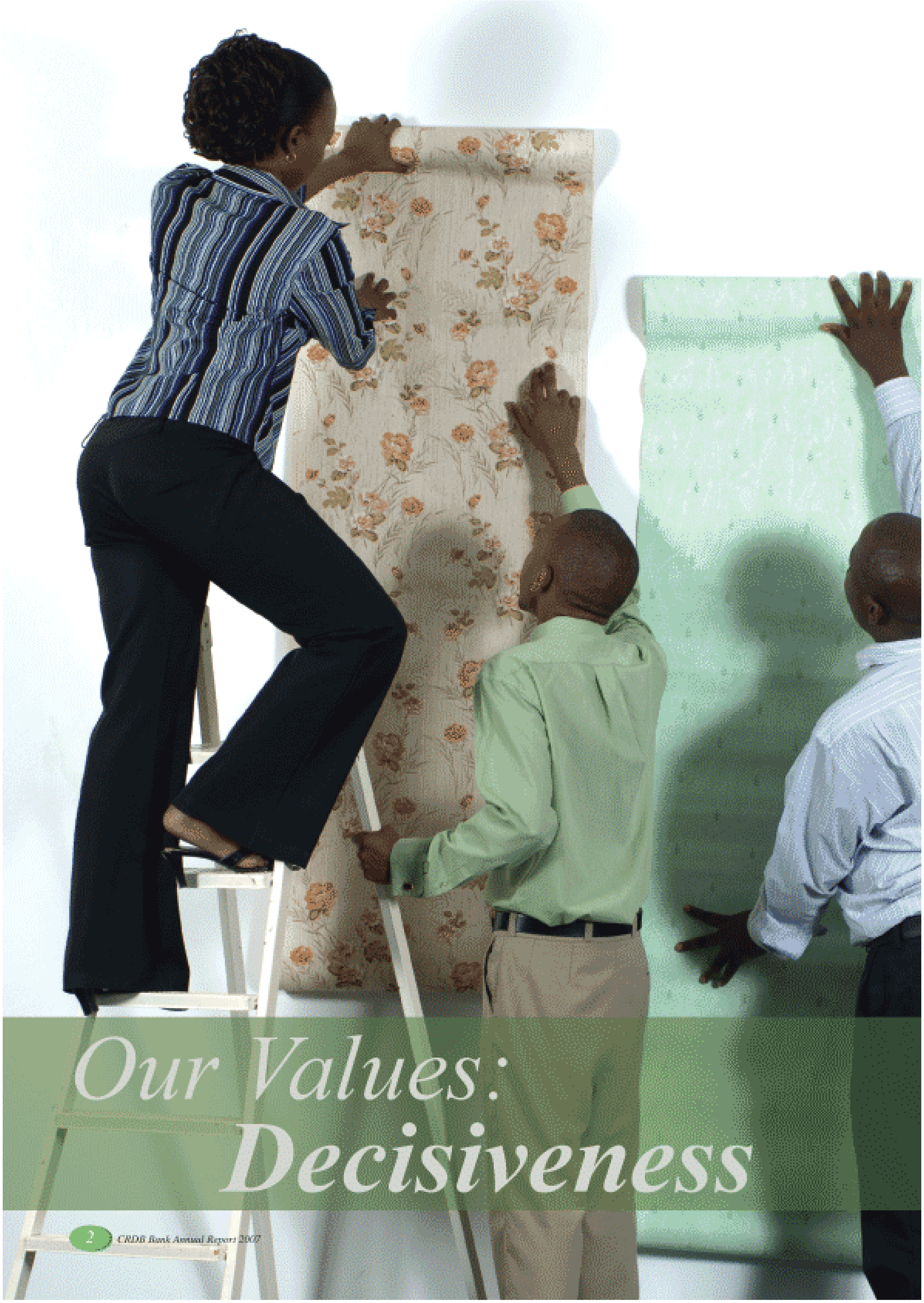
# Annual Report

# 2007

CRDB
BANK
*The bank that listens*



# *Our Values: Decisiveness*

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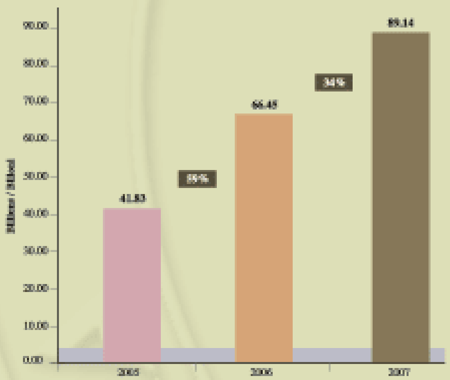
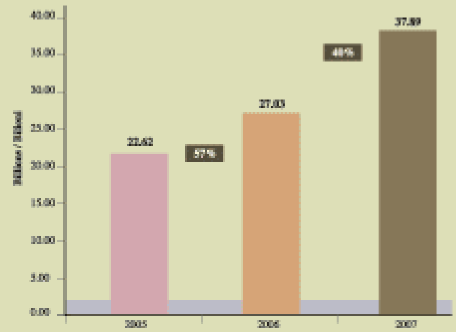
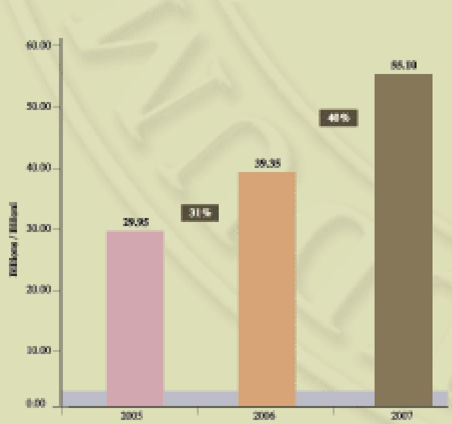
| Particulars | 2007 Tshs Bn | 2006 Tshs Bn | % Change |
|---|---|---|---|
| Financial income | 89,145 | 66,451 | 34% |
| Financial expenses | 17,007 | 13,839 | 23% |
| Financial spread | 72,138 | 52,612 | 37% |
| Other income | 37,897 | 27,030 | 40% |
| Operating expenses | 55,103 | 39,228 | 40% |
| Pre-tax profit | 51,703 | 38,446 | 34% |
| Net profit | 37,325 | 26,484 | 41% |



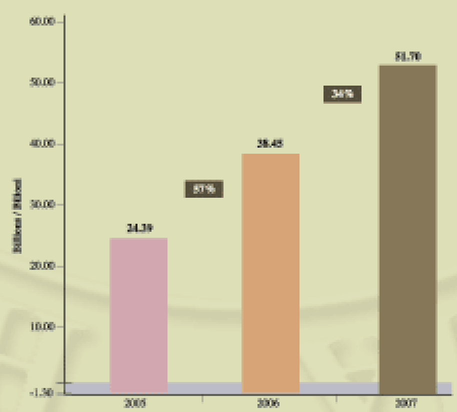

*Interest Income*




*Other Income*




*Operating Expenses*




*Pre-tax Profit*

# Letter of transmittal

*Dear: Shareholders and Customers,*
*It is a pleasure to present to you the Bank's Annual Report for the year 2007. The report contains the annual accounts, major events, achievements and future business prospects.*

*Yours faithfully,*

***Martin Mmari***
***Chairman of the Board of Directors***
***CRDB Bank***

## Vision

### The leading Bank in Tanzania

To be the leading bank, which is customer need driven with competitive return to shareholders.

## Mission

### Quality Banking Service

To provide quality and competitive financial services with a strong focus on retail banking and customized corporate and institutional services while ensuring confidence and trust from stakeholders.

## Our Values

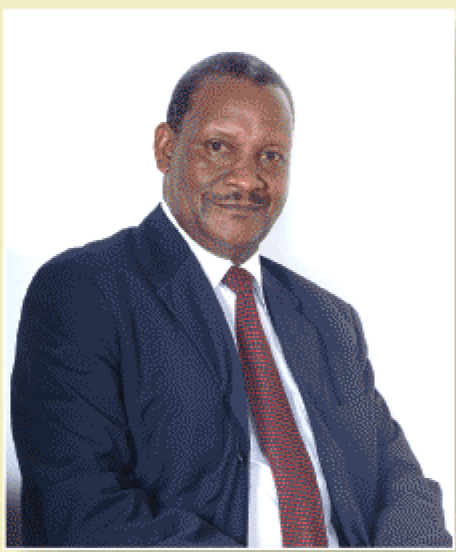
Accountability
Commitment
Cost Consciousness
Courtesy
Decisiveness
Knowledge
Promptness
Performance Driven
Professional Integrity
Responsiveness

# *Board of Directors*

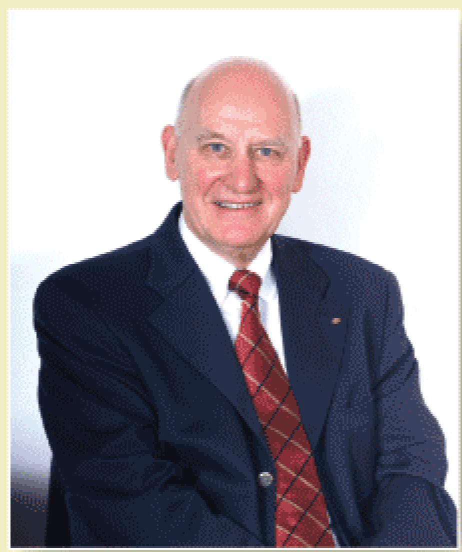
*Bw. Martin Mmari*
*Mwenyekiti/Chairman*

# Board of Directors

*Dk. Sylivia Temu*
*Member Mjumbe*



*Bw. Joseph Machange*
*Member Mjumbe*

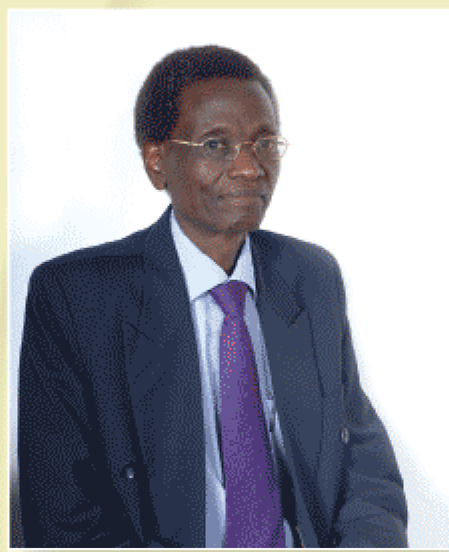


*Bw. Kai Kristoffersen*
*Member Mjumbe*

# Board of Directors

Bi. Joyce Nyanza
Member Mjumbe

Bw. Boniface Muhegi
Member Mjumbe



Bw. Bede Lyimo
Member Mjumbe

# Board of Directors

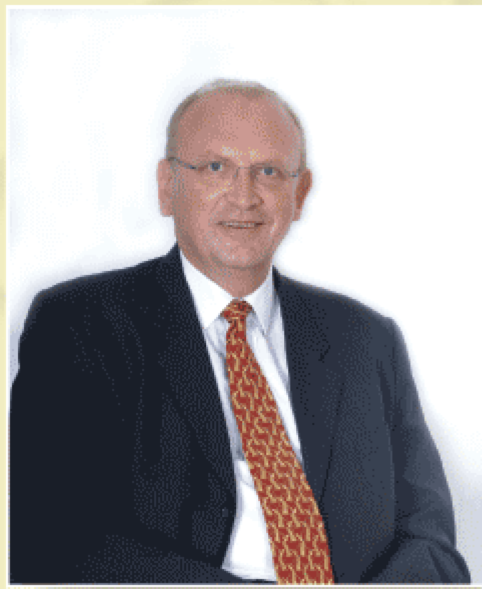
*Bw. Ally Laay*
*Member Mjumbe*

*Bi. Lydia Joachim*
*Member Mjumbe*

*Bi. Joyce Luhanga*
*Member Mjumbe*

# Board of Directors

*Dk. Charles Kimei*
*Managing Director*
*Mkurugenzi Mtendaji*



*Bw. Jens Ole Pedersen*
*Deputy Managing Director*
*Naibu Mkurugenzi Mtendaji*

# *Chairman's Statement*

*I am very pleased to report that CRDB Bank delivered another year of record income and profits in 2007, driven by strong organic growth.*

### *Success*

- Pre-tax profit is up 34 percent to Tshs 51.7 billion from Tshs 38.4 billion in 2006.
- Operating Income is up 36 percent to Tshs 127 billion from Tshs 94 billion in 2006.

The Bank recorded growth of 28 percent in deposits to Tshs 1,013 billion from Tshs 792 billion in 2006. Lending grew by 45 percent to Tshs 588 billion from Tshs 406 billion in 2006. The Bank's total assets increased by 27 percent to Tshs 1,143 billion from Tshs 898 billion in 2006.

### *Dividends*

The Board will recommend to the Annual General Meeting a dividend of Tshs 17 per share. Total appropriation to dividends will be Tshs 4.2 billion, up from 2.1billion in 2006.

### *Business Development*

The Bank's priority is sustaining growth of retail banking business through Small and Medium Enterprises (SMEs) and Microfinance initiatives. The Bank will as well keep on maintaining the achievements made in corporate banking services. The Bank witnessed significant growth in business volumes in all key business segments.

*The members of the board of directors continued to give me strong support for which I am most thankful. In another year in which the Bank delivered an exceptional performance, it is with great satisfaction that I thank our esteemed customers for continuing to trust the bank to deliver superior banking services to them. We have continued to enjoy the loyalty and support of our share-holders and Branch Advisory Committee members, for which I am most grateful.*

## Prospects for 2008

The Tanzanian economic performance is expected to remain favorable in 2008, economic growth expected at 7.7 percent and inflation expected to be contained below 10 percent. The agricultural, construction, and manufacturing sectors performance is expected to improve, good business environment also expected to continue. Year 2008 will be the first year for implementation of ambitious five years Business Strategy (2008-2012) of CRDB Bank aiming at upgrading the level of banking products and services as well as expanding the network of branches and other delivery channel in order to sustain competition in a progressively competitive market.

The expected improvement in economic performance coupled with well diversified income sources of the bank and implementation of the new Business Strategy gives me a confidence to believe that the Bank will deliver another good performance in year 2008.

## Changes in the Board

The Bank's Memorandum and Articles of Association require one third of directors elected by Annual General Meeting to retire annually. I would like to report changes in the Board during the year. At the annual General Meeting held on 23rd June 2007 Mr Ally Laay, Mr. Abed Mwasajone and Mr. Boniface Muhegi retired. All of them offered for re-election. Mr. Boniface Muhegi was duly re-elected. Mrs Joyce Ng'walu Nyanza and Dr. Stergomena L. Tax were elected for the first time. I welcome Mrs Joyce Ng'walu Nyanza to the Board. Mr Ally Laay and Mr. Abed Mwasajone served the board for a period of 3 years and 6 years respectively. I wish to acknowledge their valuable contributions to the Board over the period they have served and wish them well in their future endeavors.

## *Acknowledgement*

The members of the board of directors continued to give me strong support for which I am most thankful. In another year in which the Bank delivered an exceptional performance, it is with great satisfaction that I thank our esteemed customers for continuing to trust the bank to deliver superior banking services to them. We have continued to enjoy the loyalty and support of our shareholders and Branch Advisory Committee members, for which I am most grateful.

The continuous growth and performance of the bank was to a large extent achieved through the hard work and commitment of the Management and staff. I thank them for the remarkable achievements of the Bank. Finally, I wish to acknowledge the support of the Government, the Bank of Tanzania, and all the Bank's stakeholders. I am optimistic that the Bank will make even greater achievements in the more challenging years ahead.

Martin Mmari
Chairman of the Board

# *Managing Director's Report*

*It is with utmost pleasure that I present to you the Bank's strong performance in the year 2007. Our solid results during the year were the product of the Bank's growth oriented strategies in the Retail and Corporate Banking sectors supported by the growth that Tanzania economy is experiencing.*

The real Gross Domestic Product (GDP) growth in 2007 is estimated at 7.1% compared to 6.2% a year ago, underpinned by the growth in mining and quarrying, hotels, tourism and manufacturing as well as improved climatic conditions which led to favourable developments in agriculture and better power supply.

The agricultural sector is the largest contributor to the country's GDP by contributing over 25%. High prices of food items and fuel contributed to a significant inflationary pressure with annual inflation averaging 7.8%

Customer deposits leaped by 28% to an unprecedented Tshs 1,013 billion, compared to Tshs 792 billion in the previous year making CRDB Bank the top bank in deposits. Pretax profit grew by 34% to Tshs 51.7 billion compared to Tshs 38.4 billion in 2006.

Net profit increased from Tshs 26.5 billion in 2006 to Tshs 37.3 billion in 2007. On the other hand, our total assets increased by 27% to reach Tshs 1,143 billion from Tshs 898 billion a year ago. Lending grew by 45% to Tshs 588 billion compared to last year's figure of Tshs 406 billion. The Bank's contribution to the government tax income also increased to Tshs 14.4 billion from Tshs 11.9 billion in 2006.

*Our ongoing efforts are focused towards enhancing performance, upgrading systems and streamlining our wide range of products and services. We will continue to develop our network, maintaining an edge in product innovation and provide our growing client base with alternative banking channels and improved customer service.*

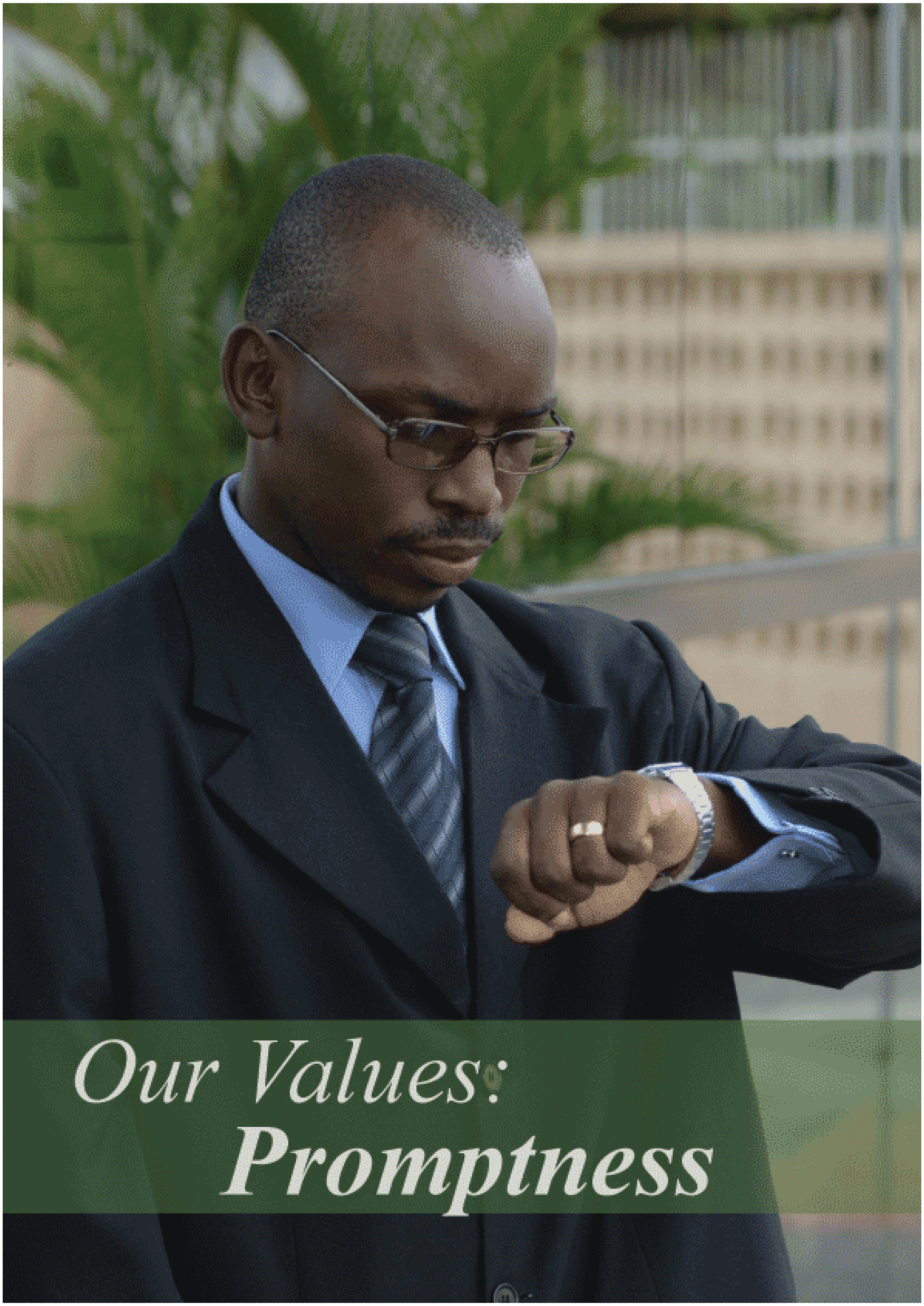
In a market where competition in the banking sector is fierce, customer service becomes an important differentiator. In the year under review, the Bank implemented different strategies to improve the customer service our customers enjoy. In order to provide our products and services to a wider segment of the population, we further expanded our branch network to add 5 and 19 new branches and ATMs respectively and refurbished as well as relocated 5 existing branches. Providing a better and more convenient banking experience was our primary focus behind refurbishment and relocation of our existing branches.

The first ever Depository ATMs in Tanzania "Easy Deposit" services were launched by the Bank in 2007. The results achieved so far are positive and encouraging. In 2008, we plan to install more Depository ATMs to cater for the growing demand for this important service.

Our ongoing efforts are focused towards enhancing performance, upgrading systems and streamlining our wide range of products and services. We will continue to develop our network, maintaining an edge in product innovation and provide our growing client base with alternative banking channels and improved customer service.

2007 was a successful year and I would like to extend my appreciation to the Board of Directors for their support, our clients and all our stakeholders for their confidence in us. Many thanks are also due to the management team and our valuable staff whose dedication and commitment have been crucial to our achievements this year.

*Charles S. Kimei (Dr)*
*Managing Director*


Our Values:
Promptness

# Retail Banking

## Distribution Network

The Bank continued its growth and expansion strategy in 2007, strengthening its distribution channels with the addition of more branches and ATMs. Year 2007 saw the addition of 5 new branches, which are Azikiwe Premier (the branch also hosting the Bank's Premier Banking Centre) and Mbagala (Dar es Salaam), Mkwawa (Iringa), University of Dodoma (Dodoma) and Kilombero (Morogoro).

The Bank relocated the following branches to new premises: Singida, Kahama, Vijana (Dar es Salaam), SUA (Morogoro) and Kigoma. The relocated branches provide banking services in improved and more spacious environments. Nineteen (19) new ATMs were installed (5 offsite in Sinza, Chang'ombe – Dar es Salaam College of Education, Tabata, Temeke and Kariakoo). Two ATMs began to offer depository services at Azikiwe and Kijitonyama branches (Dar es Salaam). Thus, the Bank closed the year with 44 branches and 71 ATMs.

## Card Business

Year 2007 saw tremendous increase in the use of TemboCards as a means of payment by big institutions, businesses and individuals. Tanzania Revenue Authority which in 2006 began using TemboCard payment system at only two border custom offices, namely Namanga (Arusha) and Holili (Kilimanjaro) rolled out this mode of payment to all its border crossing points which include Sirari (Tarime- Musoma), Horohoro (Tanga); Kasumulu (Kyela – Mbeya) and Mutukula (Kagera).

Tanzania National Parks (TANAPA) and Coca Cola also joined the ranks of cash free payment this year. TANAPA uses TemboCard payment at Ngongongare and Momela gates (Arusha National Park) and Marangu, Machame, Mweka and Lonorosi gates (Kilimanjaro National Park). At the close of the year 7 institutions were using TemboCard payments system. Other companies that enjoy cash free payments system are Tanzania Breweries Limited, Konyagi, Vodacom and Tanzania Cigarette Company. More companies and institutions are in the process of joining this mode of payment.

## Premier Banking

The Premier Banking services, which used to be offered at Tower Branch were relocated to a dedicated Premier Centre at the Benjamin Mkapa Towers in Dar es Salaam. High value customers are offered exclusive value added services that include extended banking hours, choice of being served in their offices or homes and utility payments services. Highly personalized services offered by skilled and dedicated staff are a key feature of this service. The Premier Centre offers exceptional convenience and comfort. The Bank is set to grow its business with this high and middle class segment.

## SME

The Bank's SME business experienced strong growth in 2007. With the completion of the roll-out project, the SME team focused on growing the business volume. They were able to increase the bidii loan portfolio from Tshs 7.6 billion in 2006 to Tshs 30.2 billion in year 2007. The programme of improving business knowledge and skills of the SME customers continued to be an essential component of the business. There was an increase in the number of customers who participated in this training/seminars from 588 customers in 2006 to 950 customers.

# Corporate Banking

Corporate Banking department provides transactional and financing solutions to corporate and institutional clients. The services offered are lending, deposit taking, trade finance and a wide range of transactional banking solutions through dedicated Relationship Managers. Relationship Managers form long-term relationships with clients and build capabilities for understanding client businesses and financial requirements to be able to offer tailor made solutions.

Aggressive direct marketing was employed to grow the corporate portfolio. The gross loan portfolio growth of over 45% shows the tremendous success of this effort. The portfolio grew from Tshs 409 billion to Tshs 599 billion in 2007.

The Bank organizes cotton, coffee and cashewnut fora where lending issues are discussed and problems resolved. In 2007, the Bank reorganized the cotton and coffee fora to make the respective fora more effective. The outcome of this effort is expected to be better performance of the agricultural subsegment of corporate banking.

The use of the warehouse receipt system in cashewnut marketing assures farmers of better prices. In 2007, the Bank adopted this system, which shall help the orderly growth of cashew production. Poor crop prices discourage investments in crop development and the Bank is obviously pleased to help farmers earn more from their investments.

Cotton prices in the world market were very unstable during 2007. This was a big challenge to local cotton traders who had low priced supply contracts. The Bank is looking into potential hedging products that can effectively address the risks inherent in agricultural commodity markets.

## *Loans*

The gross loan portfolio was distributed by sectors as shown in the table below:

| **Sector** | **2007** | | **2006** | |
|---|---|---|---|---|
| | **Tshs '000** | **%** | **Tshs '000** | **%** |
| Public sector | - | - | 9,932,181 | 3 |
| Agriculture fishing, forestry & hunting | 126,972,012 | 21 | 98,904,443 | 24 |
| Finance, insurance and business services | 74,527,696 | 12 | 27,140,964 | 7 |
| Mining & quarrying | 3,673,552 | 1 | 3,533,959 | - |
| Manufacturing | 80,870,088 | 13 | 61,486,381 | 15 |
| Real estate and construction | 21,497,556 | 4 | 25,579,739 | 6 |
| Transport and communication | 25,087,488 | 4 | 25,579,739 | 6 |
| Trade and commerce | 79,218,404 | 13 | 25,488,871 | 13 |
| Tourism, hotels & restaurants | 19,991,017 | 3 | 49,135,009 | 3 |
| Electricity, gas and water | 67,418,369 | 11 | 62,719,916 | 15 |
| Personal | 66,295,967 | 11 | 30,218,040 | 7 |
| Other | 34,173,958 | 6 | 3,498,246 | 1 |
| **Total** | **599,726,107** | **100%** | **409,132,485** | **100%** |

Agriculture took a substantial portion of the portfolio with 21% of all loans issued followed by manufacturing, trade and commerce each representing 13% of all loans issued.

The focus for the year ahead will continue to be the offering of customized financial solutions that best suit our clients' needs and that are competitively priced, as well as strengthening relationships through fora and visits.

# *Marketing and Research*

The department is involved with Advertising, Public Relations, Direct Marketing and events, branding and sponsorship, to promote the Bank's products and improve corporate image. The department also deals with product development and research.

Aggressive media strategies were used to generate top of mind awareness with a number of mass media companies for the Bank's corporate brand building, product/service promotion and launches, and new and relocated branches.

Several major marketing initiatives were taken in 2007 targeted at building the Bank's brand and improving customer service. A major drive to improve customer service was given a firm foundation by the development of a clear customer service strategy.

The Bank invested heavily in in-house and outsourced resources in a landmark study that was the basis of the customer service strategy. The strategy cuts across the board and involves the Bank's systems, processes and procedures. At year-end it had been mainstreamed in the Bank's 2008-2012 business strategy. Customers will soon note the impact of this major drive to give them world class customer service.

Marketing was realigned to be more responsive to the various geographical markets that the Bank operates in. Marketing units were given specific geographical markets in which they work closely with branches to use local knowledge of market needs and most effective local marketing channels. This new stance gave tremendous support to branches and immediate positive results were obtained.

The Bank's strategy to grow its business includes fast organic growth through growing business volume from existing distribution channels and expanding its distribution network. In 2007 Marketing increased the effort it puts in studying the potential of different markets in order to identify suitable locations for new branches and ATMs. By year-end it had already charted out its footprints in the next 2 years. As a result of fast growth there was a business case to cut down on the time needed to make a new branch profitable. Marketing improved the process of developing business in new branches, right from pre-launch, launch and post-launch marketing and sales efforts. The new approach which is proving effective focuses on strong publicity, intensive direct marketing and sales efforts.

CRDB Bank has always believed in participating in various community activities and exhibitions, and used such platforms to avail the tremendous marketing potential these events offer. The Sabasaba Trade Fair and customer forums are the perfect avenues for advertising opportunities especially for brand building as it helps in creating a larger customer-base. Sponsorships and donations have also provided extensive marketing opportunities.

In 2008, the department plans to introduce new delivery channels, introduce new products and price products competitively. A call centre has also been planned and it is going to be up in the coming year to respond to our clients' enquiries and meet their demand for prompt and efficient service.

# *Microfinance*

As CRDB Bank celebrated its first decade of operating as a private bank in 2006, the Bank had not only become one of the leading banks in terms of share and profits in Tanzania, but was also leading in taking services to ordinary people previously lacking access to finance. The Bank uses a "wholesale" model working through well established local microfinance institutions (MFIs) that include SACCOS.

Within the year, the Bank managed to recruit 118 microfinance partners. By the end of 2007 the Bank was working with 345 partner MFIs compared to 227 at 31st December 2006. As at 31 December 2007 the balance on the total loans extended by the Bank to 268 MFIs stood at Tshs 72.3 billion. Their total deposits with CRDB Bank were Tshs 10.7 billion.

In November 2007, CRDB Bank signed MoU with the Bank of Tanzania to facilitate the provision of 1st phase of National Economic Empowerment Loans (Uwezeshaji loans). The Bank was given Tshs 5.25 billion as guarantee fund for loans to be issued. As at 31st December 2007 the Bank had disbursed Tshs 16.3 billion to 134 SACCOS as per terms of the MoU. The Bank will take part in the second phase of Uwezeshaji loans following the successful implementation of the first phase.

# *Risk*

A risk department was established in late 2006 to spearhead the Bank's risk management effort. In 2007 it was pre-occupied with organizing the risk management function of the Bank. Its first accomplishment was a risk management function framework. This included risk identification, measurement, monitoring and management. Other components were risk policy, adequate procedures and a reporting system to senior management and the board.

The practice of risk management using the latest method is very new in Tanzania. Creating awareness across the board was therefore important. A staff awareness programme was established and helped to sensitize staff on key risks in their job areas.

The Bank's assets and liabilities are managed by the Assets and Liabilities Committee (ALCO). The major risks addressed by ALCO are liquidity, interest rate and exchange rate risks. These risks are inherent in treasury operations. In 2007 a middle office unit was embedded in the risk department to effectively control treasury exposure to the above risks. The goal of successful risk management is a sustainable business that offers investors sustainable returns and protects other stakeholders, especially customers who thereby are confident that their deposits and business relationship with the Bank are safe.

# *People*

Our staff with the support of banking infrastructure deliver the propositions we offer our customers. They live our brand, values and culture. However, a reality check is essential to enable steering in the correct direction at a pace that does not strain the organization beyond its current capabilities.

A Service Driver Ranking Research was done in 2007. It used staff focus groups to obtain frank staff views that shall be used in 2008 to resolve hiccups and strengthen the performance capacity of the Bank. The Bank marks to the banking industry its staff remuneration and other terms of service. In fact it is widely accepted that it is the employer of choice in Tanzania. This is part of its staff strategy and it is proud that this is in keeping with its brand.

In maintaining its employer of choice status, the Bank in 2007 incorporated new initiatives in its scheme of service. It was very well received by staff and boosted their morale. In the same spirit, the Bank sustained and improved events where family sentiments were boosted. On the same note, the Bank interwove its beliefs in the lives of staff by mainstreaming HIV/AIDS awareness in all induction training and other staff gatherings.

# *Treasury*

Year 2007 was characterized by unfavourable market conditions which included weakening of the US Dollar against the Tanzanian shilling by almost Tshs 200 and mortgage crisis in the United States that led to interest rate cuts. This decreased the yield on Bank's investments denominated in US Dollars. Nevertheless the Bank introduced new products and managed to expand its business and customer base for Treasury products that contributed 30% of the Bank's income. Foreign exchange income grew from Tshs 6.6 billion in 2006 to Tshs 10.8 billion in 2007 while income from money market products remained stable at Tshs 27 billion.

Treasury also participated actively in the interbank market increasing its contribution to the financial market development. In year 2007, CRDB Bank was a major player in interbank funding providing Tanzanian Shillings liquidity to other banks at competitive rates.

### *Other Income*

Other income includes fee based income, profit on disposal of properties and equipments, and amortization of grants income all of which contributed to 22% of the Bank's total operating income (excluding foreign exchange trading gain).

### *Microfinance Business*

The number of partnering institutions (MFIs) under Micro Finance programme increased by 118 Microfinance partners from 227 at the end of 2006 to 345 at end of 2007. As at 31 December 2007 the balance on the total loans extended by the Bank to 268 MFIs stood at Tshs 72.3 billion. Their total deposits with CRDB Bank were Tshs 10.7 billion

### *Card Business*

As at 31 December 2007 the Bank had issued a total of 71,760 TemboCard Visa and 271,849 normal TemboCards and distributed 500 point of sales (POS) devices to merchants. TemboCard Visa merchants accepting both Visa credit/ Debit cards at POS were at 92 with a total of 150 POS terminals rolled out, while normal TemboCards merchants were 500 in December 2007.

### *Small and Medium Enterprises (SME) Business*

The number of branches at which the SME was rolled out increased from 20 to 25. A total of 950 customers attended toolkit training compared to 588 in the previous year. Total loan portfolio in the 25 branches amounted to Tshs 30.2 billion as at 31 December 2007 compared to Tshs 7.6 billion as of 31 December 2006.

### *Future Developments*

This is the last year of the Bank's 2003-2007 Strategic Business plan. The bank has prepared a new five-year business plan whose implementation will start in January 2008. In this plan, the bank will concentrate its efforts towards setting a strong base in addressing the challenges observed in the review of the previous strategy. Future focus will continue to be on retail banking by offering quality products and services through better use of e-banking delivery channels and enhancements to the Bank's technological platform. The Bank will continue to offer customized banking services to corporate and institutional customers as well as take measures to improve risk management. The challenge ahead is building capacity and infrastructure for provision of services to small and medium customers.

### *Financial Results*

Profit before tax for year 2007 compared to year 2006 increased by 34% from Tshs 38.4 billion in 2006 to 51.7 billion in 2007. Net profit for the year transferred to the revenue reserve increased from TShs 26.5 billion to Tshs 37.3 billion, which is an increase of 41%. As in year 2006, the increase in income resulted from increased volumes in loans and overdrafts, treasury investments, and fee based transactions.

# Financial Highlights

| Particulars | 2007 Tshs Bn | 2006 Tshs Bn | % Change |
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| Financial income | 89,145 | 66,451 | 34% |
| Financial expenses | 17,007 | 13,839 | 23% |
| Financial spread | 72,138 | 52,612 | 37% |
| Other income | 37,897 | 27,030 | 40% |
| Operating expenses | 55,103 | 39,228 | 40% |
| Pre-tax profit | 51,703 | 38,446 | 34% |
| Net profit | 37,325 | 26,484 | 41% |

## *Financial Income*

The Bank's financial income was Tshs 89.15 billion in 2007, an increase of 34% when compared to 2006 results. Interest income on loans and advances accounted for 65% of the total financial income.

## *Financial Expenses*

Financial expenses increased by 23% to Tshs 17.0 billion from Tshs 13.83 billion. Interest on time deposits contributed 62% to total financial expenses.

## *Other Income*

Other income reached Tshs 37.89 billion, a 40% increase from 2006. Other income was mostly received from commission and fees.

## *Financial Spread*

Financial spread increased from Tshs 52.61 billion in 2006 to Tshs 72.14 billion in 2007. This is attributed to the margin between the average lending rates and borrowing rates.

## *Operating Expenses*

Operating expenses included staff and administrative expenses. For year 2007, operating expenses stood at Tshs 55.10 billion against Tshs 39.23 billion recorded in the previous year.

## *Pre-tax Profit*

Profit before tax was Tshs 51.70 billion in the year 2007 compared to Tshs 38.45 billion in 2006. This is an increase of 34%.

## *Net Profit*

Net profit increased by 41%, from Tshs 26.48 billion in 2006 to Tshs 37.33 billion in 2007.

## *Revenue Reserve*

The Bank's revenue reserve was Tshs 79,632,754,000 of which Tshs 4,204,664,400 was proposed dividends. In 2006, revenue reserve was Tshs 56,525,684,000 of which Tshs 2,102,332,200 was proposed dividends.

# *Report of the Directors For the Year Ended 31 December 2007*

The Directors are pleased to present their report and the audited financial statements of the CRDB Bank Plc for the year ended on 31 December 2007.

## *Principal Activities and Business Review*

The Bank is licensed under the Banking and Financial Institutions Act (2006) and its principal activity is the provision of banking services. During the year, the Bank changed its name to CRDB Bank Plc.

The Bank is one of the major financial services providers in Tanzania and it is engaged in corporate and retail banking, including microfinance services. The Bank offers a full range of commercial banking services as well as share registration and insurance agency services. The Bank operates through a network of 53 branches (including agencies) and in partnership with 345 microfinance institutions located throughout Mainland Tanzania. During the year, 5 branches were refurbished, 5 new branches opened, 19 ATMs installed, making a total of operating ATMs to be 73.

## *Deposits*

In 2007, customer deposits grew by 28%. As at 31 December 2006, total deposits were Tshs 792 billion while at 31 December 2007 deposits had reached at Tshs 1,013 billion. The growth was attributed mainly to the Bank's brand, which continued to be strengthened by ongoing branch refurbishment, opening of new outlets and new innovative products.

## *Lending*

The net loan portfolio rose by 45% from Tshs 406 billion as at 31 December 2006 to Tshs 588 billion at 31 December 2007. The agricultural sector continued to dominate, accounting for over 21% of the portfolio, followed by manufacturing 13% trade and commerce 13%, financial intermediaries 12%, electricity gas & water and personal loans both 11%, real estate & construction and transport & communication each 4%, tourism, hotels and restaurants 3%, mining & quarry 1% and other sectors6%. Interest income on overdrafts and term loans was Tshs 58.3 billion, up from Tshs 34.7 billion in year 2006 representing 46% of the total Bank's operating income.

## *Treasury*

In order to provide our clients with better services and products, the bank reviewed operations in the Treasury Department. This led to internal restructuring of department that was implemented towards the end of the year 2007. This puts the Bank at the top in the market in terms of product offering in the money and foreign exchange markets.

Performance wise, foreign exchange income was Tshs 10.7 billion in 2007 compared to Tshs 6.4 billion in 2006; this contributed 8% of the Bank's total operating income. Money market activities also contributed significantly to the interest income that the Bank earned in 2007; interest income on placements, treasury bills and bonds contributed 24% of the Bank's total operating income.

Treasury also participated actively in the interbank market increasing its contribution to the financial market development. In year 2007, CRDB Bank was a major player in interbank funding providing Tanzanian Shillings liquidity to other banks at competitive rates.

## Other Income

Other income includes fee based income, profit on disposal of properties and equipments, and amortization of grants income all of which contributed to 22% of the Bank's total operating income (excluding foreign exchange trading gain).

## Microfinance Business

The number of partnering institutions (MFIs) under Micro Finance programme increased by 118 Microfinance partners from 227 at the end of 2006 to 345 at end of 2007. As at 31 December 2007 the balance on the total loans extended by the Bank to 268 MFIs stood at Tshs 72.3 billion. Their total deposits with CRDB Bank were Tshs 10.7 billion

## Card Business

As at 31 December 2007 the Bank had issued a total of 71,760 TemboCard Visa and 271,849 normal TemboCards and distributed 500 point of sales (POS) devices to merchants. TemboCard Visa merchants accepting both Visa credit/ Debit cards at POS were at 92 with a total of 150 POS terminals rolled out, while normal TemboCards merchants were 500 in December 2007.

## Small and Medium Enterprises (SME) Business

The number of branches at which the SME was rolled out increased from 20 to 25. A total of 950 customers attended toolkit training compared to 588 in the previous year. Total loan portfolio in the 25 branches amounted to Tshs 30.2 billion as at 31 December 2007 compared to Tshs 7.6 billion as of 31 December 2006.

## Future Developments

This is the last year of the Bank's 2003-2007 Strategic Business plan. The bank has prepared a new five-year business plan whose implementation will start in January 2008. In this plan, the bank will concentrate its efforts towards setting a strong base in addressing the challenges observed in the review of the previous strategy. Future focus will continue to be on retail banking by offering quality products and services through better use of e-banking delivery channels and enhancements to the Bank's technological platform. The Bank will continue to offer customized banking services to corporate and institutional customers as well as take measures to improve risk management. The challenge ahead is building capacity and infrastructure for provision of services to small and medium customers.

## Financial Results

Profit before tax for year 2007 compared to year 2006 increased by 34% from Tshs 38.4 billion in 2006 to 51.7 billion in 2007. Net profit for the year transferred to the revenue reserve increased from TShs 26.5 billion to Tshs 37.3 billion, which is an increase of 41%. As in year 2006, the increase in income resulted from increased volumes in loans and overdrafts, treasury investments, and fee based transactions.

## *Dividends*

The Directors will recommend to the Annual General Meeting a dividend payment of Tshs 17 per share. The total amount of dividend to be recommended will be Tshs 4,204,664,400.

## *Share Capital and Reserves*

During the year, there was a change in the issued and paid up capital of the Bank. Bonus Shares were issued at the rate of one share for every share held thus increasing the capital of the Bank from 123,666,600 shares to 247,333,200 issued and fully paid up ordinary shares at the end of the year.

## *Directors*

The following directors served during the year:

| S/N | Name | Position | Nationality |
|---|---|---|---|
| 1. | Mr. Martin Mmari | Chairman | Tanzanian |
| 2. | Dr. Sylvia Temu | Member | Tanzanian |
| 3. | Ms. Joyce Luhanga | Member | Tanzanian |
| 4. | Mrs. Lydia Joachim | Member | Tanzanian |
| 5. | Mr. Joseph Machange | Member | Tanzanian |
| 6. | Mr. Kai Kristoffersen | Member | Danish |
| 7. | Mr. Bede Lyimo | Member | Tanzanian |
| 8. | Mr. Boniface Muhegi | Member | Tanzanian |
| 9. | Mr. Abed Mwasajone | Member, up to 23 June 2007 | Tanzanian |
| 10. | Mr. Ally Laay | Member, up to 23 June 2007 | Tanzanian |
| 11. | Mrs. Joyce Ng'walu Nyanza | Member, from 24 August 2007 | Tanzanian |
| 12. | Dr Charles Kimei | Managing Director –ex officio | Tanzanian |
| 13. | Mr. Jens Ole Pedersen | Deputy Managing Director –ex officio | Danish |

At the Annual General Meeting held on 23 June 2007, Mr. Ally Laay; Mr. Abed Mwasajone and Mr. Boniface Muhegi from shareholders with less than 1% of the Bank's Share capital retired. All stood for re-election and Mr. Boniface Muhegi was re-elected. Mrs. Joyce Ng'walu Nyanza and Dr. Stergomena L. Tax were elected by the group of shareholders with less than 1% of the Bank's Share Capital.

## *Directors Interest in the Issued Share Capital*

Directors' interest in the shares of the Bank for the year 2007 is summarized below:

| Name | 2007 | | 2006 | |
|---|---|---|---|---|
| | No. of shares | % | No. of shares | % |
| Mr. Martin Mmari | 108,000 | 0.04 | 54,000 | 0.04 |
| Ms. Joyce Luhanga | 6,000 | 0.001 | 3,000 | 0.001 |
| Mrs. Lydia Joachim | 106,500 | 0.04 | 53,250 | 0.04 |
| Mr. Abed Mwasajone | 83,600 | 0.034 | 40,800 | 0.034 |
| Mr. Ally Laay | 72,000 | 0.03 | 36,000 | 0.03 |
| Mr. Boniface Muhegi | 178,320 | 0.07 | 89,160 | 0.07 |
| Dr. Charles Kimei | 49,800 | 0.02 | 24,900 | 0.02 |
| Mrs. Joyce Nyanza | 44,000 | 0.02 | N/A | N/A |
| Mr. Joseph Machange | 13,500 | 0.01 | 6,750 | 0.01 |

## *Remuneration of Directors*

All Directors except the 2 ex-officio members were non-executive. Remuneration for non executive Directors was approved by the last Annual General Meeting. Total fees paid for the year were Tshs 174,506,000.

## *Significant Shareholding*

The Bank's Articles of Association recognizes three categories of shareholders, namely shareholders holding more than 10% of the total paid up shares, shareholders holding between 1% and 10% of the total paid up shares; and shareholders holding less than 1%. As at the end of the year, the shareholding of these three groups was as follows:

| Shareholding group | No. of shares | | % | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| More than 10% | 74,104,200 | 37,052,100 | 30.0 | 30.0 |
| 1% to 10% | 57,824,200 | 29,662,100 | 23.3 | 23.3 |
| Less than 1% | 115,404,800 | 56,952,400 | 46.7 | 46.7 |
| **Total** | **247,333,200** | **123,666,600** | **100.0** | **100.0** |

Shareholders holding 1% or more are listed hereunder:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| **Shareholder** | **No. of shares** | **% of total shares** | **No. of shares** | **% of total shares** |
| DANIDA Investment Fund | 74,104,200 | 30.0 | 37,052,100 | 30.0 |
| Parastatal Pension Fund | 15,000,000 | 6.1 | 7,500,000 | 6.1 |
| IPP Limited | 13,950,000 | 5.6 | 6,975,000 | 5.6 |
| NIC | 6,750,000 | 2.7 | 3,375,000 | 2.7 |
| SHIRECU | 3,250,000 | 1.3 | 1,625,000 | 1.3 |
| Kagera Cooperative Union | 4,500,000 | 1.8 | 2,550,000 | 2.1 |
| Western Tobacco Cop. Union | 3,600,000 | 1.5 | 2,250,000 | 1.8 |
| Hans Macha | 3,000,000 | 1.2 | 1,500,000 | 1.2 |
| Lindi Dev`p Corporation | 2,700,000 | 1.1 | 1,350,000 | 1.1 |
| CMG Investment Limited | 2,674,200 | 1.1 | 1,337,100 | 1.1 |
| LAPF | 2,400,000 | 1.0 | 1,200,000 | 1.0 |
| **Total** | **131,928,400** | **53.30** | **66,714,200** | **53.9** |

## *Related Party Transactions*

One of the Board members, Mr. Bede Lyimo, has a personal loan with the bank of USD 10,000 and outstanding loan balance of USD 5,112 as at 31/12/2007. A former board member Mr. Ally Laay has a loan of Tshs 50 million and an outstanding balance of Tshs 44.5 million as at 31/12/2007. Dr. Charles Kimei, the Managing Director, has a loan of Tshs 60 million and an outstanding balance of Tshs 58.4 million as at 31 December 2007.

## *Employee Welfare*

As at December 2007 the Bank had 1,153 employees out of whom 712 (62%) were males and 441 (38%) females. The annual growth in staffing was 14% as compared with 17% in the year 2006. This is in keeping with the overall growth of the Bank and its outlets. At management level 23% were female.

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 and without regard to factors like gender, marital status, tribe, religion and disability which does not impair ability to discharge duties.

The Bank focused on activities that created more awareness on HIV/AIDS among staff members by providing them with updated information on HIV/AIDS with an emphasis on the preventive strategies and education against the pandemic. The Bank has integrated HIV/AIDS awareness programs into the induction programs and other training programs conducted by the Bank. Unlike previous years, in year 2007 the Bank staff participated in the voluntary testing national campaign that was launched by the President of the United Republic of Tanzania, His Excellency Jakaya Mrisho Kikwete.

## *Corporate Social Responsibility*

The Bank made a substantial donation to various projects in the areas of health, youth and education. These include money for purchasing building materials for health centers in Chunya and Same Districts; financing support to anti-female genital mutilation efforts in Mara Region. The Bank also contributed to secondary school building projects in various parts of the country which included Tshs 10 million for the Dar es Salaam education development project. The University of Dar es Salaam Entrepreneurship Centre also received Tshs 8.5 million from CRDB Bank for organizing a business plan write-up competition.

## *Auditors*

The Annual General Meeting held on 23 June 2007 appointed Deloitte & Touche as auditors of the Bank for the year under review.

## *Acknowledgement*

The Board wishes to thank the management and all employees who in the face of adversity have shown exemplary courage, dignity, solidarity and excellent performance during the year. The Board also wishes to express its appreciation to the Customers, Shareholders and Branch Advisory Committee Members of the Bank for their fidelity, trust and support during the period without which these results would not have been achieved.

## *BY ORDER OF THE BOARD*

| | |
|---|---|
| CHAIRMAN | DIRECTOR |
| 14th March, 2008 | 14th March, 2008 |
| DATE | DATE |

# *Directors Statement on Corporate Governance*

The Directors consider corporate governance as a key to good performance of the Bank. In view of this, the Directors continued to strengthen good governance system by reviewing policies in the areas of the Board and Board committees' activities and general management of the Bank. Board guidelines and committees charters were reviewed during the year as well as policies of the Bank.

## *Board Structure*

The Board comprises of 12 Directors out of whom 10 are non-executive, the Managing Director and Deputy Managing Director are ex officio members. A non-executive chairman, who is elected by directors every year, leads the Board, of the 10 non-executive Directors, DANIDA Investment Fund appoints three Directors.

## *Board Meetings*

The Board held nine meetings per year. One of the meetings is devoted to the review and development of the Bank's business strategy. The committees meet a minimum of four times a year.

## *Committees*

As at 31 December 2007 the Board had three committees namely the Audit Committee, the Governance and Risk Management Committee and the Credit Committee. The activities of the committees are governed by the Committee charters approved by the Board.

## *Audit Committee*

| Name | Position | |
|---|---|---|
| Mr. A. Mwasajone | Chairperson | up to June 2007 |
| Dr. S. Temu | Chairperson | from June 2007 |
| Mr. A. Laay | Member | up to June 2007 |
| Mr. K. Kristoffersen | Member | |
| Mr. J. Machange | Member | |
| Mr. B. Lyimo | Member | from October 2007 |
| Mrs. J. Nyanza | Member | from October 2007 |

The Committee held five meetings during the year. The External Auditor was invited to and attended two meetings. The Managing Director, Deputy Managing Director, Director of Finance and the Director of Internal Audit participated in the meetings.

## *Governance and Risk Management Committee*

| Name | Position | |
|---|---|---|
| Mr. M. Mmari | Chairperson | |
| Mr. K. Kristoffersen | Member | |
| Mr. B. Muhegi | Member | |
| Dr. S. Temu | Member | |
| Ms. J. Luhanga | Member | up to October 2007 |
| Mr. B. Lyimo | Member | up to October 2007 |
| Mr. J. Machange | Member | from October 2007 |

The Committee met five times during the year. The Managing Director, the Deputy Managing Director, Director of Treasury and Director of Risk participated in the meetings.

## *Credit Committee*

| Name | Position |
|---|---|
| Mr. M. Mmari | Chairperson |
| Mrs. L. Joachim | Member |
| Ms. J. Luhanga | Member |
| Mr. A. Laay | Member up to June 2007 |
| Mr. B. Lyimo | Member up to October 2007 |
| Mrs. J. Nyanza | Member from October 2007 |
| Mr. B. Muhegi | Member from October 2007 |

The committee met eleven times during the year. The Managing Director, the Deputy Managing Director and the Director of Credit participated in the meetings.

## *Appointment of Directors*

The Board reviews applications from candidates for board membership in conformity with the Banking and Financial Institution Act 2006 and the Bank's Articles of Association. Every member owning 10% of the issued and fully paid up share capital of the Bank shall be entitled to appoint one director. Consequently DANIDA Investment Fund appoints three directors. Members owning between 1% and 10% of the issued and fully paid up shares of the Bank shall jointly be entitled to elect one director for every 10% of shares held provided that any part of 10% which does not by itself add up to a whole 10% shall not be entitled to elect a director. Shareholders having shares less than 1% of the issued and fully paid up share capital of the Bank shall jointly elect one director and additionally one director for every 10% of shares held.

## *Induction Training*

The Directors undergo an orientation program to expose them to the activities of the Bank and governance matters. Directors' development and training is tailored to meet individual requirements.

The Directors attended training during the year on incentive schemes for staff, succession planning in banks, investment policies in banks, the ratings process, cards fraud, customer service strategy, black economic empowerment, shareholders in banks based on black economic empowerment, small and medium enterprises programs.

Directors were also exposed to new developments that had impact on their fiduciary obligations, International Financial Reporting Standards and Bank's operations.

### *Directors Performance Evaluation*

The Board charter requires that the Directors evaluate group performance each year. Each committee also conducts its evaluation yearly. Areas of weakness are noted and results are used for performance improvement in the coming year.

### *Shareholders Relations*

The Bank issued two newsletters to shareholders providing them information on the Bank's performance, financial performance, frequently asked questions and products and services offered by the Bank. Branch shareholders meetings were held in April 2007 during which the Bank and branch performance was the major agenda. Branch Advisory Committee Members met four times during the year. Issues or recommendations raised in the meetings were presented to the Board for consideration and feedback. Board resolutions on the issues were sent back to the Branch Advisory Committee for information.

A seminar covering the proposed amendments to the Memorandum and Articles of Association of the Bank; Microfinance products and the Capital market and Securities Authority was held on the eve of the Annual General Meeting. In addition, a seminar was conducted in various regions on trading and listing at DSE.

### *Relationship With Auditors*

The Audit Committee and the Board held meetings with the External Auditors to discuss terms of engagement of the Auditors and other various issues.

### *Annual General Meeting*

Annual General Meeting was held on 23 June 2007 in Arusha during which the standing agenda as provided in the Articles of Association was presented and transacted. Amendments to the Memorandum and Articles of Association of the Bank were passed at the same meeting.

### *BY ORDER OF THE BOARD*

| | |
|---|---|
| CHAIRMAN | DIRECTOR |
| 14th March, 2008 | 14th March, 2008 |
| DATE | DATE |

# *Statement of the Directors Responsibilities*

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

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act 2002. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal control.

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

CHAIRMAN

14th March, 2008
DATE

DIRECTOR

14th March, 2008
DATE

# *Report of the independent auditors to the members of CRDB Bank Plc*

We have audited the financial statements of CRDB Bank Plc set out on pages 67 to 105 which comprise the balance sheet as at 31 December 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

### *Respective responsibilities of directors and auditors*

The bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Tanzanian Companies Act 2002. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements based on our audit.

### *Basis of opinion*

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 financial statements. The procedures selected depend on our judgment and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, we considered internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

*Opinion*

In our opinion, proper books of account have been kept by the bank and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the bank at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Tanzanian Companies Act 2002.

**Deloitte & Touche**
Certified Public Accountants (T )

**E A Harunani**
Dar es Salaam

14th March, 2008

## *Income statement for the year ended 31 December, 2007*

# *Taarifa ya Mapato na Matumizi*

| | Note | 2007<br>Tshs '000 | 2006<br>Tshs '000 |
|---|---|---|---|
| Interest income | 7 | 89,145,140 | 66,451,081 |
| Interest expense | 8 | (17,007,147) | (13,839,479) |
| **Net interest income** | | 72,137,993 | 52,611,602 |
| Fee and commission income | 9 | 26,606,796 | 19,767,624 |
| Fee and commission expense | | (95,667) | (122,613) |
| **Net fee and commission income** | | 26,511,129 | 19,645,011 |
| Net trading income | 10 | 10,732,681 | 6,632,903 |
| Other operating income | 11 | 653,339 | 751,630 |
| **Operating income** | | 110,035,142 | 79,641,146 |
| Operating expenses | 12 | (55,103,029) | (39,228,079) |
| Impairment losses | 20(d) | (3,229,084) | (1,967,332) |
| **Profit before tax** | | 51,703,029 | 38,445,735 |
| Taxation | 14 | (14,378,009) | (11,961,741) |
| **Profit for the year** | | 37,325,020 | 26,483,994 |

# *Balance sheet as at 31 December, 2007*

| | Note | 2007<br>Tshs'000 | 2006<br>Tshs'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Bank of Tanzania | 15 | 169,410,061 | 99,797,599 |
| Deposits and balances with other banks | 16 | 189,838,922 | 175,485,322 |
| Government securities | 17 | 120,427,633 | 163,714,860 |
| Other securities | 18 | 6,373,469 | 8,381,405 |
| Available for sale investments | 19 | - | 528,188 |
| Loans and advances | 20 | 588,346,820 | 405,771,642 |
| Other assets | 21 | 47,480,343 | 31,914,186 |
| Leased premises refurbishment | 22 | 2,820,634 | 1,623,135 |
| Intangible assets | 23 | 714,698 | 1,021,291 |
| Property and equipment | 24 | 14,894,484 | 9,469,387 |
| Non current assets held for sale | 25 | 3,311 | 9,497 |
| Prepaid operating leases | 26 | 408,146 | - |
| Taxation recoverable | 30 | 202,072 | - |
| Deferred tax asset | 35 | 1,748,773 | 586,426 |
| **TOTAL ASSETS** | | **1,142,669,366** | **898,302,938** |
| **LIABILITIES** | | | |
| Customer deposits | 27 | 1,013,331,303 | 791,530,729 |
| Deposits and balances due to other banks | 28 | 1,739,610 | 6,318,250 |
| Other liabilities | 29 | 20,446,641 | 27,107,171 |
| Taxation payable | 30 | - | 339,253 |
| Subordinated loan capital | 31 | 2,016,000 | 2,016,000 |
| FDCF grants | 32 | 192,368 | 477,242 |
| DANIDA grant | 33 | 141,796 | 1,108,582 |
| RFSP grant | 34 | 173,250 | - |
| **TOTAL LIABILITIES** | | **1,038,040,968** | **828,897,227** |
| **SHAREHOLDERS' FUNDS** | | | |
| Share capital | 36 | 24,733,320 | 12,366,660 |
| Revenue reserve | | 79,632,754 | 56,525,684 |
| Statutory reserve | | 262,324 | 513,367 |
| **TOTAL SHAREHOLDERS' FUNDS** | | 104,628,398 | 69,405,711 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS** | | 1,142,669,366 | 898,302,938 |

The financial statements on pages 67 to 105 were approved by the Board of Directors on 14 March 2008 and signed on its behalf by:

| | | | |
|---|---|---|---|
| Mr. Martin Mmari<br>**Chairman** | Dr Charles Kimei<br>**Managing Director** | Ms. Joyce Luhanga<br>**Director** | Mr Boniface Muhegi<br>**Director** |

# *Statement of Changes in Equity for the year ended 31 December, 2007*

| | Share capital Tshs '000 | Revenue reserve Tshs '000 | Statutory reserve Tshs '000 | Total Tshs '000 |
|---|---|---|---|---|
| At 1 January 2006 | 12,366,660 | 32,410,056 | - | 44,776,716 |
| Net profit for the year | - | 26,483,994 | - | 26,483,994 |
| Statutory provision | - | (513,367) | 513,367 | - |
| Payments of dividend | - | (1,854,999) | - | (1,854,999) |
| At 31 December 2006 | 12,366,660 | 56,525,684 | 513,367 | 69,405,711 |
| At 1 January 2007 | 12,366,660 | 56,525,684 | 513,367 | 69,405,711 |
| Issue of bonus shares | 12,366,660 | (12,366,660) | - | - |
| Net profit for the year | - | 37,325,020 | - | 37,325,020 |
| Statutory provision* | - | 251,043 | (251,043) | - |
| Payments of dividend | - | (2,102,333) | - | (2,102,333) |
| At 31 December 2007 | 24,733,320 | 79,632,754 | 262,324 | 104,628,398 |

*Statutory provision represents the surplus of loan provision computed as per the Bank of Tanzania regulations over the impairment of loans and advances as per International Financial Reporting Standards.

# *Cash flow Statement*
## *for the year ended 31 December, 2007*

| | Note | 2007<br>Tshs '000 | 2006<br>Tshs '000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Cash generated from/(used in) operations | 38(a) | 82,286,461 | (5,440,025) |
| Taxation paid | | (16,081,681) | (12,147,074) |
| Net cash generated/(used in) from operating activities | | 66,204,780 | (17,587,099) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of quoted shares | | - | (616,000) |
| Proceeds on disposal of quoted shares | | 521,483 | 105,966 |
| Purchase of property and equipment | | (8,223,297) | (4,097,972) |
| Purchase of intangible assets | | (94,226) | (275,862) |
| Acquisition of leasehold land | | (385,866) | - |
| Proceeds on disposal of equipment | | 98,080 | 135,700 |
| Dividends received | | 32,000 | 65,227 |
| Refurbishment costs | | (2,533,112) | (1,235,499) |
| Net cash used in investing activities | | (10,584,938) | (5,918,440) |
| **FINANCING ACTIVITIES** | | | |
| Dividend paid | | (2,013,034) | (1,805,907) |
| Net cash used in financing activities | | (2,013,034) | (1,805,907) |
| **Net increase/(decrease) in cash and cash equivalents** | | 53,606,808 | (25,311,446) |
| **Cash and cash equivalents at 1 January** | | 244,257,252 | 269,568,698 |
| **Cash and cash equivalents at 31 December** | 38(b) | 297,864,060 | 244,257,252 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

## 1. GENERAL INFORMATION

CRDB Bank PLC (the Bank) is a public limited company incorporated in the United Republic of Tanzania under the Companies Act 2002, and regulated by the Bank of Tanzania under the Banking and Financial Institutions Act 2006. The principal activities of the Company are described in page 2 of these financial statements.

The Bank prepares its financial statements under International Financial Reporting Standards (IFRS).

## 2. ADOPTION OF THE NEW AND THE REVISED STANDARDS

### 2.1 Standards and interpretations effective in the current period

In the current year, the Bank has adopted IFRS 7- Financial Instruments: Disclosures which is effective for annual periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1- Presentation of Financial Statements.

The impact of the adoption of IFRS 7 has been to expand the disclosures provided in these financial statements regarding the Bank's financial instruments, and that of the changes in IAS 1 has been the disclosure of the Bank's management of capital policies as provided in note 6.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Bank's accounting policies.

### 2.2 Early adoption of Standards and Interpretations

In addition, the Company has elected to adopt the revisions of IAS 23 - Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009) in advance of its effective date.

The revisions to IAS 23 have had no impact on the Bank's accounting policies. The principal change to the Standard, which was to eliminate the previously available option to expense all borrowing costs when incurred, has no impact on these financial statements because the Bank does not have borrowings to finance qualifying assets.

### 2.3 Standards and Interpretations in issue not yet effective

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IAS 1 on changes in the presentation of the financial statements
- IFRS 8 on Operating Segments
- IFRIC 11 on Group and Treasury Share Transactions
- IFRIC 12 on Service Concession Arrangements
- IFRIC 13-IAS 18 Revenue: Customer Loyalty Programs
- IFRIC 14-IAS 19 Employee benefits: Effect of Minimum Funding Requirements on Asset Ceiling.

The directors anticipate that all the above interpretations and standard will be adopted when they become effective, and that the adoption of those interpretations and a standard will have no material impact on the financial statements of the Bank.

## 3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted are set out below;

### Basis of preparation

The Bank prepares its financial statements under the historical cost convention, modified to include the revaluation of certain financial instruments.

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

### Foreign currency translation

(a) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency').

The financial statements are presented in Tanzania shillings, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into Tanzania shillings using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Tanzania shillings using the rate of exchange prevailing at that date. The resultant exchange gains and losses are recognised in the income statement.

### Taxation

Income tax expense represents the sum of the current taxation and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used to determine deferred tax.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value'.

(b) Loans, advances, and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Government securities comprise treasury bills and treasury bonds, which are debt securities issued by the Government of Tanzania. Treasury bills and bonds are classified as held to maturity and are stated at amortised cost.

(d) Available-for-sale financial assets

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

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Financial assets (continued)

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

### Financial liabilities and equity instruments

I. Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

II. Equity instruments

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

III. Financial guarantee contracts liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

IV. Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit and loss' or 'other financial liabilities'.

Other liabilities, borrowing and deposits, are initially measured at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognized on effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### Interest income and expense
Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the income statement on accrual basis using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### Fee and commission income
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party are recognised on completion of the underlying transaction.

### Dividend income
Dividends are recognised in the income statement when the entity's right to receive payment is established.

### Sale and repurchase agreements
Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

### Impairment of financial assets

(a) Assets carried at amortised cost

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral; and

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)
The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

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

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

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

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (continued)

(b) Assets classified as available for sale

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

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

### Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated on a straight line basis at annual rates estimated to write off the cost of property and equipment over their expected useful lives, on the following bases:

| | |
|---|---|
| Bank buildings | 20 yrs |
| Computer equipment ( Including Smart card equipment) | 5 yrs |
| Motor vehicles | 4 yrs |
| Office Equipment | 5 yrs |
| Furniture and fittings | 5 yrs |

### Intangible assets-computer software costs

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortization and accumulated impairment losses.

Amortization is calculated on a straight line basis over the estimated useful lives and useful life not exceeding a period of 5 years.

### Impairment of tangible and intangible assets

At each balance sheet date, the Bank reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss.

If objective evidence on impairment losses exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

In determining the recoverable amount, the Bank considers the higher of the fair value of the asset less costs to sell, and value in use. In estimating value in use, the Bank is cognisant of the estimated future cash flow discounted to the present value using a pre-tax discount rate that is reflective of the current market assessment of time value of money and the risks specific to the asset itself.

Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, and when there is indication that the asset may be impaired.

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Impairment of tangible and intangible assets (continued)

Where impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

### Statutory non-distributable reserve

IAS 39 requires the Bank to recognise an impairment loss when there is objective evidence that loans and advances are impaired. However, Bank of Tanzania prudential guidelines require the Bank to set aside amounts for impairment losses on loans and advances in addition to those losses that have been recognised under IAS 39. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

### Retirement benefits obligations

The Bank's contributions in respect of retirement benefit costs are charged to the income statement in the year to which they relate. The Bank makes contributions to National Social Security Fund and Parastatal Pension Fund, statutory defined contribution pension schemes. The Bank's obligations under the schemes are limited to specific contributions legislated from time to time and are charged to the income statement in the year to which they relate.

### Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortized on a straight line basis over the period of the lease.

### Amortization of leased premises refurbished

Leased premises refurbishment represents costs incurred by the Bank in refurbishment of leased banking premises. The costs are amortized over a period of three years from the year the costs are incurred.

### Grants

Grants related to assets are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

Grants towards improvement of Bank's processes are recognized as income over the periods necessary to match them with the related costs.

### Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash, short term liquid investments which are readily convertible into known amounts of cash and which are within three months maturity from the date of acquisition, balances with Bank of Tanzania (excluding the Statutory Minimum Reserve) and balances with other banks with maturity of less than three months, less advances from other banks repayable within three months from the date of the advance

### Dividends

Dividends are charged to equity in the period in which they are declared. Propsed dividends are not accrued until are ratified at the Annual General Meeting.

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Provisions for liabilities and charges

Entitlements to annual leave are recognized when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued on the balance sheet date.

### Contingent liabilities

Letters of credits, acceptances and guarantees are generally written by the Bank to support performance of the customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

### Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

### Impairment losses on loan and advances

The Bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

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

.

### 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 not amortised cost.

### Property, plant and equipment

Critical estimates are made by the Directors in determining the useful lives of property, plant and equipment as well as their residual values.

## 5. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. As part of it's governance structure, the Board of Directors has embedded a comprehensive risk management framework for measuring, monitoring, controlling and mitigation of the Bank's risks. The policies are integrated in the overall management information systems of the bank and supplemented by a management reporting structure.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered, and emerging best practice. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees / stakeholders understand their roles and obligations.

The Board's Credit Committee, Risk Committee, and Audit Committee are responsible for monitoring compliance with the Bank's risk management policies and procedures, and review of the adequacy of risk management framework in relation to the risks faced by the Bank. These committees are assisted in these functions by various management committees which undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

The most important type of risks are:

- Credit risk
- Liquidity risk
- Market risk
  - Interest rate risk
  - Foreign exchange risk
- Operational risk

The notes below provide detailed information on each of the above risks and the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

### Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Bank. It arises principally from lending, trade finance and treasury activities. The amounts presented in the balance sheet are net of impairment for doubtful debts, estimated by the Bank's management based on prior experience and their assessment of the current economic environment.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### Credit risk (continued)

I. Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee which is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies, covering risk acceptances criteria in target market, collateral requirements, credit appraisal, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval of credit facilities.
- Reviewing and assessing credit risk on all exposures in excess of approval limits of the management prior to facilities being committed to customers.
- Limiting concentrations of exposure to counterparties and industries (for loans and advances).
- Developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of several grades reflecting varying degrees of risk of default and other credit risk mitigation. The responsibility for setting risk grades lies with the Committee and risk grades are subject to regular reviews by the Board.
- Reviewing reports on compliance with agreed exposure limits, including those for selected industries and product types.

Day to day management of the bank's credit risk is vested in Head of Credit Department who reports to the Managing Director.

Regular audits of the credit processes and management are undertaken by Internal Audit.

II. Maximum exposure to credit risk before collateral held

| | 2007 Shs'000 | % | 2006 Shs'000 | % |
|---|---|---|---|---|
| **Credit Exposures** | | | | |
| **On – balance sheet items** | | | | |
| Items in the course of collection from other banks | 44,300,264 | 4% | 27,251,559 | 3% |
| Deposits and balances due from banking institutions | 189,838,922 | 19% | 175,485,322 | 18% |
| Loans and advances to customers | 599,726,108 | 59% | 409,132,485 | 42% |
| Government securities – Held to maturity | 120,427,633 | 12% | 163,714,860 | 17% |
| | **954,292,927** | **94%** | **775,584,226** | **80%** |
| **Off-balance sheet items** | | | | |
| Letters of credit | 49,591,367 | 5% | 185,307,378 | 19% |
| Guarantees | 15,889,141 | 1% | 10,395,669 | 1% |
| | **65,480,508** | **6%** | **195,703,047** | **20%** |
| | **1,019,773,435** | **100%** | **971,287,273** | **100%** |

The above represents the worst case scenario of credit exposure for both years, without taking account of any collateral held or other credit enhancements attached.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### Credit risk (continued)

Loans and advances to customers and off-balance sheet items comprise of 65% of the total maximum exposure. While collateral is an important mitigant to credit risk, the Bank policy is to establish that loans are within the capacity of the customer to repay, as the primary way out. Other than overdrawn exposures amounting to Tshs 354,566,819 (2007) and Tshs 366,451,741 (2006) that are not secured, all other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery among others. The fair value of collateral held for impaired loans and advances is TShs 63,918,680. The Bank is confident its policies and procedures provide sufficient safeguards against exposure on credit risk as shown on the table below:

III. Classification of loans and advances

| | 31 December 2007<br>Loan and advance to<br>customers<br>Tshs '000' | 31 December 2006<br>Loan and advance to<br>customers<br>Tshs '000' |
|---|---|---|
| Neither past due nor impaired | 550,355,412 | 385,048,436 |
| Past due but not impaired | 12,983,454 | 11,702,181 |
| Impaired | 36,387,242 | 12,381,868 |
| Gross | 599,726,108 | 409,132,485 |
| Less: Allowance for impairment | (5,908,863) | (2,915,357) |
| | 593,817,245 | 406,217,128 |

Apart from the loans and advances to customers, all other credit exposures are neither past due nor impaired.

(a) Loans and advances that are neither past due nor impaired

The Bank classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with the Bank of Tanzania (BoT) regulations.

(b) Past due but not impaired

This category includes exposures that are over 30 days (31 - 90 days) past due.

(c) Impaired loans and advances

Impaired loans are loans 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 agreement(s). These accounts under BoT guidelines are termed as non-performing loans.

IV. Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. These allowances are a specific loss component that relates to individual exposures.

V. Write-off policy

All loans classified as loss are written off by the Board at the end of the quarter during which they are classified as loss. The decision to classify the loan as loss and hence write it off when the loan/advance is considered as uncollectible and/or collateral can not either easily realized or expected proceeds not adequate to pay the entire exposure. Written off loans are reviewed every quarter to determine recoverable and no recoverable amount from each written off account. Recovery measures are taken on amounts considered recoverable.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### Credit risk (continued)

VI. Collateral held

The Bank holds collateral against loans and advances to customers in the form of deposit under lien mortgage interests over property, registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and refreshed after every three years. Security structures and legal covenants are also subjected to regular review to ensure they continue to fulfill their intended purpose. Collateral generally is not held over deposits and balance due from banks and items in the course of collection from other banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against government securities, and no such collateral was held at 31 December 2007 or 2006.

VII. Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counter-party to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions the Bank mitigates this risk by pre-arranging facilities with the customer. Settlement limits form part of the credit approval / limit monitoring process.

VIII. Concentrations of risk

The Bank monitors concentration of risk by economic sector in line with set limits per sector. An analysis of concentrations within the loan and advances to customers, customer deposits and off balance sheet items are provided in note 42.

### Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from financial liabilities. Assets and Liabilities Committee (ALCO), a management committee is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due, and that the Bank will not encounter difficulty in meeting obligations from its financial liabilities as they occur. ALCO relies substantially on the Bank's Treasury Department to coordinate and ensure discipline across the Bank, certify sufficient liquidity under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

I. Liquidity and funding management

The Bank's liquidity and funding policies require the following:

- The bank enters into lending contracts subject to availability of funds.
- Projecting cash flows by major currency and considering the level of liquid assets necessary in relation thereto.
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements,
- Maintaining an array of diverse range of funding sources with back –up facilities,
- Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory funding mix.
- Investment in short term liquid instruments, which can easily be sold in the market when the need arises.
- Investments in property and equipment are properly budgeted are subjected to prudential limits to minimize the Bank's exposure.
- Maintaining liquidity contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### Liquidity risk (continued)

II. Source of Funding

The Bank has an aggressive strategy aimed at increasing the customer deposit base. To this end, the Bank maintains a diversified and stable funding base comprising current/demand, savings and time deposits. The bank borrows from the inter bank for short term liquidity requirements.

III. Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to demand liabilities of 25%. For this purpose liquid assets are considered cash and interbank deposits, investment in securities maturing within one year, clearing and Statutory Minimum Reserve (SMR) deposit. The Bank of Tanzania requires that the Bank maintain an SMR ratio of 10% of customer deposits total deposits and borrowings from the General Public in form of 50% of vault cash and SMR account held in BoT on daily basis. The Bank's maturing liabilities comprises all deposits, liabilities and off –balance sheet items with maturity period of less that one year. The Bank has a limit of loan to total deposit of 70% and liquidity triggers of 20% of top 10 deposits to total deposits and 50% of core deposit to total deposits.

The Bank's exposure to liquidity risk at 31 December is summarized in note 45.

### Market risk

The objective of market risk management process is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile as a provider of financial products and services. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

Overall responsibility for management of market risk rests with ALCO. Market Risk Management Policies are in place to guide management of this risk and are subject to review and approval by the Board annually.
Market Risk has been subdivided into Interest rate risk, foreign exchange risk.

I. Interest rate risk

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost as they mature are important factors in assessing the Bank's exposure to changes in interest rates.

In addition to maintaining an appropriate mix between fixed and floating rates deposit base, interest rates on advances to customers are either pegged to the Bank's base lending rate or Treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

Interest rates on customer deposits are negotiated between the bank and the customer with the bank retaining the discretion to adjust the rates in line with changes in market trends. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Bank's exposure to interest rate risk at 31 December is summarized in note 46.

The Bank has set a trigger on earnings at risk to net interest income at different maturity bands based on assumptions developed from the past deposit trends and monitoring is done on monthly basis by ALCO.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### Market risk (continued)

II. Foreign exchange risk

The Bank is exposed to the risk on earnings and capital arising from adverse movement of foreign exchange rates. The Bank participates in the foreign currency market as a market maker and a market user. Foreign transactions and limits are reviewed and approved by the Board. Treasury Department is responsible for management of foreign exchange risk including unit trading within limits and monitoring the exchange rates. The Middle Office under Risk Management Department is responsible for monitoring foreign deals performed by treasury Department and ensures that dealer's limits and opening position limits are observed. The Middle Office also monitors compliance to Treasury procedure manuals. The Board through Governance and Risk Management committee ensures that foreign exchange risks are managed appropriately. The Bank's exposure to foreign currency exchange rate risk at 31 December is summarized in note 47.

The Bank carries out tests to determine exposure to market risk. As at 31 December 2007 stress test on interest rate risk indicated an exposure of Tshs 16.3 billion which is 15.9% of the Bank's Core Capital while stress test on foreign exchange risk indicated an exposure of Tshs 586 million which is 0.57% of the Bank's Core Capital. The Bank also participated in the capital market by buying /selling shares for trading purposes. However at the end of the year 2007, the bank had no exposure to equity investments and therefore no stress test was carried out. Generally, stress test results indicate that shocks will not lead to capital impairment. The Bank has embarked on preparation for implementation of appropriate systems for measurement of market risk using more sophisticated models such as value at Risk.

### Operational Risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, people, systems, and other external events. Operational risks arise from all of the Bank's operations and are faced by all departments.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. The management team ensures that:

- An effective, integrated operational risk management framework that incorporates a clearly defined organizational structure is maintained.
- Each department has defined roles and responsibilities for all aspects of operational risk management.
- Appropriate tools that support the identification, assessment, control and reporting of key risks are used.
- Operational risk systems are subjected to independent reviews by Internal Audit.
- A comprehensive business continuity plan is maintained and reviewed regularly.

Risk Committee of Management comprising all Heads of Department overseas the risk management practices in the Bank. This is done through monthly reports prepared by Risk Management Department which monitors exposures to operational risk including non-compliance to internal policies and procedures. The reports assist senior management to assess the level of exposure and deliberate on action to be taken to mitigate the exposures.

The Board Governance and Risk Management Committee oversees risk management practices and receives reports on the Bank's exposures from the management on quarterly basis. The Committee deliberates on all issues that need Board attention.

## 6. CAPITAL MANAGEMENT

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements as set out under the Banking and Financial Institutions Act 2006 (CAP 342) which 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 a minimum of core capital of not less than five billion shillings or such higher amount as the Bank may prescribe by order published in the Gazette;
  (b) Every bank shall at all times maintain core capital of not less than ten per cent of its total risk-weighted assets and off balance sheet exposure; and
  (b) Every bank shall at all times maintain total capital of not less than twelve per cent of its total risk weighted assets and off balance sheet 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 to other stakeholders; and

- To maintain a strong capital base to support the development of the Bank's business.

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

The Bank's regulatory capital falls into two tiers:

(a) Tier1: Capital: Share capital, retained earnings and reserves created by appropriations of retained earnings.
(b) Tier 2 : Capital: Qualifying subordinated loan capital

The risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of assets and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The composition and the ratios of the Bank's regulatory capital and the details of the risk weighted assets for the year ended 31 December 2007 are summarized in note 37 and 44 respectively. During the years ended 31 December 2006 and 31 December 2007, the Bank complied with all capital requirements to which they were supposed to.

The increase of the regulatory capital in the year of 2007 is mainly due to the contribution of the current-year profit. The increase in risk weighted assets reflects the expansion of business in general.

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **7. INTEREST INCOME** | | |
| Term loans | 31,612,416 | 18,102,351 |
| Overdrafts | 26,695,123 | 16,555,400 |
| Nostro accounts (Placement) | 742,436 | 601,540 |
| Bank placements | 9,326,475 | 7,736,937 |
| Treasury bills – Held to Maturity | 14,330,058 | 15,929,980 |
| Private bonds – Held to Maturity | 677,049 | 855,356 |
| Treasury bonds – Held to Maturity | 2,677,029 | 3,605,616 |
| Government bonds – Held to Maturity | 3,084,554 | 3,063,901 |
| | 89,145,140 | 66,451,081 |

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **8. INTEREST EXPENSE** | | |
| Demand deposits | 867,683 | 473,073 |
| Saving deposits | 4,607,609 | 3,337,260 |
| Fixed deposits | 10,475,290 | 9,049,903 |
| Commission on nostro transactions | 330,638 | 325,820 |
| Loans and other facilities | 725,927 | 653,423 |
| | 17,007,147 | 13,839,479 |

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **9. FEES AND COMMISSION INCOME** | | |
| Commission income | 10,452,438 | 8,233,992 |
| Fees and other charges | 16,154,358 | 11,533,632 |
| | 26,606,796 | 19,767,624 |

**10. NET TRADING INCOME**

Foreign exchange net trading income includes gains and losses from spot and forward contracts and translated foreign currency assets and liabilities.

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Exchange gain - trading | 11,517,230 | 7,184,894 |
| Exchange loss – revaluation | (784,549) | (551,991) |
| | 10,732,681 | 6,632,903 |

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **11. OTHER OPERATING INCOME** | | |
| Rental income | 74,544 | 72,285 |
| FDCF grant income (note 32) | 284,874 | 199,598 |
| DANIDA grant income (note 33) | 175,087 | 280,957 |
| RFSP grant income (note 34) | 57,750 | - |
| Dividends receivable | - | 65,227 |
| Profit on disposal of property and equipment | 61,084 | 133,563 |
| | 653,339 | 751,630 |

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **12. OPERATING EXPENSES** | | |
| Staff costs (note 13) | 25,787,992 | 18,547,047 |
| Directors' fees | 174,506 | 159,469 |
| Auditor's remunerations | 110,493 | 115,855 |
| Depreciation and amortization of intangible assets | 3,174,924 | 2,365,637 |
| Amortization of leased premises refurbished | 1,303,908 | 1,040,598 |
| Other expenses | 24,551,206 | 16,999,473 |
| | 55,103,029 | 39,228,079 |

## 13. STAFF COSTS

| | | |
|---|---|---|
| Salaries and allowances | 15,784,736 | 11,572,105 |
| Staff training | 1,864,759 | 1,629,516 |
| PPF and NSSF contribution | 2,106,862 | 1,549,039 |
| Post – employment benefits charge | 860,690 | 635,336 |
| Leave pay | 994,851 | 134,331 |
| Medical expenses | 723,474 | 610,091 |
| Others | 3,452,620 | 2,416,629 |
| | 25,787,992 | 18,547,047 |

## 14. TAXATION

(a) Tax expense

| | | |
|---|---|---|
| Current taxation: | | |
| Based on the taxable profit for the year at 30% | 15,540,356 | 10,643,198 |
| Deferred taxation charge/(credit) | (1,162,347) | 1,318,543 |
| | 14,378,009 | 11,961,741 |

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

| | | |
|---|---|---|
| Accounting profit before taxation | 51,703,029 | 38,445,735 |
| Tax at the applicable rate of 30% | 15,510,909 | 11,533,721 |
| Net tax effect of expenses not deductible for tax/ (income taxed at lower rate) | (1,132,900) | 428,020 |
| | 14,378,009 | 11,961,741 |

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **15. CASH AND BALANCES WITH BANK OF TANZANIA** | | |
| Cash in hand | 34,237,119 | 29,992,851 |
| Balances with Bank of Tanzania: | | |
| - Statutory Minimum Reserve | 83,500,000 | 66,800,000 |
| - Other balances | 51,672,942 | 3,004,748 |
| | 169,410,061 | 99,797,599 |

The Bank is required to maintain minimum cash reserves of 10% of deposits with Bank of Tanzania (Statutory Minimum Reserve). Statutory Minimum Reserve is not available to finance the Bank's day to day operations and hence is excluded from cash and cash equivalent for the purpose of cash flow statement (note 38 (b)).

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **16. DEPOSITS AND BALANCES WITH OTHER BANKS** | | |
| **Placement with other banks- Foreign currency** | | |
| Maturing: | | |
| Within 1 month | 158,402,654 | 102,444,903 |
| Within 1 to 3 months | - | 41,574,085 |
| Within 3 to 6 months | - | 20,319,490 |
| | 158,402,654 | 164,338,478 |
| **Placement with Other Banks- Local Currency** | | |
| Maturing: | | |
| Within 1month | 3,750,000 | - |
| Within 1 to 3 months | - | 1,840,000 |
| Within 3 to 6 months | - | - |
| | 3,750,000 | 1,840,000 |
| **Deposits with Local Banks** | - | - |
| **Deposits with Foreign Banks- Nostros** | 27,177,555 | 8,865,225 |
| **Interest Receivable** | 508,713 | 441,619 |
| | 189,838,922 | 175,485,322 |

Deposits and balances with other banks totaling Tshs 189,330,209 (2006 – Tshs 154,724,213,000) mature within three months and form part of cash and cash equivalents for the purpose of cash flow statement (Note 38b).

## 17. GOVERNMENT SECURITIES

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **Treasury bills** | | |
| Maturing within: | | |
| 30 days * | 6,841,200 | 48,195,190 |
| 90 days * | 17,522,200 | 14,658,500 |
| 180 days | 17,229,200 | 21,191,360 |
| 364 days | 20,496,320 | 9,024,200 |
| | 62,088,920 | 93,069,250 |
| Interest receivable | 5,583,936 | 5,384,932 |
| | 67,672,856 | 98,454,182 |
| **Treasury bonds** | | |
| Maturing within: | | |
| 2 years | 4,383,772 | 10,000,000 |
| 5 years | 9,929,778 | 11,720,298 |
| 10 years | 9,891,985 | 13,933,293 |
| | 24,205,535 | 35,653,591 |
| Interest receivable | 628,485 | 927,077 |
| | 24,834,020 | 36,580,668 |
| **Government bonds** | | |
| Maturing within: | | |
| 8 years | 420,900 | 420,900 |
| 9 years | 4,010,900 | 4,010,900 |
| 10 years | 11,803,486 | 11,800,000 |
| 12 years | 11,685,471 | 11,688,952 |
| | 27,920,757 | 27,920,752 |
| Interest receivable | - | 759,258 |
| | 27,920,757 | 28,680,010 |
| | 120,427,633 | 163,714,860 |

* Treasury bills worth Tshs 24,363,400,000 (2006 – Tshs 62,853,690,000) mature within three months and form part of cash and cash equivalent for the purpose of cash flow statement (note 38(b)).

The weighted average effective interest rates at 31 December 2007 were: treasury bills - 14.43%; treasury bonds - 13.35%; and Government bonds - 11%.

## 18. OTHER SECURITIES

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **EADB bonds** | | |
| Maturing within 6 months | 1,624,495 | 2,264,929 |
| **PTA bonds** | | |
| Maturing after 5 years | 1,774,446 | 5,866,142 |
| **BIDCO bonds** | | |
| Maturing after 7 years | 2,790,809 | - |
| Interest receivable | 183,719 | 250,334 |
| | 6,373,469 | 8,381,405 |

These bonds are stated at amortized cost. The weighted average effective interest rate on other securities at 31 December 2007 was 10.6% (2006 – 9.29%).

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **19. AVAILABLE FOR SALE INVESTMENTS** | | |
| Investment in shares quoted at Dar es Salaam Exchange | - | 528,188 |

**20. LOANS AND ADVANCES TO CUSTOMERS**

**(a) Loans and advances**

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Loans and advances to customers | 576,317,648 | 393,614,392 |
| Loans and advances to staff | 12,156,338 | 7,171,683 |
| Interest receivable | 11,252,122 | 8,346,410 |
| | 599,726,108 | 409,132,485 |
| Specific provision for bad and doubtful loans and advances (note 20(c)) | (5,908,863) | (2,915,357) |
| Interest in suspense | (5,470,425) | (445,486) |
| | (11,379,288) | (3,360,843) |
| Net loans and advances | 588,346,820 | 405,771,642 |

The effective interest rate on loans and advances to customers was 14.03%

**(b) Analysis of advances to customers by maturity**

Maturing:

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Within one year | 241,422,674 | 268,601,000 |
| Between one year and three years | 135,541,149 | 48,871,000 |
| Over three years | 211,382,997 | 88,299,642 |
| | 588,346,820 | 405,771,642 |

**(c) Movement of provision for bad and doubtful debts**

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| At the beginning of the year | 2,915,357 | 2,714,725 |
| Net increase (note 20(d)) | 2,993,506 | 200,632 |
| At the end of the year | 5,908,863 | 2,915,357 |

**(d) Impairment losses**

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Increase in provision on loans and advances ( note 20(c)) | 2,993,506 | 200,632 |
| Increase in impairment losses on other assets (note 21) | 1,030,283 | 408,308 |
| Bad debts charged off | 660,173 | 3,024,462 |
| Recoveries | (1,454,878) | (1,666,070) |
| Charged to income statement | 3,229,084 | 1,967,332 |

## 21. OTHER ASSETS

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Cheques and items for clearance | 44,300,264 | 27,251,559 |
| Prepayments | 1,809,303 | 1,224,774 |
| Advance payment for capital items and software | 1,649,112 | 341,793 |
| Sundry receivables | 1,237,960 | 1,361,504 |
| Bills receivable | 133,304 | 2,353,873 |
| Less: Impairment losses on other assets (note 20(d)) | (1,649,600) | (619,317) |
| | 47,480,343 | 31,914,186 |

## 22. LEASED PREMISES REFURBISHMENTS

| | 2007 | 2006 |
|---|---|---|
| Opening balance | 1,623,135 | 1,428,234 |
| Additions during the year | 2,533,112 | 1,235,499 |
| | 4,156,247 | 2,663,733 |
| Disposal during the year | (31,705) | - |
| Less: Amortization during the year | (1,303,908) | (1,040,598) |
| Closing balance | 2,820,634 | 1,623,135 |

## 23. INTANGIBLE ASSETS - COMPUTER SOFTWARE

| | 2007 | 2006 |
|---|---|---|
| **Cost** | | |
| At 1 January 2007 | 2,028,367 | 1,752,505 |
| Additions | 94,226 | 275,862 |
| At 31 December 2007 | 2,122,593 | 2,028,367 |
| **Amortization** | | |
| At 1 January | 1,007,076 | 626,829 |
| Charge for the year | 400,819 | 380,247 |
| At 31 December | 1,407,895 | 1,007,076 |
| **Net book value** | | |
| At 31 December | 714,698 | 1,021,291 |

## 24. PROPERTY AND EQUIPMENT

| | Buildings Tshs '000 | Motor vehicles Tshs '000 | Office equipment Tshs '000 | Computer equipment Tshs '000 | Smart card equipment Tshs '000 | Security equipment Tshs '000 | Work in progress Tshs '000 | Total Tshs '000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 January 2006 | 3,003,599 | 1,726,683 | 5,516,115 | 3,774,245 | 2,243,297 | 249,952 | - | 16,513,891 |
| Additions | 276,127 | 361,266 | 1,788,372 | 509,496 | 785,889 | 123,035 | 253,787 | 4,097,972 |
| Disposals | - | (184,382) | (40,096) | - | - | - | - | (224,478) |
| Transfer to non current assets held for sale | - | (1,022,637) | (2,558,565) | (2,037,385) | - | - | - | (5,618,587) |
| At 1 January 2007 | 3,279,726 | 880,930 | 4,705,826 | 2,246,356 | 3,029,186 | 372,987 | 253,787 | 14,768,798 |
| Additions | 1,378,650 | 1,137,997 | 3,186,516 | 725,803 | 1,255,304 | 335,125 | 203,902 | 8,223,297 |
| Disposals | - | - | - | - | (240,363) | - | - | (240,363) |
| At 31 December 2007 | 4,658,376 | 2,018,927 | 7,892,342 | 2,972,159 | 4,044,127 | 708,112 | 457,689 | 22,751,732 |
| **Depreciation** | | | | | | | | |
| At 1 January 2006 | 891,874 | 1,454,081 | 3,579,323 | 2,341,773 | 841,532 | 36,867 | - | 9,145,450 |
| Charge for the year | 159,139 | 175,074 | 861,960 | 430,522 | 299,970 | 58,725 | - | 1,985,390 |
| Eliminated on disposal | - | (184,382) | (37,959) | - | - | - | - | (222,341) |
| Transfer to non current assets held for sale | - | (1,016,451) | (2,556,026) | (2,036,613) | - | - | - | (5,609,090) |
| At 1 January 2007 | 1,051,013 | 428,322 | 1,847,298 | 735,682 | 1,141,502 | 95,592 | - | 5,299,409 |
| Charge for the year | 199,170 | 292,915 | 1,195,861 | 522,452 | 453,088 | 103,906 | - | 2,767,392 |
| Eliminated on disposal | | | | | (203,367) | | | (203,367) |
| Reclassification | - | (6,186) | - | - | - | - | - | (6,186) |
| At 31 December 2007 | 1,250,183 | 715,051 | 3,043,159 | 1,258,134 | 1,391,223 | 199,498 | - | 7,857,248 |
| **Net book value** | | | | | | | | |
| At 31 December 2007 | 3,408,193 | 1,303,876 | 4,849,183 | 1,714,025 | 2,652,904 | 508,614 | 457,689 | 14,894,484 |
| At 31 December 2006 | 2,228,713 | 452,607 | 2,858,528 | 1,510,674 | 1,887,683 | 277,395 | 253,787 | 9,469,387 |

## 25. NON CURRENT ASSETS HELD FOR SALE

| | Motor vehicles Tshs '000 | Office equipment Tshs '000 | Computer equipment Tshs '000 | Total Tshs '000 |
|---|---|---|---|---|
| Cost | 892,848 | 2,558,565 | 2,037,385 | 4,595,950 |
| Accumulated depreciation | (892,848) | (2,556,026) | (2,036,613) | (4,592,639) |
| Net book value as at 31 December 2007 | | | | |
| Net book value as at 31 December 2006 | - | 2,539 | 772 | 3,311 |

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **26. PREPAID OPERATING LEASES** | | |
| **Leasehold land** | | |
| Cost | 414,859 | - |
| Amortisation | | |
| At 1 January | - | - |
| Charge for the year | 6,713 | - |
| At 31 December | 6,713 | - |
| Net book value | 408,146 | - |
| **27. CUSTOMER DEPOSITS** | | |
| Current and demand accounts | 487,300,921 | 329,787,357 |
| Saving accounts | 316,262,137 | 256,904,401 |
| Time deposits | 204,127,767 | 200,644,879 |
| Interest payable on deposits | 5,640,478 | 4,194,092 |
| | 1,013,331,303 | 791,530,729 |
| Analysis of customer deposits by maturity: | | |
| Payable within 90 days | 534,865,833 | 766,837,389 |
| Payable after 90 days and within one year | 476,217,075 | 24,247,137 |
| Payable after one year | 2,248,395 | 446,203 |
| | 1,013,331,303 | 791,530,729 |
| **28. DEPOSITS AND BALANCES DUE TO OTHER BANKS** | | |
| Deposits from local banks | - | - |
| Loans from other banks | 1,739,610 | 6,318,250 |
| | 1,739,610 | 6,318,250 |
| **29. OTHER LIABILITIES** | | |
| Bills payable * | 8,631,943 | 21,924,007 |
| Sundry payables | 7,315,892 | 2,206,736 |
| Dividend payable ** | 457,911 | 371,323 |
| Accrued expenses | 3,788,753 | 2,352,963 |
| Other liabilities | 252,142 | 252,142 |
| | 20,446,641 | 27,107,171 |

* Bills payable represents bankers cheques issued to customers that have not yet been presented for payment.

**Dividend payable represents uncollected dividends for the years 1996, 1998, 2000, 2001, 2002, 2003, 2004, 2005 and 2006.

## 30. TAXATION (RECOVERABLE)/PAYABLE

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Opening balance | 339,253 | 1,843,129 |
| Payments during the year | (16,081,681) | (12,147,074) |
| Tax expense (note 14) | 15,540,356 | 10,643,198 |
| Closing balance | (202,072) | 339,253 |

## 31. SUBORDINATED DEBT

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Opening balance | 2,016,000 | 2,016,000 |
| Interest paid during the year | (96,000) | (96,000) |
| Interest payable | 96,000 | 96,000 |
| Closing balance | 2,016,000 | 2,016,000 |

The subordinated debt from Danida Investment Fund (DIF) of Tshs 1,920,000,000 maturity date is seven years from 30 December 2005, when the debt shall fall due. Interest is payable yearly at a rate of 5% p.a.

## 32. FDCF GRANT

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Opening balance | 477,242 | 676,840 |
| Grant received during the year | - | - |
| Credited to income statement | (284,874) | (199,598) |
| Closing balance | 192,368 | 477,242 |

The Bank entered into contract with Enterplan Limited UK, whereby Enterplan agreed to pay a grant not exceeding Sterling Pound (GBP) 998,850 over three years in support of the Smart Card project under the Financial Deepening Fund (FDCF). The contract expired on 31 March 2005

## 33. DANIDA GRANT

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Opening balance | 1,108,582 | 681,933 |
| Grant received during the year | - | 707,606 |
| Credited to income statement | (175,087) | (280,957) |
| Repayment to DANIDA | (791,699) | - |
| Closing balance | 141,796 | 1,108,5822 |

DANIDA grant is under the Business Sector Program Support II (BSPS II). The program involves strengthening the Bank in performance and business processes. The program also supports Microfinance and SME program of the Bank. The program shall come to an end on 30 June 2008.

## 34. RFSP GRANT

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Opening balance | - | - |
| Grant received during the year | 231,000 | - |
| Credited to income statement | (57,750) | - |
| Closing balance | 173,250 | - |

This asset grant relates to four motor vehicles granted under the Rural Financial Services Programme (RFSP) under the Prime Ministers Office-United Republic of Tanzania for support of Microfinance Institutions.

## 35. DEFERRED TAX ASSET

The net deferred tax asset, computed at the enacted rate of 30%, is attributable to the following items:

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Accelerated capital allowance | 1,047,567 | (821,051) |
| Other movements | 701,206 | 1,407,477 |
| | 1,748,773 | 586,426 |

Movement in deferred tax liability is as follows:

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Balance at 1 January | 586,426 | 1,904,969 |
| Income statement credit/(charge) | 1,162,347 | (1,318,543) |
| Balance at 31 December | 1,748,773 | 586,426 |

## 36. SHARE CAPITAL

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Authorized<br>1,000,000,000 ordinary Shares of Tshs 100 each | 100,000,000 | 20,000,000 |
| Issued and fully paid<br>247,333,200 ordinary shares of Tshs 100 each | 24,733,320 | 12,366,660 |

## 37. REGULATORY CAPITAL

The Bank complied with minimum capital requirement as per sec 16 and 17 of the Banking and Financial Institution Act (2006) and the Bank of Tanzania capital adequacy regulations 2001.

The Bank's capital is computed in accordance with these regulations, as follows:

| | 2007<br>Tshs '000 | 2006<br>Tshs '000 |
|---|---|---|
| Share capital | 24,733,320 | 12,366,660 |
| Revenue reserve | 79,632,754 | 56,525,684 |
| | 104,366,074 | 68,892,344 |
| Less: Prepaid expense | (1,809,303) | (1,244,744) |
| Core capital ( Tier 1) | 102,556,771 | 67,647,600 |
| Add: Supplementary capital (Tier 2) | | |
| Subordinated debt | 1,920,000 | 1,920,000 |
| | 104,476,771 | 69,567,600 |

## 38. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before taxation to net cash used in operations

| | 2007 | 2006 |
|---|---|---|
| Profit before taxation | 51,703,029 | 38,445,735 |
| Adjustment for: | | |
| Depreciation | 2,767,392 | 1,985,390 |
| Amortization of intangible assets | 400,819 | 380,247 |
| Amortization of prepaid operating leases | 6,713 | - |
| Amortization of leased premises refurbishment | 1,303,908 | 1,040,598 |
| Profit on disposal of property and equipments | (61,084) | (133,563) |
| (Loss)/Profit on sale of listed shares | 6,704 | (4,782) |
| Fair value gain on quoted shares | - | (13,372) |
| Dividend receivable | (32,000) | (65,227) |
| | 56,095,481 | 41,635,026 |
| Movement in working capital: | | |
| Increase in statutory minimum reserve | (16,700,000) | (6,300,000) |
| Decrease/(increase) in balances with other banks | 20,319,490 | (20,319,490) |
| (Increase)/ decrease in treasury bills | (7,708,964) | 50,641,764 |
| Increase in treasury bonds and other securities | 14,513,837 | 3,337,542 |
| Increase in loans and advances to customers | (182,575,178) | (203,834,967) |
| Increase in other assets | (15,633,251) | (3,969,832) |
| Increase in customer deposits | 221,800,574 | 135,355,200 |
| Decrease in other liabilities | (6,747,118) | (2,212,319) |
| Decrease in FDCF grant | (284,874) | (199,598) |
| (Decrease)/increase in DANIDA grant | (966,786) | 426,649 |
| Increase in RFSP grant | 173,250 | - |
| **Net cash generated from/(used in) operations** | 82,286,461 | (5,440,025) |

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **38. CASH GENERATED FROM OPERATIONS (Continued)** | | |
| (b) Analysis of balances of cash and cash equivalents | | |
| Cash in hand | 34,237,119 | 29,992,851 |
| Balances with Bank of Tanzania | 51,672,942 | 3,004,748 |
| Balance with other banks | 189,330,209 | 154,724,213 |
| Treasury bills | 24,363,400 | 62,853,690 |
| Deposits and balances due to other banks | (1,739,610) | (6,318,250) |
| | 297,864,060 | 244,257,252 |

**39. DIVIDENDS**

In respect of the current year, the Directors propose that a total dividend of Tshs. 4,204,664,400 (2006 – Tshs 2,102,332,200) will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and, in line with the provisions of International Accounting Standard No 10, has not been included as a liability in these financial statements.

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| **40. CONTINGENT LIABILITIES** | | |
| Guarantees and indemnities | 15,889,141 | 10,395,669 |
| Letters of credit | 49,591,367 | 185,307,378 |
| Travellers cheques | 74,409 | 352,040 |
| Outward foreign bills for collection (OFBC) | 268,138 | 425,179 |
| | 65,823,055 | 196,480,266 |

Letters of credit are commitments by the Bank to make payments to third parties, on production of agreed documents on behalf of customers and are reimbursed by the customer.

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

**Litigation**

The Bank is, in the normal course of business, involved in a number of court cases. The Bank has taken appropriate legal steps to defend against the claims on court cases. The Bank has provided for the liabilities arising out of contractual obligations. No other provisions are made awaiting the court ruling, as in the opinion of the Directors the potential liability is neither probable nor quantifiable at the date of these financial statements.

## 41. COMMITMENTS

| | 2007 Tshs '000 | 2006 Tshs '000 |
|---|---|---|
| Commitments to extend credit | 34,023,000 | 40,994,000 |
| **Capital Commitments** | | |
| Authorized and contracted for | 2,870,535 | 2,356,309 |
| Authorized not yet contracted for | 2,890,000 | 430,000 |
| | 5,760,535 | 2,786,309 |

Capital commitments authorized and contracted are in respect of costs for refurbishment of Kigoma and Mbeya; New outlets – Tarime, Korogwe, and Geita; purchase of two mobile vehicles, twelve Land cruisers and Office Equipments.

Capital commitments authorized but not yet contracted for relates to new outlets Mbinga and Mbozi, Financial reporting system, communication security solutions acquisition/construction of a Disaster Recovery Site and switch board upgrade.

## 42. CONCENTRATION OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS

Details of significant concentrations of the banks assets, liabilities and off balance sheet items by economic sector are as detailed below:

(a) Advances to customers (Gross)

| | 2007 Tshs '000 | % | 2006 Tshs '000 | % |
|---|---|---|---|---|
| Public sector | - | - | 9,932,181 | 3 |
| Agriculture fishing, forestry & hunting | 126,972,012 | 21 | 98,904,443 | 24 |
| Finance, insurance & business service | 74,527,696 | 12 | 27,140,964 | 7 |
| Mining & quarrying | 3,673,552 | 1 | 3,533,959 | - |
| Manufacturing | 80,870,088 | 13 | 61,486,381 | 15 |
| Real estate & construction | 21,497,556 | 4 | 25,579,739 | 6 |
| Transport & communication | 25,087,488 | 4 | 25,488,871 | 6 |
| Trade & commerce | 79,218,404 | 13 | 49,135,009 | 13 |
| Tourism, hotels & restaurants | 19,991,017 | 3 | 11,494,736 | 3 |
| Electricity, gas and water | 67,418,369 | 11 | 62,719,916 | 15 |
| Personal | 66,295,967 | 11 | 30,218,040 | 7 |
| Other | 34,173,958 | 6 | 3,498,246 | 1 |
| | 599,726,107 | 100 | 409,132,485 | 100 |

(b) Off balance sheet items (Letter of credit, guarantees, travelers cheques, and OFBC)

| | 2007 Tshs '000 | % | 2006 Tshs '000 | % |
|---|---|---|---|---|
| Agriculture fishing, forestry & hunting | 1,774,420 | 2 | 1,073,132 | 1 |
| Electricity, gas and water | 31,617,631 | 48 | 159,937,806 | 81 |
| Finance, insurance & business service | 3,282,185 | 5 | 5,888,115 | 3 |
| Real estate & construction | 10,245,146 | 16 | 9,879,623 | 5 |
| Trade & commerce | 18,903,673 | 29 | 19,701,590 | 10 |
| | 65,823,055 | 100 | 196,480,266 | 100 |

## 43. RELATED PARTY TRANSACTIONS

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

Advances to customers at 31 December 2007 include advances and loans to companies associated with Directors and key management personnel.

The volumes of related party transactions for the year and the outstanding amounts at the year end are as follows:

| | Common directorship | | Companies associated with directors | | Key management personnel | |
|---|---|---|---|---|---|---|
| | 2007 Tshs '000 | 2006 Tshs '000 | 2007 Tshs '000 | 2006 Tshs '000 | 2007 Tshs'000 | 2006 Tshs'000 |
| Loans and advances: | | | | | | |
| At 1 January | 12,472 | 5,280 | 4,400 | 1,526,000 | 614,544 | 681,000 |
| Advances during the year and interest charged | 60,000 | 21,018 | - | 320,833 | 2,051,282 | 41,169 |
| Repayment during the year | (7,272) | (13,826) | (4,400) | (1,842,433) | (326,157) | (107,625) |
| At 31 December | 65,200 | 12,472 | - | 4,400 | 2,339,669 | 614,544 |

Related party transactions were at arm's length and in the normal course of business, and on terms and conditions similar to those applicable to other customers with exception of loans and advances to key management personnel who benefited from preferential rates as applicable to staff.

**Compensation of Key Management Personnel**

Key management personnel comprise of Board of Directors, Managing Director and head of units who are reporting directly to the Managing Director.

Compensations of key management are as follows:-

| | 2007 Tshs'000 | 2006 Tshs'000 |
|---|---|---|
| Short term employee benefits | 1,199,036 | 1,120,270 |
| Post employment benefits | 202,800 | 188,779 |
| | 1,401,836 | 1,309,049 |

Directors' fees, which are included in the compensation of key management personnel, were Tshs. 174,506,260 (2006- Tshs 159,468,750 ).

## 44. RISK WEIGHTED ASSETS

| ASSETS | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Tsh | Risk Weight | Risk Weight | Tsh | Risk Weight | Risk Weight |
| Cash | 34,237,119 | 0% | - | 29,992,851 | 0% | |
| **Balance with Bank of Tanzania** | | | | | | |
| Statutory Minimum Reserve | 83,500,000 | 0% | - | 66,800,000 | 0% | - |
| Current Account | 51,672,942 | 0% | - | 3,004,748 | 0% | - |
| **Balances with other Banks** | 189,838,923 | 20% | 37,967,785 | 175,485,322 | 20% | 35,097,064 |
| **Investment in Debt Securities** | | | | | | |
| Government Bonds | 27,920,757 | 0% | - | 28,860,010 | 0% | - |
| Private Bonds | 6,373,469 | 100% | 6,373,469 | 8,381,405 | 100% | 8,381,405 |
| Treasury Bills | 67,672,856 | 0% | - | 98,454,182 | 0% | - |
| Treasury Bonds | 24,834,020 | 0% | - | 36,580,668 | 0% | - |
| **Loans and Advances** | | | | | | |
| Secured by cash | 130,979,244 | 0% | - | | | |
| 1st Class banks guarantee | 19,796,266 | 0% | - | | | |
| Secured by others | 437,571,310 | 100% | 437,571,310 | 405,771,642 | 100% | 405,771,642 |
| Property and Equipments | 14,894,484 | 100% | 14,894,484 | 9,469,387 | 100% | 9,469,387 |
| Cheques and items for cleaning | 44,300,264 | 50% | 22,150,132 | 27,251,559 | 50% | 13,625,779 |
| Prepaid expenses | 1,809,303 | 0% | - | 1,224,774 | 0% | - |
| Other assets | 7,268,409 | 100% | 7,268,409 | 7,026,390 | 100% | 7,026,390 |
| **Total assets** | 1,142,669,366 | | 526,225,589 | 898,302,938 | | 479,371,667 |
| **OFF BALANCE SHEET EXPOSURES** | | | | | | |
| Letter of Credit – other security | 6,268,759 | 20% | 1,253,752 | 12,232,829 | 20% | 2,446,566 |
| | 8,415,739 | 100% | 8,415,739 | 3,624,624 | 100% | 3,624,624 |
| Guarantees – Other security | 50,796,011 | 0% | - | 179,137,054 | 0% | - |
| LCs + Guarantees – Secured by cash | 7,533,223 | 0% | - | 4,671,467 | 0% | - |
| Undrawn loans – Secured by cash | | | | | | |
| Undrawn loans – Other securities | 16,323,520 | 100% | 16,323,520 | 20,270,375 | 100% | 20,270,375 |
| **Total off balance sheet items** | 89,337,252 | | 25,993,011 | 219,936,349 | | 26,341,565 |
| **TOTAL** | 1,232,006,618 | | 552,218,600 | 1,118,239,287 | | 505,713,232 |

**Regulatory Minimum Capital Requirement:**

Core Capital to Risk Weighted Asset & Off Balance Sheet Exposure 10%

Total Capital to Risk Weighted Asset & Off Balance Sheet Exposure 12%

**Risk Weighted Asset & Off Balance Sheet Exposure position**

| | | | | | | |
|---|---|---|---|---|---|---|
| Core Capital | 102,556,771 | 18% | | 67,647,600 | 13% | |
| **Total Capital** | 104,476,771 | 19% | | 69,567,600 | 14% | |

## 45. LIQUIDITY RISKS

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2007 to the contractual maturity date.

| | Up to 1 month Tshs'000 | 1 – 3 months Tshs'000 | 4 – 6 Months Tshs'000 | 7 – 12 months Tshs'000 | 1 – 3 years Tshs'000 | 4-5 years Tshs'000 | Over 5 years Tshs'000 | Total Tshs'000 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and balances with Bank of Tanzania | 169,410,061 | - | - | - | - | - | - | 169,410,061 |
| Deposits and balances with other banks | 189,838,922 | | | - | - | - | - | 189,838,922 |
| Government securities | 6,841,200 | 17,522,200 | 23,441,621 | 20,496,320 | 4,383,772 | 14,361,578 | 33,380,942 | 120,427,633 |
| Other securities | - | - | 183,719 | 2,790,809 | 1,774,446 | 1,624,495 | - | 6,373,469 |
| Available for sale investments | - | - | - | | - | - | - | - |
| Loans, advances and overdraft | - | - | - | 241,422,674 | 135,541,149 | 211,382,997 | | 588,346,820 |
| Taxation recoverable | | | | 202,072 | | | | 202,072 |
| Other assets | 47,480,343 | - | - | - | - | - | - | 47,480,343 |
| Leased premises refurbishment | - | - | - | - | 2,820,634 | - | - | 2,820,634 |
| Prepaid operating leases | | | | | | | 408,146 | 408,146 |
| Property and intangible | - | - | - | - | - | - | 15,609,182 | 15,609,182 |
| Non current assets held for sale | - | - | - | 3,311 | - | - | - | 3,311 |
| Deferred tax asset | - | - | - | - | - | - | 1,748,773 | 1,748,773 |
| **Total assets** | 413,570,526 | 17,522,200 | 23,625,340 | 264,915,186 | 144,520,001 | 227,369,070 | 51,147,043 | 1,142,669,366 |
| **LIABILITIES AND SHAREHOLDERS'FUNDS** | | | | | | | | |
| Customer deposits | 202,666,261 | 332,199,572 | 259,633,988 | 216,583,087 | 2,248,395 | - | - | 1,013,331,303 |
| Deposit and balances due to other banks | 1,739,610 | - | - | - | - | - | - | 1,739,610 |
| Other liabilities | - | - | - | 20,446,641 | - | - | - | 20,446,641 |
| Taxation payable | - | - | - | - | - | - | - | - |
| Subordinated loan capital | - | - | - | - | - | 2,016,000 | - | 2,016,000 |
| RSFP grants | | | | | - | - | 173,250 | 173,250 |
| DANIDA grant | - | - | - | - | 141,796 | - | - | 141,796 |
| FDCF grant | | | | | | 192,368 | - | 192,368 |
| Deferred tax liability | - | - | - | - | - | - | - | - |
| Shareholders' funds | | | | | | - | 104,628,398 | 104,628,398 |
| **Total liabilities and shareholders' funds** | 204,405,871 | 332,199,572 | 259,633,988 | 237,029,728 | 2,390,191 | 2,208,368 | 104,801,648 | 1,142,669,366 |
| **Net liquidity gap** | 209,164,655 | (314,677,372) | (236,008,648) | 27,885,458 | 142,129,810 | 225,160,702 | (53,654,605) | - |
| **At 31 December 2006** | | | | | | | | |
| **Total assets** | 291,658,722 | 58,072,585 | 48,582,116 | 278,162,885 | 60,602,462 | 108,295,512 | 52,928,656 | 898,302,938 |
| **Total liabilities and shareholders' funds** | 263,222,651 | 509,932,988 | 24,586,390 | 27,107,171 | 1,554,785 | 477,242 | 71,421,711 | 898,302,938 |
| **Net liquidity gap** | 28,436,071 | (451,860,403) | 23,995,726 | 251,055,714 | 59,047,677 | 107,818,270 | (18,493,055) | - |

## 46. INTEREST RATE RISK

The table below summarizes the exposure to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of either contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

| | Up to 1 Month Tshs'000 | 1 – 3 Months Tshs'000 | 4 – 6 Months Tshs'000 | 7 – 12 Months Tshs'000 | 1 – 3 Years Tshs'000 | Over 3 years Tshs'000 | Non-interest Bearing Tshs'000 | Total Tshs'000 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and balances with Bank of Tanzania | - | - | - | - | - | - | 169,410,061 | 169,410,061 |
| Deposits and balances with other banks | 189,838,922 | | | - | - | - | - | 189,838,922 |
| Government securities | 6,841,200 | 17,522,200 | 23,441,621 | 20,496,320 | 4,383,772 | 47,742,520 | - | 120,427,633 |
| Other securities | - | - | - | - | - | 6,373,469 | - | 6,373,469 |
| Available for sale investments | - | - | - | - | - | - | - | - |
| Loans and advances | - | - | - | 241,422,674 | 135,541,149 | 211,382,997 | - | 588,346,820 |
| Taxation recoverable | | | | | | | 202,072 | 202,072 |
| Other assets | - | - | - | - | - | - | 47,480,343 | 47,480,343 |
| Leased premises refurbishment | - | - | - | - | - | - | 2,820,634 | 2,820,634 |
| Prepaid operating leases | | | | | | | 408,146 | 408,146 |
| Property and intangible assets | - | - | - | - | - | - | 15,609,182 | 15,609,182 |
| Non current assets held for sale | - | - | - | - | - | - | 3,311 | 3,311 |
| Deferred tax asset | - | - | - | - | - | - | 1,748,773 | 1,748,773 |
| **Total assets** | 196,680,122 | 17,522,200 | 23,441,621 | 261,918,994 | 139,924,921 | 265,498,986 | 237,682,522 | 1,142,669,366 |
| **LIABILITIES AND SHAREHOLDERS'FUNDS** | | | | | | | | |
| Customer deposits | 202,666,261 | 332,199,572 | 259,633,988 | 216,583,087 | 2,248,395 | - | - | 1,013,331,303 |
| Deposit and balances due to other banks | - | - | - | 1,739,610 | - | | - | 1,739,610 |
| Other liabilities | - | - | - | 20,446,641 | - | - | - | 20,446,641 |
| Taxation payable | - | - | - | - | - | - | - | - |
| Subordinated loan capital | - | - | - | - | - | 2,016,000 | - | 2,016,000 |
| DANIDA grant | - | - | - | - | - | - | 141,796 | 141,796 |
| RFSP grant | | | | | | | 173,250 | 173,250 |
| FDCF capital grant | - | - | - | - | - | - | 192,368 | 192,368 |
| Deferred tax liability | | | | | | | - | - |
| Shareholders' funds | - | - | - | - | - | - | 104,628,398 | 104,628,398 |
| **Total liabilities and shareholders' funds** | 202,666,261 | 332,199,572 | 259,633,988 | 238,769,338 | 2,248,395 | 2,016,000 | 105,135,812 | 1,142,669,366 |
| **Interest rate sensitivity gap** | (5,986,139) | (314,677,372) | (236,192,367) | 23,149,656 | 137,676,526 | 263,482,986 | 132,546,710 | - |
| **At 31 December 2006** | | | | | | | | |
| **Total assets** | 159,946,937 | 58,072,585 | 48,582,116 | 277,625,200 | 58,871,000 | 150,255,391 | 144,949,709 | 898,302,938 |
| **Total liabilities and shareholders' funds** | 256,904,401 | 509,932,988 | 24,247,137 | 27,107,171 | 446,203 | 8,334,250 | 71,330,788 | 898,302,938 |
| **Interest rate sensitivity gap** | (96,957,464) | (451,860,403) | 24,334,979 | 250,518,029 | 58,424,797 | 141,921,141 | 73,618,921 | - |

## 47. FOREIGN EXCHANGE RISK

The Bank operates wholly within Tanzania and its assets and liabilities are reported in the local currency. The Bank's currency risk is managed within the Bank of Tanzania exposure guideline of 20% core capital. The Bank's management monitors foreign currency exposure on a daily basis. The Bank's currency position as at 31 December 2007 was as follows:

| | TSHS Tshs'000 | USD Tshs'000 | GBP Tshs'000 | EURO Tshs'000 | OTHERS Tshs'000 | TOTAL Tshs'000 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with Bank of Tanzania | 162,337,067 | 5,000,740 | 415,082 | 1,657,172 | - | 169,410,061 |
| Deposits and balances with other banks | 3,667,150 | 153,578,517 | 3,453,078 | 21,560,460 | 7,579,717 | 189,838,922 |
| Government securities | 120,427,633 | - | - | - | - | 120,427,633 |
| Other securities | 6,373,469 | - | - | - | - | 6,373,469 |
| Available for sale investments | - | - | - | - | - | - |
| Loans, advances and overdraft | 520,371,758 | 67,975,062 | | | - | 588,346,820 |
| Taxation recoverable | 202,072 | | | | | 202,072 |
| Other assets | 39,995,097 | 7,434,322 | 4,750 | 46,174 | | 47,480,343 |
| Leased premises refurbishment | 2,820,634 | - | - | - | - | 2,820,634 |
| Prepaid operating leases | 408,146 | | | | | 408,146 |
| Property and intangible assets | 15,609,182 | - | - | - | - | 15,609,182 |
| Non current Assets held for sale | 3,311 | - | - | - | - | 3,311 |
| Deferred tax | 1,748,773 | - | - | - | - | 1,748,773 |
| **Total assets** | 873,964,292 | 233,988,641 | 3,872,910 | 23,263,806 | 7,579,717 | 1,142,669,366 |
| **LIABILITIES AND SHAREHOLDERS'FUNDS** | | | | | | |
| Customer deposits | 746,742,653 | 232,690,527 | 3,552,778 | 22,869,263 | 7,476,082 | 1,013,331,303 |
| Deposits and balance due to other banks | - | 1,739,610 | - | - | - | 1,739,610 |
| Other liabilities | 13,989,112 | 6,338,895 | 17,418 | 60,029 | 41,187 | 20,446,641 |
| Taxation payable | - | - | - | - | - | - |
| Subordinated loan capital | 2,016,000 | - | - | - | - | 2,016,000 |
| DANIDA grant | - | - | - | - | 141,796 | 141,796 |
| RFSP grant | 173,250 | | | | | 173,250 |
| FDCF capital grant | - | - | 192,368 | - | - | 192,368 |
| Deferred tax liability | - | | | | | - |
| Shareholders' funds | 104,628,398 | - | - | - | - | 104,628,398 |
| **Total liabilities and shareholders' funds** | 867,549,413 | 240,769,032 | 3,762,564 | 22,929,292 | 7,659,065 | 1,142,669,366 |
| **Net balance sheet position** | 6,414,879 | (6,780,391) | 110,346 | 334,514 | (79,348) | - |
| **At 31 December 2006** | | | | | | |
| **Total assets** | 650,742,354 | 218,160,530 | 3,644,767 | 18,040,688 | 7,714,599 | 898,302,938 |
| **Total liabilities and shareholders' funds** | 651,590,590 | 215,515,212 | 4,107,782 | 17,694,723 | 9,394,631 | 898,302,938 |
| **Net balance sheet position** | (848,236) | 2,645,318 | (463,015) | 345,965 | (1,680,032) | - |

## 48. ASSETS PLEDGED AS SECURITY

As at 31 December 2007, there were no assets pledged by the Bank to secure liabilities and there were no secured Bank liabilities.

## 49. FAIR VALUE

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

## 50. COUNTRY OF INCORPORATION

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

## 51. CURRENCY

These financial statements are presented in thousands of Tanzania Shillings (Tshs'000).

# Matawi Branches

Arusha
Box 3150 Arusha
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Fax: 028 2800849

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Songea
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Box
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Fax: 022 2181687

Water Front
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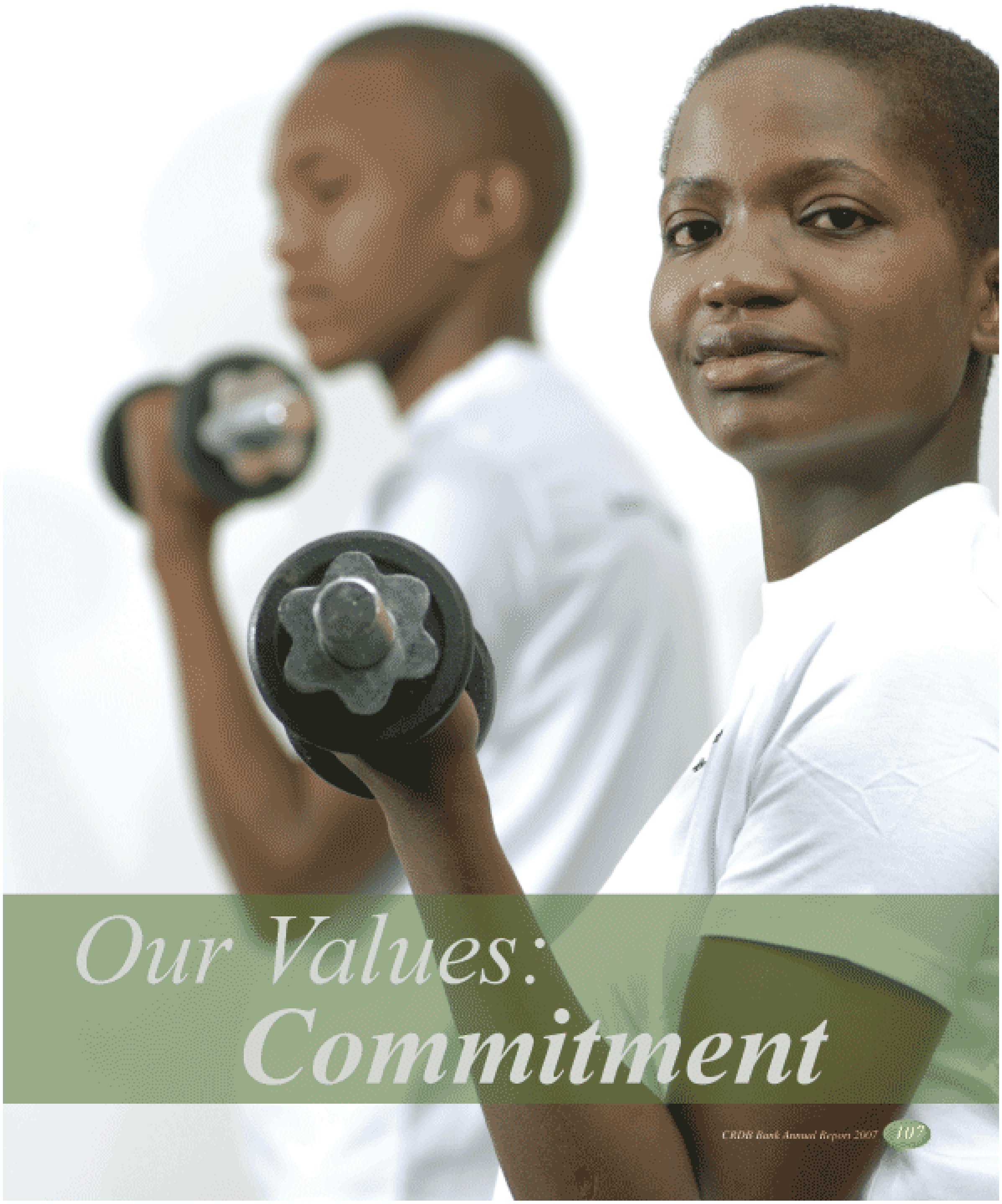
Tel: 022 2126402-4-7-8
Fax: 022 2126299


Our Values:
Commitment

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