January 2018	

All Standards and Interpretations will be adopted on their effective dates.

Defined benefit plans – Employee contributions (Amendments to IAS 19)

The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When contributions are eligible for the practical expedient, an entity is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014 with early adoption permitted. The adoption of these changes will not affect the amounts and disclosures of the Company's defined benefits obligations.

Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The adoption of these changes will not affect the amounts and disclosures of the Company's property and equipment and intangible assets.

Disclosure initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted. The adoption of these changes will not bring any major change in the disclosure of the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15

Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognizing revenue being:

- (ii) Relevant new and amended standards in issue but not yet effective for the year ended 31 December 2014 (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption is permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 9: Financial Instruments (2014)

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

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted. The adoption of this standard is expected to have a significant impact in the financial statements of the Company. The Company is currently assessing the potential impact on its financial statements resulting from the application of IFRS 9.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of income and expenses

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

Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate (EIR), 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 rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fees and commission income

The bank earns fees and commission income from diverse range of services it provides to its customers. Fees income can be divided into the following categories:

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

Fees earned for the provision of services over a period of time such as from administration of Government Funds are accrued over the respective period. These fees include commission income, asset management, custody and other management and advisory fees.

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

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 recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Net operating income and other income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. Other income is recognized in the period in which it is earned.

Dividend income

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

Employees' benefits including pensions and post-employment benefits

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

Pension obligations

The bank operates a defined contribution plan whereby each of its employees and the bank contribute to the state owned and managed (statutory) funds namely the Parastatal Pensions Fund (PPF), Public Service Pensions Fund (PSPF) or the National Social Security Fund (NSSF) and Local Authority Pensions Fund (LAPF). The bank contributes 15% of basic salary for each employee who is a member of PPF, PSPF, LAPF and 10% of gross salary for each employee who is a member of NSSF, while the employees contribute 5% and 10% respectively. Apart from these monthly contributions, the bank has no further commitments or obligations to the funds. The contributions are charged to the profit or loss in the year to which they relate.

Post-employment obligations

Under defined benefit plans, the bank provides certain post-retirement benefits at retirement and long-time service award and at certain milestones during the period of employment

The expected costs of these benefits are accrued over the period of employment and the present value of the obligation is determined by reference to market yields on high quality corporate bonds, where there is no deep market in such bonds, the market yields on government bonds is used at the end of the reporting period.

These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Re-measurements, comprising of actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income (OCI) in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Bonus plans

The bank recognises a liability and expense for bonuses based on a formula that takes into account the profit attributable to the Government (the ultimate shareholder). The bank recognises a provision for bonuses when there is a contractual obligation or a past practice that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated by the bank before the normal retirement date or whenever

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

an employee accepts voluntary redundancy in exchange for these benefits. The bank recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after reporting date are discounted to present value.

Other employee benefits

The bank provides free medical treatment to staff and their dependents. The cost is charged to the profit or loss. The estimated monetary liability for employees' accrued leave entitlement at the reporting date is recognized as an expense accrual.

Provisions

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 the profit or loss net of any reimbursement.

Property and equipment

Property and equipment (including equipment under operating leases where the bank is the lessor) is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated

. The estimated useful lives are as follows:

Description of items

	Useful lives
Furniture and equipment	8 Years
Machinery and automation	4 Years
IT equipment	4 Years
Motor vehicles	4 Years
Buildings	25 years

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' in the profit or loss in the year the asset is derecognized. The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

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 recognized as an expense in the profit or loss on a straight line basis over the lease term. Contingent rental payable are recognized 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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leasehold improvements

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

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recognized as an expense in the period in which termination takes place.

Leasehold improvements are stated at cost, less accumulated amortization and accumulated impairment losses. Leasehold improvement amortizations 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 amortization rates in use are:

Description of items

	Useful lives
Leasehold improvements	3 – 5 years

Intangible assets

The bank's intangible assets include the value of computer software (license for use of T24 – Core Banking System), Credit Quest and Smart Stream, Swift Integrator and Security Systems.

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortized over the useful economic life.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

The amortization expense on intangible assets with finite lives is recognized in the profit or loss in the expense category consistent with the function of the intangible asset. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Description of items

	Useful lives
Computer software	4 years

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU 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 for publicly traded subsidiaries or other available fair value indicators

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For assets excluding goodwill, 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 bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement

Financial instruments - initial recognition and subsequent measurement

Date of recognition

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

Initial measurement of financial instruments

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

Derivatives recorded at fair value through profit or loss

The bank uses derivatives such as cross-currency swaps, forward foreign exchange contracts and foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the profit or loss.

Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities and equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition.

Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss on financial assets and liabilities designated at fair value through profit or loss. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in profit or loss when the right to the payment has been established.

Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the bank immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

Available-for-sale financial investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss.

Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. The bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized in other comprehensive income and accumulated in equity in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in profit or loss in 'Other operating income'. Where the bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate (EIR).

Dividends earned, whilst holding available-for-sale financial investments are recognized in the profit or loss as 'Other operating income' when the right of the payment has been established.

The losses arising from impairment of such investments are recognized in the profit or loss in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognized in the profit or loss line 'Impairment loss expense'.

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

Due from banks and loans and advances to customers

'Due from banks' and 'Loans and advances to customers', 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, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortized cost using the effective interest rate (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR).

The amortization is included in 'Interest and similar income' in the profit or loss. The losses arising from impairment are recognized in the profit or loss in 'Impairment loss expense'.

The bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other borrowed funds

Where the loan, on drawdown, is expected to be retained by the bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event). Financial instruments issued by the bank that are not designated at fair value through profit or loss, are classified as liabilities under 'Other borrowed funds', where the substance of the contractual arrangement results in the bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component. An analysis of other borrowed funds is disclosed in Note 33(Long term Borrowing).

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized 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 recognized to the extent of the bank's continuing involvement in the asset.

In that case, the bank also recognizes 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.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized 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 with similar instruments for which market observable prices exist, for relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the bank's best estimate of the most appropriate model assumptions.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (Day 1 profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 39.

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 reorganization 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 amortized cost

For financial assets carried at amortized 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, recognized 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 recognized in the 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 realized 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 recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment losses expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (EIR). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate (EIR). If the bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate (EIR) determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized 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. See Note 20 for an analysis of the impairment allowance on loans and advances by class.

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 amortized cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the 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.

Available-for-sale (AFS) financial investments AFS financial investments include equity investments securities. Equity investments classified as AFS are those that are neither classified as neither held for neither trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions

The interest income from available for sale financial investments 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 recognized in the profit or loss, the impairment loss is reversed through the statement of comprehensive income.

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 effective interest rate (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 effective interest rate (EIR).

Collateral valuation

The bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the bank's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources. (See note 38 for further analysis of collateral).

Collateral repossessed

The bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the bank's policy.

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 current enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize 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 the Statement of financial position.

Acceptances and letters of credit

Acceptances and letters of credit are accounted for as items not recognized in the statement of financial position and disclosed as part of contingent liabilities off – statement of financial position.

Financial guarantees

In the ordinary course of business, the bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within 'other liabilities') at fair value, being the premium received.

Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized, and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the profit or loss in 'Impairment loss'. The premium received is recognized in the profit or loss in 'Other operating income' on a straight line basis over the life of the guarantee.

Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents referred in the statement of cash flows 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, held to maturity investments and investments with maturity periods of three months or less in money market instruments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currency translation

The financial statements are presented in Tanzania Shillings (TZS). Items included in the financial statements are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other operating income' in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

Taxes

Current tax

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

Deferred tax

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized 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 realized 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 recognized directly in equity are also recognized in equity and not in the profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Value added tax

Revenues, expenses and assets are recognized 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 recognized as an asset.

Dividends on ordinary shares

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

Capital and revenue grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognized as deferred income and released as income in equal instalments over the expected useful life of the related asset.

When the bank receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the profit or loss over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments.

When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as additional government grants.

Grants received from donor agencies and other private organizations of revenue nature are dealt with in the profit and loss account over the period in which the related expense is incurred.

Regulatory Reserve

Regulatory reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution. Regulatory reserves are excluded in calculations of the bank's core capital.

Other reserves

Other reserves represent asset revaluation reserve for Rasilimali Limited, the reserve is used to record increases in the fair value of fixed assets and decreases to the extent that such decrease relates to an increase on the same asset previously recognized to equity. The reserve can only be used in limited circumstances.

Technical assistance reserve

This reserve was established by a resolution of the bank's Board of Directors in 2007. The purpose of the reserve is to provide funds for financing technical support and training to new development projects whereby the government has identified those projects as strategic project for national development and community support.

In the process of applying the bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The bank's management has made an assessment of the bank's ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 39.

Financial Statements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on loans and advances

The bank reviews its individually significant loans and advances at each reporting date assess whether an impairment loss should be recorded in the 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 utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on loans and advances is disclosed in more detail in Note 20.

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, 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 of investment as an available-for-sale financial asset. The investments would therefore be measured at fair value not amortized cost.

5. 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.

Credit impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets in the bank. The directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available for sale equity investments

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

Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment and their residual values. The rates are set out in Note 4.

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 investment to maturity. If the bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value.

Taxes

The bank is subjected to several taxes and levies by the government and quasi- government regulatory bodies. As a rule of thumb, the bank recognises liabilities for the anticipated tax/ levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes/ levies. Should it come to the attention of Management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

6. INTEREST AND SIMILAR INCOME

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Loans and advances	49,864,916	38,078,983	49,864,916	38,078,983
Government/Corporate securities - held to maturity	7,608,015	9,649,423	7,608,015	9,649,423
Placements	2,344,337	1,311,163	2,344,337	1,311,163
	59,817,268	49,039,569	59,817,268	49,039,569

7. INTEREST AND SIMILAR EXPENSE

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Fixed deposits	10,333,230	9,448,030	10,333,230	9,448,030
Savings deposits	235,846	199,577	235,846	199,577
Others - notice and borrowings	4,128,126	1,664,888	4,128,126	1,664,888
	14,697,202	11,312,495	14,697,202	11,312,495

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8. FEES, COMMISSIONS AND OTHER INCOME

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Service charge	35,683	38,843	35,683	38,843
Teller charges and commissions	192,518	214,236	192,518	214,236
Cash withdrawal charges	121,175	116,541	121,175	116,541
Loans appraisal fee	1,964,712	1,408,796	1,964,712	1,408,796
Income from collections and agent	70,797	49,439	70,797	49,439
Commission from letters of credit and collections	344,170	381,747	344,170	381,747
Commission from guarantees	477,962	196,451	477,962	196,451
ATM fees	22,963	22,016	22,963	22,016
Commission on REA and TEDAP*	228,270	267,227	228,270	267,227
Fee and other income from floriculture projects	275,550	172,001	275,550	172,001
Fee income from Commodity Import Support (CIS)*	75,000	100,000	75,000	100,000
Agency fees from Agricultural Window	213,386	218,937	213,386	218,937
Fee income from THB liquidation*	81,600	81,600	81,600	81,600
Rental income	35,100	15,700	35,100	15,700
Release of provision for expenses	250,221	685,352	250,221	685,352
Recovery from bad debtors	-	37,660	-	37,660
Income from disposed off assets	13,122	73,422	13,122	73,422
Commitment and restructuring fees on loans	175,031	88,655	175,031	88,655
Income from grants	227,493	227,493	227,493	227,493
Other income	515,179	391,500	6,400	4,571
	5,319,932	4,787,616	4,811,153	4,400,687

* These agency relationships details are provided in section 13 of the Directors' report and Note 43 to the financial statements.

9. FOREIGN CURRENCY DEALING, GAINS ON VALUE OF SHARES AND EXCHANGE INCOME

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Income from foreign currency dealing	1,588,128	481,412	1,588,128	481,412
Translation gains	1,012	44	1,012	44
Fair value gain on shares	1,079,793	870,661	-	-
	2,668,933	1,352,117	1,589,140	481,456

10. RECOVERIES FROM CHARGED OFF LOANS

	GROUP			BANK
	2014	2013	2014	2013
	TZS'000	TZS'000	TZS'000	TZS'000
Recoveries	1,733,161	1,894,859	1,733,161	1,894,859
Commission paid	-	(3,873)	-	(3,873)
	1,733,161	1,890,986	1,733,161	1,890,986

11. PERSONNEL EXPENSES

Wages and salaries	9,565,229	8,729,668	9,274,603	8,469,808
Social security contributions	1,272,903	1,157,286	1,237,686	1,126,056
Skills and Development Levy	559,609	550,407	545,096	534,815
Sub-total	11,397,741	10,437,361	11,057,385	10,130,679
Training costs	759,544	802,729	755,266	799,859
Staff passage and leave allowances	878,017	732,756	878,017	707,373
Accrued leave days	180,335	31,484	180,335	31,484
Staff bonus	29,467	703,617	-	686,267
Staff medical insurance	579,776	494,481	572,668	488,160
Other employment costs	477,660	547,932	350,219	509,098
Employment benefits				
(Note 38)	969,012	587,000	969,012	587,000
Sub-total	3,873,811	3,899,999	3,705,517	3,809,241
Grand total	15,271,552	14,337,360	14,762,902	13,939,920

12. OCCUPANCY COSTS

	GROUP			BANK
	2014	2013	2014	2013
	TZS'000	TZS'000	TZS'000	TZS'000
Rent (Bank premises)	2,551,920	1,850,152	2,551,920	1,850,152
Repairs and maintenance (Bank premises and residential houses)	305,352	257,804	305,352	255,920
Repairs and maintenance (Office machines and automation)	36,767	35,740	36,767	35,740
Repairs and maintenance (Office furniture & equipment)	93,472	43,007	91,241	40,443
Water and light	47,109	228,527	347,109	228,527
Insurance premium on furniture and equipment	7,117	3,886	7,117	3,886
Other occupancy cost (land rates)	2,434	1,052	2,434	1,052
	3,344,171	2,420,168	3,341,940	2,415,720

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13. GENERAL AND ADMINISTRATION EXPENSES

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Auditors' remuneration	251,725	139,890	233,335	125,330
Directors' emoluments	28,000	30,500	28,000	26,250
Board of Directors expenses	367,823	306,342	356,823	298,267
Correspondent Bank and SWIFT Charges	194,047	123,991	190,209	116,430
Communication costs	369,889	398,354	357,080	384,619
Travelling and accommodation	581,578	491,255	577,077	488,753
Local authority service charges	168,501	119,019	168,501	119,019
Insurance premium	480,916	463,749	480,916	462,414
Marketing and advertising expenses	1,518,951	1,427,879	1,516,351	1,424,754
Printing, consumables and stationeries	314,640	251,366	295,040	236,727
Repairs and fuel (motor vehicles)	285,067	381,213	285,067	381,213
Security costs	480,600	422,997	480,600	420,597
Transformation costs	8,571	3,100	8,571	3,100
Umoja switch expenses	143,049	171,347	143,049	171,347
Banking system management fees and license	466,334	492,454	463,074	489,319
Consultancy expenses	332,069	221,138	322,382	219,988
Regional integration costs	5,285	26,624	5,285	26,624
Subscription and contribution	79,008	62,672	79,008	62,672
Expense on disposal of fixed assets	9,932	4,695	9,932	4,695
Provisions on sundry receivables	338,264	414,682	338,264	414,682
Written off assets	134,707	-	134,707	-
TUICO and Workers Council expenses	30,978	30,248	30,978	30,248
Loans borrowing costs	66,597	-	66,597	-
Other operating expenses	73,290	112,284	33,470	96,775
	6,729,821	6,095,799	6,604,316	6,003,823

14. CASH AND BALANCES WITH BANK OF TANZANIA

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Cash				
Cash on hand (local currency)	1,846,538	2,354,968	1,846,538	2,354,968
Cash on hand (foreign currencies)	1,289,840	1,420,302	1,289,840	1,420,302
	3,136,378	3,775,270	3,136,378	3,775,270
Balances with Bank of Tanzania				
Balance in local currency	759,131	620,840	759,131	620,840
Balance in foreign currency	1,685,039	589,156	1,685,039	589,156
	2,444,170	1,209,996	2,444,170	1,209,996
	5,580,548	4,985,266	5,580,548	4,985,266

15. BALANCE WITH OTHER BANKS

Balance in local currency	2,071,420	1,506,893	1,864,131	1,387,288
Balance in foreign currency	4,524,334	3,257,808	4,524,334	3,257,808
	6,595,754	4,764,701	6,388,465	4,645,096

16. PLACEMENTS WITH OTHER BANKS

Maturity within three months	12,937,889	4,459,830	12,937,889	4,459,830
Maturity after three months	4,475,657	514,532	4,475,657	514,532
	17,413,546	4,974,362	17,413,546	4,974,362

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17. FINANCIAL INVESTMENT HELD - FOR TRADING

These are share held by Rasilimali Limited (a subsidiary company) for trading purpose.

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
CRDB Bank Limited:				
9,980 Shares @ TZS 440 (2014): 209,980 Shares @ TZS 280. (2013)	4,391	58,795	-	-
DCB Limited:				
127,480 Shares @ TZS 720 (2014): 127,480 Shares @ TZS 490 (2013)	91,786	62,465	-	-
SWISSPORT:				
52,767 Shares @ TZS 5,100 (2014): 52,767. Shares @ TZS2,680 (2013)	269,112	141,416	-	-
SIMBA:				
24,112 Shares @ TZS 4,500 (2014): 24,112 Shares @TZS 2,020 (2013)	108,504	48,706	-	-
TWIGA Limited:				
40 Shares @ TZS 4,000 (2014):40.Shares @ TZS 2,600. (2013)	160	106	-	-
NMB Bank Limited:				
6,281 Shares @TZS 3,410 (2014): 6,281Shares @TZS 2,620 (2013)	21,418	16,456	-	-
TBL:				
135,940 Shares @ TZS 14,000 (2014): 151,210.Shares @ TZS 8,000 (2013)	1,903,160	1,209,680	-	-
TCC:				
6,045.Shares @ TZS 17,000. (2014):6,045.Shares @ TZS 8,600. (2013)	102,765	51,987	-	-
USL: 19,389.Shares @ TZS 190 (2014): Nil(2013)	3,684	-	-	-
	2,504,980	1,589,611	-	-

18. GOVERNMENT AND CORPORATE SECURITIES HELD - TO – MATURITY

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Treasury bills-held to maturity				
Maturity within three months	9,822,839	22,125,401	9,822,839	22,125,401
Maturity after three months	15,188,795	15,489,837	15,188,795	15,489,837
	25,011,634	37,615,239	25,011,634	37,615,239
Treasury and corporate bonds-				
held to maturity				
Maturity within three months	2,064,022	715,853	2,064,022	715,853
Maturity within two years	15,613,296	21,131,462	15,613,296	21,131,462
Maturity after two years	3,797,658	11,597,029	3,797,658	11,597,029
	21,474,976	33,444,343	21,474,976	33,444,343
Total	46,486,610	71,059,582	46,486,610	71,059,582

The bank holds various government fixed income securities issued by the Government. Treasury Bills and Bonds are issued at a fixed coupon rate and the bank has ability to hold to maturity. As at year end, a total of TZS 44.5 billion were pledged as collateral, of which TZS 21.1 billion was pledged with CRDB Bank, TZS 7.7 billion with Stanbic Bank, TZS 7.7 billion with EXIM Bank and TZS 7.0 billion with United Bank for Africa for short term inter-bank borrowing.

19. CASH AND CASH EQUIVALENTS

		GROUP		BANK	
		2014	2013	2014	2013
		TZS '000	TZS '000	TZS '000	TZS '000
Notes					
Cash and balances with Bank of Tanzania	14	5,580,547	4,985,266	5,580,548	4,985,266
Balance with other banks	15	6,595,754	4,764,701	6,388,465	4,645,096
Placements with other banks	16	12,937,889	4,459,830	12,937,889	4,459,830
Government securities held to maturity within three months	18	11,886,861	22,841,254	11,886,861	22,841,255
		37,001,051	37,051,051	36,793,763	36,931,447

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20. LOANS AND ADVANCES

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000 (Restated)	TZS '000	TZS '000 (Restated)
Gross loans and advances to customers	414,755,014	310,990,027	414,755,014	310,990,027
Less: Allowances for loan losses	(7,326,547)	(9,576,919)	(7,326,547)	(9,576,919)
Advances to customers (net)	407,428,467	301,413,108	407,428,467	301,413,108
Loans and Advances to staff	5,617,327	4,343,592	5,615,725	4,343,592
Net loans and advances	413,045,794	305,756,700	413,044,192	305,756,700
Maturity analysis (gross loans to customers)				
Repayable on demand	124,767,869	121,137,348	124,767,869	121,137,348
Maturity within 3 months	10,626,708	3,591,649	10,626,708	3,591,649
Maturity between 3 months and 1 year	49,762,832	7,920,094	49,762,832	7,920,094
Maturity after 1 year	229,597,605	178,340,937	229,597,605	178,340,938
	414,755,014	310,990,027	414,755,014	310,990,027

The restatement in the allowance for loan losses followed inclusion during the year of collective impairment as part of the total IFRS provision, something that was overlooked in prior years. This change in the policy required a retrospective adjustment that resulted in the reduction of profit before tax for the year ended 31 December 2013 by TZS 220 million and the reduction of total assets and equity by the same amount. Likewise, for the year ended 31 December 2012, the effect of the change resulted in the reduction of total assets and equity by TZS 1.1 billion

Out of the total loans and advances an amount equivalent to TZS 160,729 million is denominated in foreign currencies (2013: TZS 93,424 million).

The movement in allowance for impairment losses on loans and advances during the year was as follows:

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
At 1 January	9,576,919	7,411,963	9,576,919	7,411,963
Charge for the year	15,222,674	8,778,786	15,222,674	8,778,786
Loans written-off	(17,473,045)	(6,613,830)	(17,473,045)	(6,613,830)
At 31 December	7,326,547	9,576,919	7,326,547	9,576,919

Non - performing loans

Non-performing loans and advances amounts TZS 110,582 million (2013: TZS 78,928 million). In the opinion of Directors, the fair value of credit enhancement in respect of these loans was TZS 318,501 million as at 31 December 2014 (2013: TZS 209,656 million). The bank has the right to sell such collateral to make good any losses arising from default by the customers on their obligation.

Sectorial concentration

Economic sector risk concentrations within the customers loan and advances portfolio as at 31 December 2014 and 2013 were as follows:

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Agriculture and agro processing	123,712,769	119,652,321	123,712,769	119,652,321
Oil and gas companies	20,415,570	24,505,828	20,415,570	24,505,828
Electricity	1,003,207	2,527,175	1,003,207	2,527,175
Manufacturing	39,381,928	35,787,439	39,381,928	35,787,439
Real estate	66,500,946	9,760,004	66,500,946	29,760,004
Building, construction	6,552,319	4,652,364	6,552,319	4,652,364
Transport and communication	9,409,637	1,722,566	9,409,637	1,722,566
Tourism and forestry	39,252,961	44,959,448	39,252,961	44,959,448
Trade	38,692,651	29,833,502	38,692,651	29,833,502
Mining and quarrying	23,160,320	2,263,228	23,160,320	2,263,228
Education and health	8,226,210	2,003,264	8,226,210	2,003,264
Hotel & restaurants	5,416,193	2,835,668	5,416,193	2,835,668
Financial intermediaries	7,624,034	8,249,117	7,624,034	8,249,117
Individuals and Small Medium Sized Enterprises	10,065,064	5,663,841	10,065,064	5,663,841
Fishing	389,317	375,483	389,317	375,483
Other services	20,567,614	542,373	20,567,614	542,373
	420,370,739	315,333,620	420,370,739	315,333,620

21. OTHER ASSETS

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Accounts receivable	5,916,951	3,626,916	5,906,223	3,619,703
Prepaid expenses	820,681	822,679	819,603	822,079
	6,737,632	4,449,595	6,725,826	4,441,782
Less: Allowances for impairment	(1,669,420)	(1,316,606)	(1,669,420)	(1,316,606)
	5,068,212	3,132,989	5,056,406	3,125,176

Other assets are non-interest bearing instruments made up of accrued income and prepayments which are receivable within one year.

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The movement in allowance for losses on accounts receivable during the year was as follows:

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
At 1 January	1,316,606	939,584	1,316,606	939,584
Charge for the year	338,264	414,682	338,264	414,682
Charge offs / (Recoveries)	14,550	(37,660)	14,550	(37,660)
At 31 December	1,669,420	1,316,606	1,669,420	1,316,606

The ageing analysis of accounts receivable as at 31 December 2014 is as follows:

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Neither past due nor impaired	2,383,674	2,351,121	2,372,946	2,343,908
Past due but not impaired				
Less than 30 days	1,306,140	302,247	1,306,140	302,247
Within 30 - 60 days	510,999	252,157	510,999	252,157
Within 60 - 90 days	320,222	150,937	320,222	150,937
Over 90 days	1,395,915	570,454	1,395,915	570,454
	5,916,951	3,626,916	5,906,223	3,619,703

22. GRANTS RECEIVABLE

	GROUP		BANK	
	2014	2013	2014	2013
	TZS '000	TZS '000	TZS '000	TZS '000
Opening balance	26,737	98,725	26,737	98,725
Received during the year	(26,737)	(71,988)	(26,737)	(71,988)
Utilized during the year	73,539	-	73,539	-
Grants Receivable	73,539	26,737	73,539	26,737

Revenue grant receivable represents funds for training and capacity buildings activities, of which the bank finances the scheduled activities after being approved for reimbursement. During the year there was donation by World Bank amounting TZS 73.5 million.

23. EQUITY INVESTMENT (AVAILABLE - FOR - SALE)

	GROUP		BANK	
	2014 TZS'000	2013 TZS'000	2014 TZS'000	2013 TZS'000
Unquoted shares of Tanzania Mortgage Refinance Company Limited	1,450,000	1,450,000	1,450,000	1,450,000
Unquoted shares of Umoja Switch Company Limited	20,000	20,000.00	20,000	20,000
Unquoted shares of NORSAD Finance Limited	5,762,691	5,281,090	5,762,699	5,281,090
Unquoted shares of SAAFI Limited	1,000,000	-	1,000,000	-
Total	8,232,699	6,751,090	8,232,699	6,751,090

The bank holds unquoted equity shares in the companies listed above. The bank has been allotted 1,450,000 shares @ TZS 1,000 each of Tanzania Mortgage Refinancing Company Limited, 20 shares @ TZS 1,000,000 each of Umoja Switch Company Limited, 400 shares @ USD \$ 8,303.6 each of NORSARD Finance Limited and shares of SAAFI Limited . These shares are not quoted in any stock market.

24. INVESTMENT IN SUBSIDIARY

	GROUP		BANK	
	2014	2013	2014	2013
	TZS'000	TZS'000	TZS'000	TZS'000
Investment in Subsidiary	-	-	455,653	455,653
	-	-	455,653	455,653

The bank owns 100% of the issued and paid up ordinary share capital of Rasilimali Limited, a company incorporated in Tanzania under the Tanzanian Companies Act, 2002. The principal activities are securities dealing and investment advisory services.

25. INVESTMENT PROPERTY

	GROUP		BANK	
	2014	2013	2014	2013
	TZS'000	TZS'000	TZS'000	TZS'000
Land (Msasani Peninsula)	800,000	800,000	800,000	800,000
Land (Ohio Street)	10,700,000	10,700,000	10,700,000	10,700,000
	11,500,000	11,500,000	11,500,000	11,500,000

Investment property relates to plots of land owned by the bank for the purpose of investment and capital appreciation. For the plot along the Ohio Street, the bank was engaged in a long time legal battle to defend its ownership until the year 2011 when the case was finally settled out of court. Whereas, the plot along the Msasani Peninsula came into being following the survey in 2011 of a portion of land that was left out when the bank sold its staff housing complex that was located in the same piece of land.

Due to the fact that the value of both plots of land were supposed to be included in the Bank's books of account since year 2011, a prior year adjustment to address that oversight was performed during the year ended 31 December 2014. The effect of the adjustment was to increase both the value of assets (investment properties) and equity by TZS 11.5 billion.

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26. PROPERTY AND EQUIPMENT

	GROUP					
	Buildings	Motor vehicles	Machinery and automation	IT Equipment	Furniture and equipment	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2014						
Cost						
At 1 January 2014	252,000	1,580,369	722,395	1,832,640	1,175,894	5,563,298
Adjustments	-	-	(8,842)	-	(3,986)	(12,828)
Additions	-	-	23,855	297,040.90	690,786	1,011,681
Disposals	-	-	(5,486)	(21,049)	(62,489)	(89,025)
At 31 December 2014	252,000	1,580,369	731,922	2,108,632	1,800,204	6,473,127
At 1 January 2013	252,000	1,629,204	663,559	1,778,336	1,051,968	5,375,066
Additions	-	144,730	63,057	86,928	142,087	436,802
Disposals	-	(193,566)	(4,220)	(32,624)	(18,161)	(248,571)
At 31 December 2013	252,000	1,580,368	722,395	1,832,640	1,175,894	5,563,298
Depreciation						
At 1 January 2014	171,360	1,076,014	470,599	1,058,452	475,503	3,251,928
Adjustments	-	-	-	-	(3,067)	(3,067)
Charge for the year	10,080	254,681	116,470	363,194	199,900	944,325
Eliminated on disposal	-	-	(5,486)	(19,598)	(39,791)	(64,876)
At 31 December 2014	181,440	1,330,695	581,583	1,402,046	632,545	4,128,310
At 1 January 2013	161,280	938,171	363,903	727,303.81	355,662.15	2,546,320
Charge for the year	10,080	331,409	110,916	363,772	132,575	948,752
Eliminated on disposal	-	(193,566)	(4,220)	(32,624)	(12,734)	(243,144)
At 31 December 2013	171,360	1,076,014	470,599	1,058,452	475,503	3,251,928
Net book value						
At 31 December 2014	70,560	249,674	150,339	706,586	1,167,659	2,344,817
At 31 December 2013	80,640	504,354	251,796	774,188	700,391	2,311,370

26. PROPERTY AND EQUIPMENT (continued)

BANK						
	Buildings	Motor vehicles	Machinery and automation	IT Equipment	Furniture and equipment	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Cost						
At 1 January 2014	252,000	1,580,368	722,395	1,808,641	1,135,305	5,498,709
Adjustments	-	-	(8,842)	-	(3,986)	(12,828)
Additions	-	-	23,855	288,040	690,786	1,002,681
Disposal	-	-	(5,486)	(13,127)	(40,604)	(59,218)
At 31 December 2014	252,000	1,580,369	731,922	2,083,554	1,781,500	6,429,345
At 1 January 2013	252,000	1,629,204	663,559	1,754,757	1,015,430	5,314,949
Additions	-	144,730	63,057	86,508	138,036	432,331
Disposals	-	(193,566)	(4,220)	(32,624)	(18,161)	(248,571)
At 31 December 2013	252,000	1,580,368	722,395	1,808,641	1,135,305	5,498,709
Depreciation						
At 1 January 2014	171,360	1,076,014	470,599	1,044,770	459,445	3,222,189
Adjustments	-	-	-	-	(3,067)	(3,067)
Charge for the year	10,080	254,681	116,470	357,530	196,554	935,315
Eliminated on disposal	-	-	(5,486)	(13,127)	(29,250)	(47,863)
At 31 December 2014	181,440	1,330,695	581,583	1,389,173	623,682	4,106,574
At 1 January 2013	161,280	938,171	363,903	719,528	344,377	2,527,258
Charge for the year	10,080	331,409	110,916	357,866	127,803	938,074
Eliminated on disposal	-	(193,566)	(4,220)	(32,624)	(12,734)	(243,144)
At 31 December 2013	171,360	1,076,014	470,599	1,044,770	459,445	3,222,189
Net book value						
At 31 December 2014	70,560	249,674	150,339	694,381	1,157,818	2,322,771
At 31 December 2013	80,640	504,354	251,796	763,871	675,860	2,276,520

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27. LEASEHOLD IMPROVEMENTS

	GROUP		BANK	
	2014 TZS'000	2013 TZS'000	2014 TZS'000	2013 TZS'000
Cost				
At 1 January	1,995,253	1,959,713	1,995,253	1,959,713
Additions	957,476	35,539	957,476	35,539
As at 31 December	2,952,729	1,995,253	2,952,729	1,995,253
Amortisation				
At 1 January	1,524,663	1,003,765	1,524,663	1,003,765
Amortisation during the year	250,425	520,898	250,425	520,898
As at 31 December	1,775,088	1,524,663	1,775,088	1,524,663
Net book value				
As at 31 December	1,177,641	470,590	1,177,641	470,590

The bank moved its head office from Consolidated Holding Corporation Building, Samora Machel Avenue/Zanaki Street Dar es Salaam in February 2010 to Mlimani City Office Park, Building No.3 Sam Nujoma Road.

The bank also incurred additional partition costs within head office and relocation of Corporate bank at Samora Machel Avenue.

28. INTANGIBLE ASSETS

Cost				
At 1 January	2,520,006	2,488,847	2,517,506	2,486,347
Additions	537,621	31,159	537,621	31,159
As at 31 December	3,057,627	2,520,006	3,055,127	2,517,506
Amortizations				
At 1 January	2,193,728	1,927,849	2,191,541	1,926,287
Amortization during the year	278,492	265,879	278,179	265,254
As at 31 December	2,472,220	2,193,728	2,469,720	2,191,541
Net book value				
As at 31 December	585,407	326,277	585,407	325,965

29. TAXATION

	GROUP		BANK	
	2014 TZS'000	2013 TZS'000	2014 TZS'000	2013 TZS'000
a) Tax expense				
Current year income tax charge	3,890,349	2,439,770	3,890,349	2,439,770
Deferred tax credit /(charge)	126,652	(1,934,448)	(140,877)	(2,129,609)
	4,017,001	505,322	3,749,472	310,161
b) Reconciliation of tax expense to tax based on accounting profit:				
Accounting profit before taxation	11,300,632	12,390,150	10,357,768	11,637,728
Tax at applicable rate of 30%	3,390,190	3,717,045	3,107,330	3,491,318
Permanently disallowed expenditure	361,287	111,083	342,180	111,083
Re-measurement gains on employment benefit actuarial valuation	299,962	(47,100)	299,962	(47,100)
Tax effect on exempt income	(34,438)	(30,566)	-	-
Prior year under provision of deferred tax	-	(3,245,140)	-	(3,245,140)
Tax (income)/expense	4,017,001	505,322	3,749,472	310,160
c) Deferred tax				
Accelerated capital allowances	(179,613)	173,516	(184,257)	161,591
Adjusted trading tax losses	(385,131)	(446,344)	-	(229,794)
Change in fair value of investment	1,952,303	872,510	-	-
Re-measurement on employment benefit actuarial valuation	(999,874)	-	(999,874)	(157,000)
General provisions	(12,117,314)	(11,594,610)	(12,087,797)	(11,577,260)
	(11,729,629)	(11,151,928)	(13,271,928)	(11,802,463)

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29. TAXATION (continued)

	GROUP		BANK	
	2014 TZS'000	2013 TZS'000	2014 TZS'000	2013 TZS'000
Deferred tax (assets)/ liability thereon at 30%	(3,518,889)	(3,345,578)	(3,981,578)	(3,540,739)
Deferred tax liability on investment property (Effect of prior year adjustment)	3,450,000	3,450,000	3,450,000	3,450,000
Deferred tax (assets)/ liability (Restated)	(68,889)	104,422	(531,578)	(90,739)
Less: opening deferred tax	104,422	1,991,770	(90,739)	1,991,770
Deferred tax asset during the year	(173,310)	(1,887,349)	(440,839)	(2,082,509)
Credit / (charge) to profit or loss	126,652	(1,934,449)	(140,877)	(2,129,609)
Credit / (charge) to other comprehensive income	(299,962)	47,100	(299,962)	47,100
	673,310	(1,887,349)	(440,839)	(2,082,509)
d) Tax recoverable				
Tax recoverable at 1 January	1,488,961	2,531,881	1,440,488	2,498,113
Tax charge for the year	(3,890,349)	(2,439,770)	(3,890,349)	(2,439,770)
Tax paid during the year	3,772,800	1,396,850	3,767,060	1,382,145
Tax recoverable at 31 December	1,371,412	1,488,961	1,317,199	1,440,488

30. CUSTOMER DEPOSITS

	GROUP		BANK	
	2014 TZS'000	2013 TZS'000	2014 TZS'000	2013 TZS'000
Interest bearing deposits				
Customer accounts	130,579,231	108,096,745	130,579,231	108,096,745
Banks and other financial institutions	110,223,421	65,914,931	110,223,421	65,914,931
	240,802,652	174,011,676	240,802,652	174,011,676
Non-interest bearing deposits				
Customer accounts	41,840,573	38,396,183	41,877,717	38,451,559
	282,643,225	212,407,859	282,680,369	212,463,235
Maturity analysis				
Repayable on demand	41,647,057	58,702,195	41,689,612	58,757,571
With maturity of 3 months or less	138,195,388	93,880,995	138,195,388	93,880,995
With maturity of 3 months	102,800,780	59,824,669	102,795,369	59,824,669
	282,643,22	212,407,859	282,680,369	212,463,235

31. OTHER LIABILITIES

Accrued expenses	1,357,938	1,370,011	1,218,012	1,284,743
Other liabilities	812,622	3,437,014	692,078	3,301,990
	2,170,560	4,807,025	1,910,090	4,586,733
Movement in accounts payable				
Carrying amount at 1 January	4,807,025	2,112,861	4,586,733	2,020,367
Addition made during the year	279,218	3,857,209	279,218	3,729,410
Payments made during the year	(2,705,639)	(477,692)	(2,705,639)	(477,692)
Amount reversed during the year	(210,044)	(685,352)	(250,221)	(685,352)
Carrying amount at 31 December	2,130,383	4,807,025	1,910,090	4,586,733

32. DEFERRED INCOME

	GROUP		BANK	
	2014 TZS'000	2013 TZS'000	2014 TZS'000	2013 TZS'000
Deferred fees income on loans	2,214,216	1,779,126	2,214,216	1,779,126
Deferred fee on guarantees fees	99,914	122,888	99,914	122,888
	2,314,130	1,902,014	2,314,130	1,902,014

Deferred income on loans represents amount received as appraisal fee on long term loans, being 1% on approvals, which is non-refundable, while the deferred income on guarantee fee constitute the fee charged on issued letter of credit and guarantees. All amounts are amortised over the period of the facilities.

33. OTHER BORROWINGS

	GROUP		BANK	
	2014 TZS'000	2013 TZS'000	2014 TZS'000	2013 TZS'000
At 01 January	-	479,934	-	479,934
New loan facility	17,675,879	-	17,675,879	-
Repayment during the year	(322,632)	(479,934)	(322,632)	(479,934)
At 31 December	17,353,248	-	17,353,248	-

On 23rd July 2014, the bank entered into an agreement with NORSAD Finance Ltd for a total credit facility of USD 10,000,000.00 at a fixed interest rate of 6.5% plus 3months Libor for 2.5 years inclusive of a grace period of 6 months. The credit facility was disbursed or received in full on 30th July 2014 and will be repaid in 10 quarterly instalments, with the first instalment beginning from 31st March 2015. Outstanding principal and Interest amounts will be repaid in the coming years.

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34. GOVERNMENT GRANTS

	GROUP		BANK	
	2014 TZS'000	2013 TZS'000	2014 TZS'000	2013 TZS'000
Capital grants				
Balance at 1 January	611,143	838,636	611,143	838,636
Utilised during the year	(227,493)	(227,493)	(227,493)	(227,493)
Balance at 31 December	383,649	611,143	383,649	611,143

Capital Grants represent IT equipment received from bank of Tanzania to support the operations of the bank. Capital grants are amortised to profit or loss based on the estimated useful lives of the respective IT equipment.

35. SHARE CAPITAL

Authorised share capital				
The total authorized share capital of the bank is 1,000,000,000 shares of TZS 1,000 each.	1,000,000,000	1,000,000,000	1,000,000,000	1,000,000,000
Called up and fully paid shares				
152,137,661 ordinary shares of TZS 1,000 each (2013: 142,137,661 ordinary shares)	152,137,661	142,137,661	152,137,661	142,137,661

36. REGULATORY CAPITAL

The bank complied with minimum capital requirements as required by sections 16 and 17 of the Banking and Financial Institutions Act, 2006 and the Bank of Tanzania Capital Adequacy Regulations, 2008. The bank's capital is computed in accordance with these regulations as follows:

	GROUP		BANK	
	2014 TZS'000	2013 TZS'000	2014 TZS'000	2013 TZS'000
Share capital	152,137,661	142,137,661	152,137,661	142,137,661
Retained earnings	18,396,890	25,130,910	18,396,890	25,130,910
	170,534,551	167,268,571	170,534,551	167,268,571
Less:				
Prepaid expenses	820,681	822,679	819,603	822,679
Deferred charges	4,281,540	1,146,025	4,281,540	1,146,025
Intangible assets	585,407	326,277	585,407	326,277
	5,687,628	2,294,982	5,686,550	2,294,982
Core capital (Tier 1)	164,846,923	164,972,678	164,848,001	163,773,772
Tier 1 Capital & Tier 2 Capital	164,846,923	164,972,678	164,848,001	163,773,772
Required capital	2,500,000	2,500,000	2,500,000	2,500,000
Risk - weighted assets				
On Balance Sheet	441,078,685	322,387,019	441,078,685	322,387,019
Off Balance Sheet	28,611,635	5,847,845	28,611,635	5,847,845
Total risk - weighted assets	469,690,319	328,234,864	469,690,319	328,234,864
Bank ratios	Required	Required	Actual	Actual
	2014	2013	2014	2013
Tier 1 (BoT Minimum)	10%	10%	34%	48%
Tier 1 + Tier 2 (BoT Minimum)	12%	12%	34%	48%

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37. RELATED PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

	2014 TZS'000	2013 TZS'000
Directors and key management personnel: loans		
Loans:		
At 1 January	536,644	425,408
Loans issued during the year	797,253	364,000
Loan repayments during the year	(318,912)	(252,764)
At 31 December	1,014,986	536,644
Interest income earned	38,342	4,736
Deposits:		
At 1 January	162,002	242,421
Deposits repaid during the year	(26,895)	(80,419)
At 31 December	135,108	162,002
Interest expense	440	540
Deposits with Rasilimali Limited		
Non-interest bearing call account	37,144	55,378
Borrowing from Norsard Company Limited		
At 1 January	-	479,934
Loan received during the year	17,675,879	-
Loan repayments during the year	(322,632)	(479,934)
At 31 December	17,353,247	-
Fees received from the Government for managing projects (Note 44)	873,806	839,765
Key management personnel compensation		
Salaries and other short-term benefits	1,754,561	2,669,711
Contributions to pension Funds	193,625	200,701
Post-employment benefits	151,156	-
	2,099,342	2,870,412
Directors' remuneration		
Directors' emoluments (Note 13)	28,000	30,500
Board of Directors expenses (Note 13)	367,823	306,342
	395,823	336,842

38. EMPLOYMENT BENEFIT OBLIGATION

With effect from June 2013, the bank operates an unfunded lump sum Gratuity Agreement. As the arrangement is unfunded, gratuity benefits are paid out of the bank's general revenues. Upon retirement, and having more than ten (10) years of service, the arrangement provides a benefit of 12 times monthly Basic Salary. The bank also provides long service awards to permanent staff. In respect of Contract employees at the bank, a benefit equal to 25% of the gross salary drawn by the respective employee during the contractual term. No benefits are provided on withdrawn or death in service.

	2014 TZS'000	2013 TZS'000
Present value of unfunded obligation	3,560,094	2,056,000
Defined benefit obligation recognised in the statement of financial position	3,560,094	2,056,000
Reconciliation of benefit obligation		
Balance at 1 January	2,056,000	1,868,000
Employer current service cost	464,792	288,000
Interest cost	504,219	299,000
Actuarial loss due to change in assumptions	999,874	-
Benefits paid during the year	(464,792)	-
Balance at 31 December	3,560,094	2,455,000
Reconciliation of assets		
Employer contributions	464,792	-
Benefits paid	(464,792)	-
Closing market value of assets	-	-
Service costs		
Past service cost	464,792	288,000
Interest cost		
Interest cost on defined benefit obligation	504,219	299,000
Total included in profit and loss in respect of scheme	969,012	587,000
Actuarial loss / (gain) - obligations	999,874	(157,000)
Amount recognised in OCI in the financial year	999,874	(157,000)

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38. EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

	2014 TZS'000	2013 TZS'000
Reconciliation		
Net liability at start of the period	2,056,000	1,868,000
Net expense recognized in the income statement	969,012	587,000
Employer contributions	(464,792)	(242,000)
Amount recognized in OCI	999,874	(157,000)
Net liability at end of period	3,560,094	2,056,000

39. FAIR VALUE MEASUREMENT

Determination of fair value

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

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

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. This level includes listed equity securities and debt instruments on exchanges;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices, interest and yield curves) or indirectly (that is, derived from prices Central Bank Auction prices for Government securities); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs to valuation techniques).

CONSOLIDATED	Level 1	Level 2	Level 3	Total
	Quoted price in active market	Significant observable inputs	Significant unobservable inputs	
	TZS'000	TZS'000	TZS'000	TZS'000
31 December 2014				
Financial investment held for trading	2,504,980	-	-	2,504,980
Government and Corporate Securities held to maturity	-	46,486,610	-	46,486,610
Available-for-sale investment securities	-	8,232,698	-	8,232,698
Loans and advances	-	-	413,044,191	413,044,191
	2,504,980	54,719,308	413,044,191	470,268,479
31 December 2013				
Financial investment held for trading	1,589,611	-	-	1,589,611
Government and Corporate Securities held to maturity	-	71,059,582	-	71,059,582
Available-for-sale investment securities	-	6,890,628	-	6,890,628
Loans and advances	-	-	305,756,700	305,756,700
	1,589,611	77,950,210	305,756,700	385,296,521

39. FAIR VALUE MEASUREMENT (Continued)

CONSOLIDATED (Continued)	Level 1	Level 2	Level 3	Total
31 December 2013	Quoted price in active market	Significant observable inputs	Significant unobservable inputs	
	TZS'000	TZS'000	TZS'000	TZS'000
Financial investment held for trading	1,589,611	-	-	1,589,611
Government and Corporate Securities held to maturity	-	71,059,582	-	71,059,582
Available-for-sale investment securities	-	6,890,628	-	6,890,628
Loans and advances	-	-	305,756,700	305,756,700
	1,589,611	77,950,210	305,756,700	385,296,521

BANK)	Level 1	Level 2	Level 3	Total
31 December 2014	Quoted price in active market	Significant observable inputs	Significant unobservable inputs	
	TZS'000	TZS'000	TZS'000	TZS'000
Financial investment held for trading	-	-	-	-
Government and Corporate Securities held to maturity	-	46,486,610	-	46,486,610
Available-for-sale investment securities	-	8,232,698	-	8,232,698
Loans and advances	-	-	413,044,191	413,044,191
	-	54,719,308	413,044,191	467,763,499

	Level 1	Level 2	Level 3	Total
31 December 2013	Quoted price in active market	Significant observable inputs	Significant unobservable inputs	
	TZS'000	TZS'000	TZS'000	TZS'000
Financial investment held for trading	-	-	-	-
Government and Corporate Securities held to maturity	-	71,059,582	-	71,059,582
Available-for-sale investment securities	-	6,890,628	-	6,890,628
Loans and advances	-	-	305,756,500	305,756,700
	-	77,950,210	305,756,700	383,706,910

There have been no transfers between level 1 and level 2 during the period.

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39. FAIR VALUE MEASUREMENT (Continued)

Set out below is a comparison, by class of the carrying amounts and the fair values of the bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair value of non-financial assets and non-financial liabilities.

	2014	2014	2013	2013
	Carrying amount	Fair value	Carrying amount	Fair value
	TZS'000	TZS'000	TZS'000	TZS'000
Financial assets				
Cash and balances with Bank of Tanzania	5,580,549	5,580,549	4,985,267	4,985,267
Balance with other banks	6,388,465	6,388,465	4,645,096	4,645,096
Placements with other banks	17,413,546	17,413,546	4,974,362	4,974,362
Loans and advances	414,044,191	414,044,191	305,756,700	305,756,700
Government securities	46,486,610	46,486,610	71,059,582	65,747,683
Equity investment-available for sale	8,282,698	8,282,698	6,751,090	10,502,685
	498,196,059	498,196,059	398,172,097	396,611,793
Financial liabilities				
Deposits	282,680,369	282,680,369	100,377,036	100,377,036
Other liabilities	1,910,090	1,910,090	4,586,733	4,586,733
Long Term Borrowing	17,353,248	17,353,248	-	-
	301,943,707	301,943,707	104,963,769	104,963,769

40. CAPITAL MANAGEMENT

The Bank of Tanzania who is the regulator of the bank sets and monitors capital requirements for the banking industry as a whole. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a bank's capital. In implementing current capital requirements, the Bank of Tanzania requires the bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

- To comply with the capital requirements as a set out under the banking and Financial Institutions Act, 2006 this is monitored by the Bank of Tanzania, The regulator of the banking sector in Tanzania. The Act requires that:
 - a) Every bank shall commence operations with and maintain at all times the minimum of core capital of not less than two Billion Shillings for non-banking financial institutions or such higher amount as the bank of Tanzania may prescribe by order published in the Gazette;
 - b) Every bank shall at all times maintain a core capital of not less than ten percent of its total risk-weighted assets and off financial position exposure; and
 - c) Every bank shall at all times maintain total capital of not less than twelve per cent of its total risk weighted assets and off financial position exposure.
- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits on other stake holders; and
- To maintain a strong capital base to support the development of the group's business.

40. CAPITAL MANAGEMENT (Continued)

The bank's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealized gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capitals. Tier 1 capital (Core capital) are also subjected to various limits like limitation in risk weighted assets by 10%, premises investments are not supposed to exceed 50% of core capital and movable assets are subjected to 20% limitation of core capital.

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized in addition to recognizing the need to maintain a balance between the higher returns and that may be possible with greater gearing and the advantages and security afforded by sound capital position.

The bank has complied with capital regulatory requirement, the capital position at 31 December 2014 and 2013 is disclosed on note 36.

41. RISK MANAGEMENT

In the course of conducting its business, the bank is exposed to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risks (mainly Foreign exchange and interest rate risks)
- Operational risk

The Board of Directors is ultimately responsible for all risks taken by the bank. Risk taking is an integral part of business.

The bank's risk management approach is that:

- All risks must be identified and managed, and that the returns must be commensurate with the risks taken, relative to the bank's risk appetite;
- The effectiveness of risk management processes is ensured through formal governance and comprehensive regular reporting processes in a well-defined control environment; and
- It is the responsibility of each individual, relative to their position, to identify themselves with the declared priority of risk management, to recognize real or anticipated risk and to take appropriate action.

Risk management is guided by several principles, the most important being:

- The assignment of appropriate responsibility and accountability for all risks and resulting returns;
- The adoption of a Risk Management Framework for integrated risk management which applies across all business units and all risk types for the protection of the bank's reputation;
- Comprehensive risk assessment, measurement, monitoring and reporting;
- Independent review; and
- Formal risk governance processes.

Our strategic and operating changes have been consistent with the economic and financial situation obtained in Tanzania. The restructuring of TIB into a two tier organization, comprised of a Development Finance Institution (DFI) and a subsidiary Corporate Commercial bank, shall assist in effective deployment of resources and skills in both the development financing role and the supporting commercial bank.

Risk management structure

As a development finance institution, the bank has been constantly evaluating its internal capacities to ensure a good balance between its corporate results and its mandate.

In 2012 the bank continued with program to implement team oriented approach in the credit process. This shall ensure full deployment of the bank's technical skills in the evaluation of projects at the appraisal stage.

Risk is inherent in the bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls.

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41. RISK MANAGEMENT (Continued)

This process of risk management is critical to the bank's continuing profitability and each individual within the bank is accountable for the risk exposures relating to his or her responsibilities. The bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The bank's policy is to monitor those business risks through the bank's strategic planning process.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Board Audit and Risk Committee

This is the Board's committee responsible for risk management issues. The committee receives periodic risk management reports and provides guidance to the management as well as advising the full Board on risk management and related issues.

Risk Management Department

The Risk & Compliance department is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Risk Management Framework prescribes the periodic reports to be submitted to both the Management and the Board to ensure that these two organs execute their oversight responsibilities related to the risk management function in the bank.

Bank Treasury

The Treasury department function is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

The bank's policy is that risk management processes throughout the bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Risk Committee of the Board.

The bank's activities expose it to a variety of financial risks including credit risk, liquidity risk, market risks, operational risks and interest rate risks. The bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the bank's financial performance.

The bank's risk management policies are established to identify and analyze the risks faced by the bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

a) Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the bank considers and consolidates all elements of credit risk exposure.

41. RISK MANAGEMENT (Continued)

Management of Credit Risk

The Board has delegated responsibility for the management of credit risk to the Development Finance division which is responsible for appraisal function and Portfolio Management division responsible for follow up of credit. These are two key divisions in the Credit Committee which, among others, is responsible for:

1. Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements;
2. Ensure that the appraisal process is effective and informed.
3. Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to various officers at different levels with higher facilities requiring Board approval.. Credit Department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process;
4. Limiting concentrations of exposure. The Board approved delegated authority restricts exposure for any group/sector;
5. Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are provided to Credit Committee/Board in respect of the quality of loan portfolio;
6. Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

Regular audits of both Development Finance and Portfolio Management divisions are undertaken by Internal Audit Department. Loans and advances graded 3, 4 and 5 in the banks' internal credit risk grading system are impaired. These are advances for which the bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. Specific impairment losses are made on these grades.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular project finance loans. Except where project is still under implementation, all rescheduled loans have been assigned a classification of substandard or worse as per Bank of Tanzania directive hence they form part of non-performing loans unless prior approval is given by the Bank of Tanzania. The internal rating scale 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;
- Deterioration in the value of collateral.

The bank's policy requires the review of individual financial assets regularly and grading of accounts is done every month where provision on non-performing loans is raised based on the guidelines of the Bank of Tanzania.

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41. RISK MANAGEMENT (Continued)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the bank's credit policy and accompanying manuals include specific guidelines to focus on maintaining a diversified portfolio with limits set for each sector. Identified concentrations of credit risks are controlled and managed accordingly.

Risk limit control and mitigation policies

The exposure to any one borrower including banks is further restricted by limits approved by the Board as set in the Credit Policy and ALCO approvals. 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 lending limits appropriately.

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

Credit exposure relating to recognized financial assets in the statement of financial position are as follows:

Table 42 (1)

	2014	2013
	TZS '000	TZS '000
Amount due from banks:		
Cash and Cash equivalent	5,580,549	4,985,266
Investment in Government securities held - to - maturity	46,486,610	71,059,582
Sub-total	52,067,159	76,044,848
Loans and advances to customers(Gross)		
Loan to individual customers		
Overdraft facilities	831,128	701,484
Term loans	731,151	3,704,933
Sub-total	1,562,279	4,406,417
Loan to corporate customers (Gross)		
Large corporate customers	408,721,682	296,316,958
Small and Medium Enterprises (SMEs)	4,471,053	13,353,121
Sub-total	413,192,735	306,583,610
Total loans and advances	414,755,014	310,990,027

41. RISK MANAGEMENT (Continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties

The bank also obtains guarantees from Bank of Tanzania for loan issued to projects qualifying under the export or SME guarantee schemes. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the policy of the bank to require a security cover not less than 1.25 times.

It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use. The bank also makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master netting arrangements do not normally result in an offset of financial position assets and liabilities unless certain conditions for offsetting apply.

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realized;
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.

Charged off loans

During the year non-performing loans and advances amounting to TZS 17,473 million were charged off (2013: TZS 6,614 million) and thus they do not form part of loan portfolio reported in the statement of financial position. For follow up purposes, charged off loans are maintained in a separate memorandum records. As at 31 December 2014 the cumulative balance of charged off accounts was TZS 36,792 million (2013: TZS 23,071 million) this excludes TZS 1,733 million recovered during the year (2013: TZS 1,891 million).

Write-off policy

The bank writes off loans as and when the Board reviews and accepts the recommendations by the management that the loans are irrecoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Debt securities, treasury bills and other eligible bills

The only investment securities held by the bank are treasury bills and bonds issued by the Government of the United Republic of Tanzania.

Collateral

Repossessed assets are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. During the year, the bank has not obtained any assets by taking possession of collateral held as security.

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41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Table 42 (2)

Geographical analysis	Tanzania	Europe	America	Others	Total
2014	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Financial assets					
Cash and balances with Bank of Tanzania	5,580,548	-	-	-	5,580,548
Balance with other banks	3,531,665	1,554,699	1,226,494	75,606	6,388,465
Placements with other banks	17,413,546	-	-	-	17,413,546
Government securities held to maturity	46,486,610	-	-	-	46,486,610
Loans and advances	413,044,191	-	-	-	413,044,191
Equity investment available for sale	2,470,000	-	-	5,762,698	8,232,698
	488,526,560	1,554,699	1,226,494	5,838,304	497,146,058
Financial liabilities					
Deposits	282,680,369	-	-	-	282,680,369
Borrowing	-	-	-	17,353,248	17,353,248
	282,680,369	-	-	17,353,248	300,033,617
2013					
Financial assets					
Cash and balances with Bank of Tanzania	4,985,266	-	-	-	4,985,266
Balance with other banks	798,132	1,513,242	2,231,612	102,111	4,645,096
Placements with other banks	4,974,362	-	-	-	4,974,362
Government securities held to maturity	71,059,582	-	-	-	71,059,582
Loans and advances	305,756,700	-	-	-	305,756,700
Equity investment available for sale	6,751,090	-	-	-	6,751,090
	394,325,132	1,513,242	2,231,612	102,111	398,172,096
Financial liabilities					
Deposits	212,463,235	-	-	-	212,463,235
	212,463,235	-	-	-	212,463,235

Table 42(3) Industry analysis

	Financial Services		Agriculture and Fishing		Government		Consumers		Retail and Wholesale		Manufacturing		Building and Construction		Transport and Communication		Services		Total		
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Financial assets																					
Cash and balances with Bank of Tanzania	3,136,378	-	-	2,444,170	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,580,548
Balance with other banks	6,388,465	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,388,465
Placements with other banks	17,413,546	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,413,546
Government /Corporate securities held - to - maturity	-	-	-	46,486,610	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46,486,610
Loans and advances	7,624,034	124,102,085	1,003,207	10,065,064	82,268,540	39,381,928	73,053,265	9,409,637	73,462,977	420,370,739											
Equity investment available for sale	8,232,698	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,232,698
Financial liabilities	42,795,121	124,102,085	49,933,987	10,065,064	82,268,540	39,381,928	73,053,265	9,409,637	73,462,977	504,472,606											
Deposits	282,680,369	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	282,680,369
2013	282,680,369	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	282,680,369
Financial assets																					
Cash and balances with Bank of Tanzania	3,775,270	-	-	1,209,996	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,985,266
Balance with other banks	4,645,096	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,645,096
Placements with other banks	4,974,362	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,974,362
Government /Corporate securities held - to - maturity	-	-	-	71,059,582	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71,059,582
Loans and advances	8,249,117	120,027,804	2,527,175	5,663,841	56,602,558	35,787,439	34,412,368	1,722,566	50,340,753	315,333,620											
Equity investment available for sale	6,751,090	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,751,090
Financial liabilities	28,394,935	120,027,804	74,796,753	5,663,841	56,602,558	35,787,439	34,412,368	1,722,566	50,340,753	407,749,016											
Deposits	212,463,235	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	212,463,235
2012	212,463,235	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	212,463,235

41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Table 42(4) Maximum exposure to credit risk - Type of collateral or credit enhancement

31 December 2014	Maximum exposure to credit risk	Cash	Letter of credit/ BOT guarantee	Property	Stock	Net collateral	Net exposure
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Financial assets							
Due from banks:							
Placements with other banks	17,413,546	-	-	-	-	-	17,413,546
Balance with other banks	6,388,465	-	-	-	-	-	6,388,465
	23,802,011	-	-	-	-	-	23,802,011
Loans and advances to customers:							
Individual							
-overdraft	831,128	699,541	-	-	-	699,541	131,587
-term loans	731,151	418,679	-	-	-	418,679	312,472
Corporate customers							
-large corporate customers	408,721,682	4,457,731	24,356,277	2,240,204,893	26,217,100	2,295,236,001	(1,886,514,319)
-Small and Medium Enterprises (SME'S)	(4,471,053)	-	-	21,832,990	-	21,832,990	(17,361,937)
	414,755,014	5,575,951	24,356,277	2,262,037,883	26,217,100	2,318,187,211	(1,903,432,197)
Financial investments:							
Government/security held to maturity							
Commitments and guarantees:							
Financial guarantees	5,949,034	4,941,180	-	-	-	-	-
Letters of credit for customers	5,035,498	4,533,326	-	-	-	-	-
Other commitments	60,108,010	60,108,010	-	-	-	-	-
	556,136,177	75,158,466	24,356,277	2,262,037,884	26,217,100	2,318,187,210	(1,856,945,587)

41. RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Table 42(4) Maximum exposure to credit risk - Type of collateral or credit enhancement

31 December 2013	Maximum exposure to credit risk	Cash	Letter of credit/BOT guarantee	Property	Stock	Net collateral	Net exposure
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Financial assets							
Due from banks:							
Placements with other banks	4,974,362	-	-	-	-	-	4,974,362
Balance with other banks	4,645,096	-	-	-	-	-	4,645,096
	9,619,458	-	-	-	-	-	9,619,458
Loans and advances to customers:							
Individual							
-overdraft	701,484	1,762,481	-	-	-	1,762,481	(1,060,997)
-term loans	3,704,933	4,534,752	-	-	-	4,534,752	(829,819)
Corporate customers							
-large corporate customers	299,512,990	1,703,017	24,539,474	1,554,379,917	20,876,065	1,601,498,473	(1,301,985,484)
-Small and Medium Enterprises (SME'S)	7,070,620	-	-	46,213,592	-	46,213,592	(39,142,972)
	310,990,027	8,000,250	24,539,474	1,600,593,509	20,876,065	1,654,009,298	(1,343,019,271)
Financial investments:							
Financial investments available for sale	6,751,090	-	-	-	-	-	-
Government/security held to maturity	71,059,582	-	-	-	-	-	-
	398,420,156	8,000,250	24,539,474	1,600,593,509	20,876,065	1,654,009,298	(1,333,399,814)
Commitments and guarantees:							
Financial guarantees	5,949,034	4,941,180	-	-	-	-	-
Letters of credit for customers	5,035,498	4,533,326	-	-	-	-	-
Other commitments	60,108,010	60,108,010	-	-	-	-	-
	469,512,698	77,582,766	24,539,474	1,600,593,509	20,876,065	1,654,009,298	(1,333,399,814)

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41. RISK MANAGEMENT (Continued)

b) Liquidity risk

Liquidity risk is defined as the risk that the bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The bank maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. In accordance with the bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

As a lender of long term loans, the bank depends on long term sources of funds. Currently the Government has committed to increase the capital of the bank through budgetary allocation from time to time. During the year 2014, the bank received additional capital amounting to TZS 10 billion from the Government as additional capital.

Net liquid assets are liquid assets less all funds maturing in the next 30 days from wholesale market sources and from customers who are deemed to be professional. The bank defines liquid assets for the purposes of the liquidity ratio as cash balances, short-term interbank deposits and highly rated debt securities available for immediate sale and for which a liquid market exists.

Management of liquidity risk

The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation.

Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the bank as a whole. All liquidity policies and procedures are subject to review and approval by the Board of Directors or Assets and Liabilities Committee. The bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels.

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profiles of the undiscounted cash flows of the bank's financial assets and liabilities as at 31 December 2013 based on the remaining period to the contractual maturity date. Deposits from customers shown as maturing within 90 days relate to savings, call and fixed account balances. Although classified in this band, previous experience has shown these to be stable and of a long term nature.

41. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Table 42 (5)

2013	Up to 1 month TZS '000	Up to 3 month TZS '000	Up to 6 month TZS '000	Up to 12 month TZS '000	Above 1 year TZS '000	Total '000
Financial assets						
Cash and balances with Bank of Tanzania	5,580,548	-	-	-	-	5,580,548
Balance with other banks	6,388,465	-	-	-	-	6,388,465
Placements with other banks	12,937,889	-	-	1,530	4,474,127	17,413,546
Government securities held to maturity	127,486	11,759,375	11,661,024	9,611,477	13,327,249	46,486,610
Loans and advances	21,031,455	53,176,702	58,010,279	43,121,000	237,704,755	413,044,191
Equity investment available for sale	-	-	-	-	8,232,698	8,232,698
Total undiscounted financial assets	46,065,844	64,936,077	69,671,303	52,734,006	263,738,829	497,146,059
Financial liabilities						
Deposits	128,184,211	77,832,873	48,415,721	26,720,163	1,527,402	282,680,369
Borrowing		1,738,247	1,735,000	1,735,000	12,145,000	17,353,248
	128,184,211	79,571,121	50,150,721	28,455,163	13,672,402	300,033,617
Net liquidity gap	(82,118,367)	(14,635,043)	19,520,582	24,278,844	250,066,427	197,112,442
Cumulative gap	(82,118,367)	(96,753,411)	(77,232,828)	(52,953,984)	197,112,442	-

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41. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Table 42 (5)

	Up to 1 month TZS '000	Up to 3 month TZS '000	Up to 6 month TZS '000	Up to 12 month TZS '000	Above 1 year TZS '000	Total '000
2013						
Financial assets						
Cash and balances with Bank of Tanzania	4,985,266	-	-	-	-	4,985,266
Balance with other banks	4,645,096	-	-	-	-	4,645,096
Placements with other banks	4,459,830	-	-	514,532	-	4,974,362
Government securities held to maturity	5,962,960	16,162,441	3,238,784	12,251,053	33,444,343	71,059,582
Loans and advances	111,355,762	3,591,649	449,846	4,716,766	185,642,677	305,756,700
Equity investment-Available for sale		-	-	-	6,751,090	6,751,090
Total undiscounted financial assets	131,408,914	19,754,090	3,688,630	17,482,351	225,838,110	398,172,096
Financial liabilities						
Deposits	73,574,483	79,064,083	34,621,802	24,349,590	853,277	212,463,234
Other borrowings	-	-	-	-	-	-
Total liabilities	73,574,483	79,064,083	34,621,802	24,349,591	853,277	212,463,234
Net liquidity gap	57,834,433	(59,309,992)	(30,933,173)	(6,867,239)	224,984,833	185,708,861
Cumulative gap	57,834,433	(1,475,560)	(32,408,733)	(39,275,971)	185,708,861	-

41. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Table 42 (6)

	Less than 12 month TZS '000	Over 12 month TZS '000	Total TZS '000
2013			
Assets			
Cash and balances with Bank of Tanzania	5,580,548	-	5,580,548
Balance with other banks	6,388,465	-	6,388,465
Placements with other banks	12,939,419	4,474,127	17,413,546
Government and corporate securities held to maturity	33,159,361	13,327,249	46,486,610
Loans and advances	175,339,437	237,704,755	413,044,191
Equity investment available for sale	-	8,232,698	8,232,698
Investment in subsidiary	-	455,653	455,653
Investment property	-	11,500,000	11,500,000
Property and equipment	-	2,322,771	2,322,771
Leasehold improvements	-	1,177,641	1,177,641
Tax recoverable	1,317,199	-	1,317,199
Intangible assets	-	585,407	585,407
Deferred tax asset	-	531,578	531,578
Grants receivable	73,539	-	73,539
Other assets	4,510,308	546,098	5,056,406
Total assets	239,308,276	280,857,977	520,166,253
Liabilities			
Deposits	281,152,968	1,527,402	282,680,369
Other liabilities	1,910,090	-	1,910,090
Deferred Income	646,196	1,667,934	2,314,130
Tax Payable	-	-	-
Government Grants	227,493	156,156	383,649
Total liabilities	283,936,747	3,351,492	287,288,239
Net	(44,628,471)	277,506,485	232,878,014

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41. RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Table 42 (6)

	Less than 12 month TZS '000	Over 12 month TZS '000	Total TZS '000
2013			
Assets			
Cash and bank balances with Bank of Tanzania	4,985,266	-	4,985,266
Balance with other banks	4,645,096	-	4,645,096
Placements with other banks	4,974,362	-	4,974,362
Government securities held to maturity	37,615,239	33,444,343	71,059,582
Loans and advances	120,114,023	185,642,677	305,756,700
Equity investment available for sale	-	6,751,090	6,751,090
Investment in Subsidiary		455,653	455,653
Investment property		11,500,000	11,500,000
Property and equipment	-	2,276,521	2,276,521
Leasehold improvements	-	470,590	470,590
Intangible assets	-	325,965	325,965
Tax recoverable	1,440,488	-	1,440,488
Deferred tax asset		90,739	90,739
Grants receivable	26,737	-	26,737
Other assets	1,849,430	1,275,747	3,125,176
Total assets	175,650,641	242,233,324	417,883,965
Liabilities			
Deposits	211,609,958	853,277	212,463,235
Other liabilities	2,566,366	2,020,367	4,586,733
Deferred Income	267,342	1,634,672	1,902,014
Other borrowings	-	-	-
Capital Grants	-	611,143	611,143
	214,443,666	5,119,459	219,563,125
Net	(38,793,025)	237,113,864	198,320,840

41. RISK MANAGEMENT (Continued)

c) 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 rates and foreign currencies, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates. The bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in the bank's treasury department and monitored regularly. Regular reports are submitted to the Board of Directors and ALCO. Trading portfolios include those positions arising from market-making transactions where the bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities.

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.

Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily and reports to ALCO monthly. The table no 42(6) summarizes the bank's exposure to interest rate risks. It includes the bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The bank does not bear any interest rate risk on off financial position item

The exposure to interest rates fluctuations on assets and liabilities denominated in currencies other than US dollar is minimal.

Interest risk exposure

The bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest re-pricing that may be undertaken. Consequently, the interest sensitivity effect on profit or loss would not be significant given the re-pricing frequency.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, The bank's profit before tax is affected through the impact on floating rate borrowings, as follows:

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Table 42(7)

2014		
	Increase/ decrease (%)	Effect on profit before tax (TZS 000)
Tanzanian Shillings (TZS)	+14%	(5,352,447)
American Dollars (USD)	+10%	(1,412,300)
Tanzanian Shillings (TZS)	-14%	5,352,447
American Dollars (USD)	-10%	1,412,300
2013		
Tanzanian Shillings (TZS)	+14%	(4,355,752)
American Dollars (USD)	+10%	(696,647)
Tanzanian Shillings (TZS)	-14%	4,355,752
American Dollars (USD)	-10%	696,647

The table 42(8) summarizes the exposure to interest rates risks. Included in the table are the bank's assets and liabilities at carrying amounts categorized by the earlier of contractual re-pricing or maturity dates. The bank does not bear an interest rate risk on off financial position items.

Foreign currency risk

The bank operates within Tanzania and has got investments abroad which are reported in the financial statements in local currency. As at the reporting date the bank was not exposed to significant foreign currency exposure, although there are certain deposits and placements/bank balances are denominated in United States dollars and euros. Foreign currency risk is managed at an operational level and monitored by the treasury and operations department. Exposure to losses from foreign currency deposits is managed through prompt settlement of the foreign currency denominated obligations

41. RISK MANAGEMENT (Continued)

Foreign currency sensitivity

The following table 42(8) demonstrate the sensitivity to a reasonably possible change in USD and GBP exchange rates, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The impact on the Company's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges. The Company's exposure to foreign currency changes for all other currencies is not material.

Table 42(8)

2014			
	Increase/decrease in the value of TZS vs. other currencies (USD)	Effect on profit before tax TZS'000	Effect on equity TZS'000
Net effect based on financial year end as at 31 December 2014	+10	-1,035,777	-1,035,777
	-10	1,035,777	1,035,777
2013			
	Increase/decrease in the value of TZS vs. other currencies (GBP)	Effect on profit before tax TZS'000	Effect on equity TZS'000
Net effect based on financial year end as at 31 December 2013	+10%	-94,552	-94,552
	-10%	+94,552	+94,552

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The bank's exposure to the risk of changes in foreign exchange rates relates primarily to the bank's operating activities (when revenue or expense is denominated in a different currency from the bank's presentation currency). Foreign currency exchange risk exposure

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41. RISK MANAGEMENT (Continued)

c) Market risk (Continued)

Table 42(9)

	TZS	USD	GBP	Euro	Others	Total
	'000	'000	'000	'000	'000	'000
Assets						
Cash and balances due from banks	4,469,801	4,975,197	791,845	1,656,564	75,606	11,969,013
Placements with other banks	17,413,546	-	-	-	-	17,413,546
Loans and advances	262,539,912	150,504,279	-	-	-	413,044,191
Deferred tax asset	531,578	-	-	-	-	531,578
Other assets	5,032,242	97,703	-	-	-	5,129,945
	291,304,278	155,577,179	791,845	1,656,564	75,606	449,405,472
Liabilities						
Deposits	146,195,717	134,280,433	677,790	1,526,430	-	282,680,369
Borrowing	-	17,353,248	-	-	-	17,353,248
Other liabilities	1,897,449	12,641	-	-	-	1,910,090
Deferred Income	2,314,130	-	-	-	-	2,314,130
Tax Payable	-	-	-	-	-	-
Government Grants	383,649	-	-	-	-	383,649
Total liabilities	150,790,946	151,646,322	677,790	1,526,430	-	304,641,487
Net financial position	140,513,333	3,930,857	114,055	130,134	75,606	144,763,986

42. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments arise in the normal course of the bank's business activities. To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other un-drawn commitments to lend.

Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank. Letters of credit and guarantees (including standby letters of credit) commit the bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

At year end, the bank had claims from various parties with estimated exposure. The bank had claims amounting to TZS 21,968 million (2013: TZS 26,309 million) in court cases related to defaulting customers whom the bank is executing recovery measures. However the bank does not expect the final outcome of any such case to have a material adverse effect on its financial position as the bank has strong defence. On the other the bank had a claim from a person who was expected to be recruited. The case was concluded in year 2014. No appeal had been lodged at the end of year.

Off – statement of financial position items

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

The total outstanding contingent liabilities and commitments as at 31 December 2013 and 2014 are as follows

Contingent liabilities

	2014 TZS'000	2013 TZS'000
Outstanding letters of credit :		
- Foreign currency	1,002,146	4,533,326
Outstanding guarantees and indemnities:		
- Foreign currency	9,317,693	707,512
- Local currency	24,428,958	4,233,668
	34,748,797	9,474,506

Letters of credit, guarantees (including standby letters of credit) commit the bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry the same credit risk as loans.

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Commitments:

	2014	2013
	TZS'000	TZS'000
Commitments to extend credit – undrawn balance	67,504,733	60,108,010
Capital commitments		
Capital expenditure that has been approved by the Board but not contracted for	2,420,463	3,764,788

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific 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. Capital commitments comprise capital expenditure for fixtures and equipment, computers and motor vehicles.

Operating lease commitments

The bank has entered in commercial leases on premises for its head office and branches. These leases have an average life of between three to five years with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Operating lease commitments

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2014	2013
	TZS'000	TZS'000
Within one year	2,551,920	1,708,600
After one year but not more than five years	10,207,680	6,834,400
More than five years	806,998	1,366,880
Total	13,566,598	9,909,880

43. MANAGED GOVERNMENT AND OTHER STAKEHOLDERS' FUNDS

Among the principal activities of the bank is to administer Government funds disbursed for special projects on behalf of the Government. Establishment, design and approval of special projects rests with the Government under the Ministry of Finance. All risks and rewards arising from special projects are directly channelled to the Ministry of Finance. The bank receives management and agency fees from these projects at agreed rates depending on the nature and complexity of projects.

As at 31 December 2014 the position of fees earned on managing Government funds for the period from 1 January 2014 were as follows:

S/n	Details	2014	2013
		TZS'000	TZS'000
1.	Fees income on REA, TEDAP and Wentworth	228,270	267,227
2.	Fees income on Flower Projects	275,550	172,000
3.	Fees income on Commodity Import Support	75,000	100,000
4.	Agency fee income from Agricultural Financing Window	213,386	218,937
5.	Fees income from THB Liquidation	81,600	81,600
		873,806	839,765

44. EVENTS AFTER REPORTING DATE

As part of banks strategy, the bank has managed to separate its assets and liabilities between TIB Development Bank Limited and TIB Corporate Finance Limited of which will appear separately on the financials in the year 2015. The TIB Corporate Finance Limited will operate under commercial bank regulations while TIB Development Bank Limited under DFI regulations to be supervised by BOT. TIB Corporate Finance Limited expected to fully be in operations effectively early April 2015. Meanwhile there were no material effects in the financial statements as at the time of this report.

45. COMPARATIVES

Comparatives are consistent with the previous year; and where need be a restatement has been made.

