



2012 ANNUAL REPORT / TAARIFA YA MWAKA

NMB

Table of Contents

Yaliyomo

3	Financial Highlights Vielelezo Muhimu vya Kifedha		Financial Statements
5	NMB Value Added Statement	40	Report of Directors
6	Mission, Vision and Values Dira, Kauli Mbiu na Muongozo	48	Statement of Director's Responsibilities
8	History & Ownership Maelezo Mafupi ya Kampuni (Historia na Umiliki)	49	Auditor's Report
11	Board of Directors Bodi ya Wakurugenzi	50	Statement of Profit & Loss
15	Chairman's Report Taarifa ya Mwenyekiti	52	Statement of Financial Position
21	Management Team Uongozi wa Benki	53	Statement of Changes in Equity
23	Chief Executive Officer's Report Taarifa ya Afisa Mtendaji Mkuu	54	Statement of Cash Flows
31	Corporate Governance Utawala Bora	58	Notes to the Financials
37	Corporate Social Responsibility Wajibu wa Kampuni kwa Jamii		
		111	Company Information and Key Personnel Habari za Kampuni na Watendaji Wakuu
		113	Distribution Network & Key Contact Details Mtandao wa Huduma & Anwani
		114	Notice of the 13th Annual General Meeting Taarifa ya Mkutano Mkuu wa 13 Mwaka

Features of NMB Results

Vielelezo Muhimu vya Kifedha

Share performance		2008	2009	2010	2011	2012
Basic and diluted earnings per share	Tzs	97	95	108	144	195
Dividends per share	Tzs	30	31	36	50	68
Closing share price	Tzs	970	810	660	850	1,120
Number of shares in issue	Million	500	500	500	500	500
Dividend cover (times)		3.3	3.0	3.0	2.9	2.9
Net asset value per share	Tzs	319	384	461	569	714
Dividend yield - ordinary dividend	%	3%	4%	5%	6%	6%
Earnings yield - ordinary dividend	%	10%	12%	16%	17%	17%
Price to Book ratio		3.0	2.1	1.4	1.5	1.6
Price: Earnings ratio - ordinary shares		10.0	8.5	6.1	5.9	5.7
Market capitalisation	Tzs Million	485,000	405,000	330,000	425,000	560,000
Net Assets	Tzs Million	159,689	192,239	230,520	284,359	356,954
Volume of shares transacted	Million	12.2	20.7	6.4	23.0	8.7
Exchange weighted share price (Tzs)	Tzs	1,057	805	758	786	954

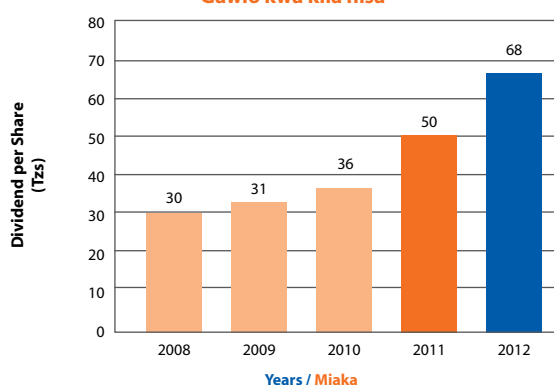
Utendaji wa hisa		2008	2009	2010	2011	2012
Mapato ya msingi na Mengineyo kwa kila hisa	Tzs	97	95	108	144	195
Gawio kwa kila hisa	Tzs	30	31	36	50	68
Bei ya hisa ya kufungia soko	Tzs	970	810	660	850	1,120
Idadi ya hisa zilizopelekwa sokoni	Milioni	500	500	500	500	500
Kinga ya gawio		3.3	3.0	3.0	2.9	2.9
Thamani kamili ya mali kwa kila hisa	Tzs	319	384	461	569	714
Gawio lililopatikana-gawio la kawaida	%	3%	4%	5%	6%	6%
Mapato yaliyopatikana-gawio la kawaida	%	10%	12%	16%	17%	17%
Bei kwenye uwiano wa kitabu		3.0	2.1	1.4	1.5	1.6
Bei: Uwiano wa mapato- hisa za kawaida		10.0	8.5	6.1	5.9	5.7
Soko la Mitaji	Tzs. Milioni	485,000	405,000	330,000	425,000	560,000
Mali kamili ya Kampuni	Tzs. Milioni	159,689	192,239	230,520	284,359	356,954
Kiasi cha hisa zilizouzwa sokoni	Mamilioni	12.2	20.7	6.4	23.0	8.7
Fedha zilizobadilishwa thamani kwa kila hisa	Tzs	1,057	805	758	786	954

Highlights for the Financial period of 2008 -2012

Muhtasari wa Taarifa ya Fedha 2008 - 2012

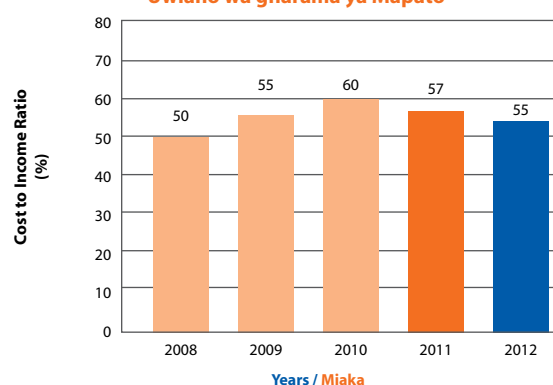
DIVIDEND PER SHARE

Gawio kwa kila hisa



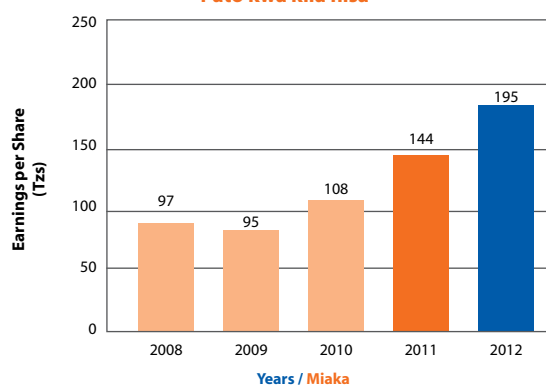
COST TO INCOME RATIO

Uwiano wa gharama ya Mapato



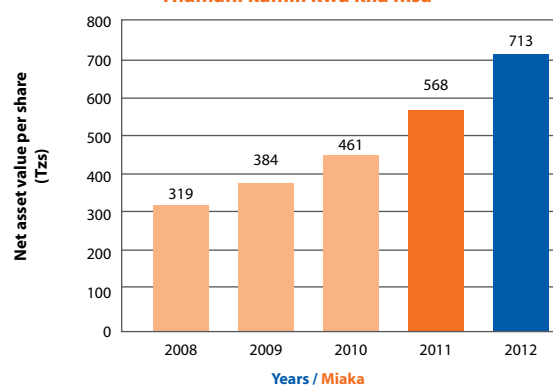
EARNINGS PER SHARE

Pato kwa kila hisa



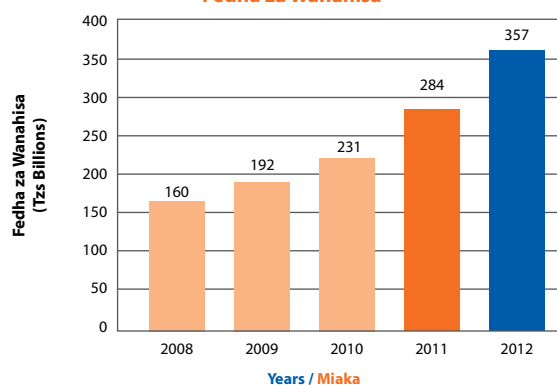
NET ASSET VALUE PER SHARE

Thamani kamili kwa kila hisa



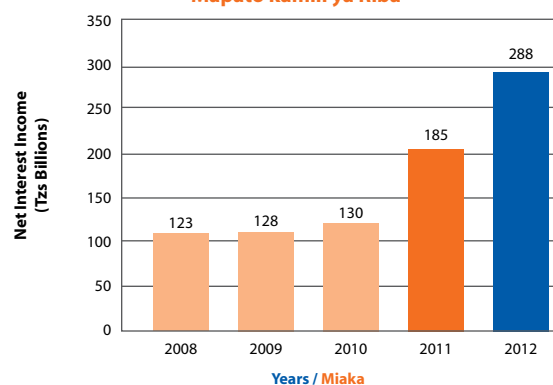
SHAREHOLDERS' FUNDS

Fedha za Wanahisa



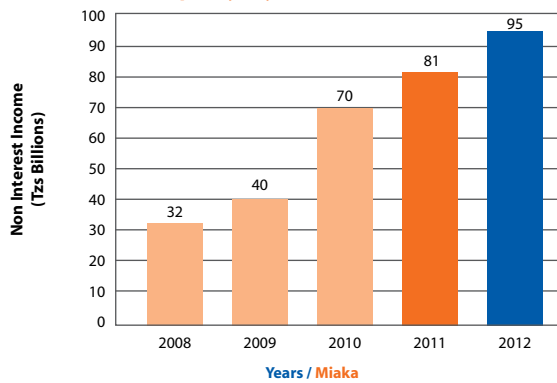
NET INTEREST INCOME

Mapato kamili ya Riba



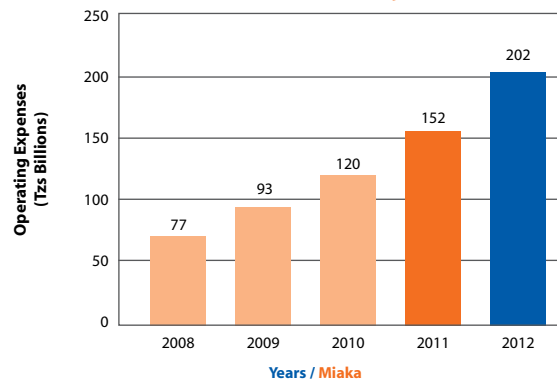
NON INTEREST INCOME

Mapato yasiyotokana na Riba



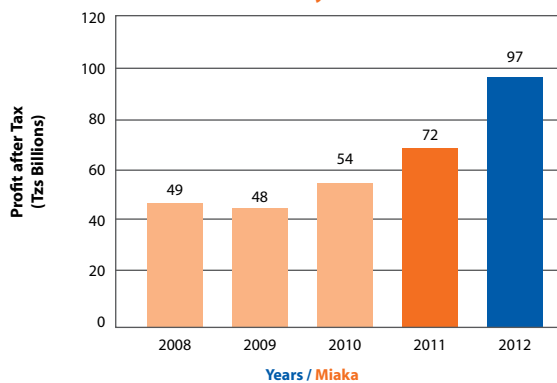
OPERATING EXPENSES

Gharama za Uendeshaji



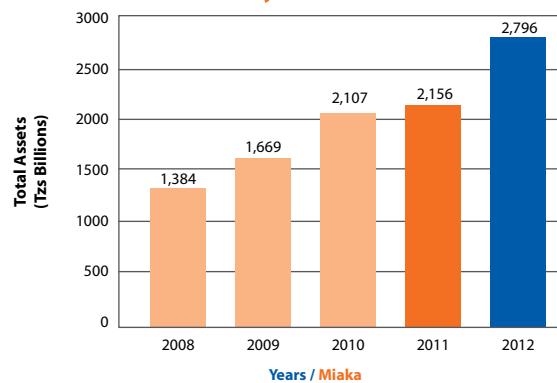
PROFIT AFTER TAX

Faida baada ya Kodi



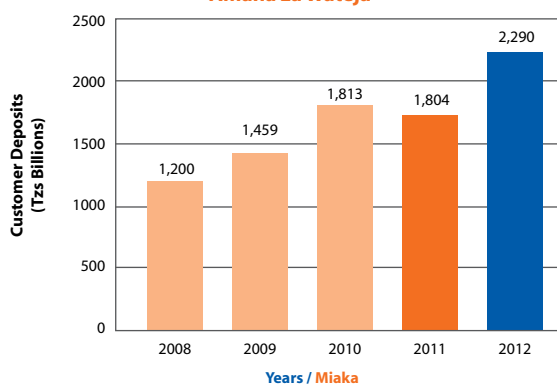
TOTAL ASSETS

Jumla ya Rasirimali



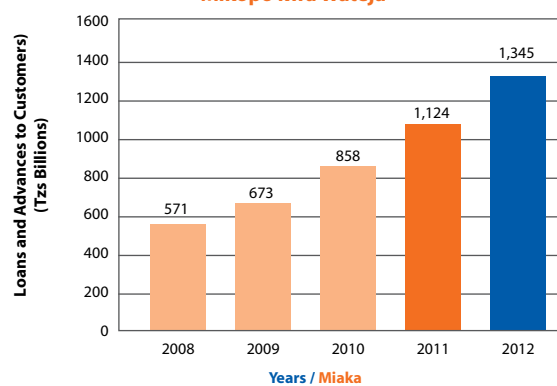
CUSTOMER DEPOSITS

Amana za Wateja



LOANS AND ADVANCES TO CUSTOMERS

Mikopo kwa Wateja



NMB Value Added Statement for the year ended 31 December 2012

Value added is the wealth the bank has been able to create by providing clients with a quality, value added service.

Tzs 'Millions

Value added

Income earned by providing banking services
Cost of service
value added by banking services
Non operating and other income and expenditures

Value allocated

To employees:
Salaries and other benefits

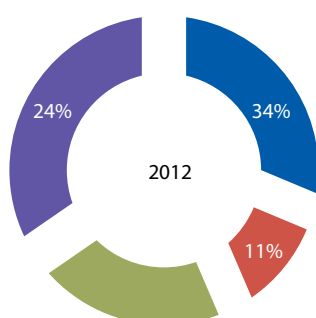
To providers of capital:
dividend to shareholders

To government
Income Tax
PAYE
Skills development levy

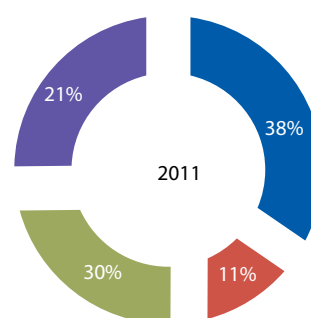
To expansion and growth
Depreciation, deferred tax and retained earnings

	2012	2011
Income earned by providing banking services	287,924	193,005
Cost of service	(35,199)	(19,584)
value added by banking services	252,725	173,421
Non operating and other income and expenditures	(31,436)	(6,989)
	221,289	166,432
To employees: Salaries and other benefits	75,955 34%	63,646 38%
To providers of capital: dividend to shareholders	25,000 11%	18,000 11%
To government Income Tax PAYE Skills development levy	49,623 14,203 4,557 68,383 31%	34,508 11,641 3,171 49,320 30%
To expansion and growth Depreciation, deferred tax and retained earnings	51,951 23%	35,466 21%
	221,289 100%	166,432 100%

● To employees
● To providers of capital:
● To government
● To expansion and growth



● To employees
● To providers of capital:
● To government
● To expansion and growth



Mission, Vision and Values

Azma, Dira na Mwongozo wetu

Our Mission

Through innovative distribution and our extensive branch network, to offer affordable customer focused financial services to the Tanzanian community, in order to realise sustainable benefits for all our stakeholders

Kauli Mbiu

Kutumia ubunifu katika utoaji huduma na mtandao mpana wa matawi yetu ili kutoa huduma za kibenki kwa gharama nafuu zenye kumlenga mteja wa jamii ya Tanzania ili kuwa na manufaa endelevu kwa wadau wetu wote.

Our Vision

To be the preferred financial services partner in Tanzania

Dira Yetu

Kuwa chaguo la kwanza katika asasi za utoaji huduma za fedha nchini Tanzania

NMB Values

What drives us

Eagerness

We have a strong desire to show our best as we believe that NMB is the right place to grow to our full potential. We are always looking for opportunities and innovations and we will not run away from problems as we recognise the challenge of overcoming them.

Ownership

We feel responsible for our own tasks so we plan our work, do our own quality control and we will not rest before we fulfil our goals. We also take ownership for a clean and safe environment and the general well-being of NMB, no matter our area of work.

What binds us

Customer focus

We focus on the needs of our internal and external customers and stakeholders by offering our support, managing expectations, doing what needs to be done and following up to ensure satisfaction. We realise that we should always act as ambassadors of our brand and never forget that our customers pay our salary.

Teamwork

Our job is not finished as long as we can still support our colleagues. We share, are eager to learn best practices and are open to suggestions from colleagues. We give and accept specific feedback in a constructive manner. We feel part of the NMB family and we celebrate our successes together as a team.

What guides us

Integrity

Integrity is our highest value. Customers and management should always be able to check and ask for proof and never rely only on 'trust'. We keep customer information confidential and report irregularities to management through our whistle-blowing policy

Compliance

We have full knowledge and understanding of our obligations. We always comply with internal and external regulations and act in line with the established codes of conduct. If we are not able to comply, we escalate the issue internally. We act as professionals and take full responsibility for mandatory controls.

Mwongozo Wetu

Msukumo

Ari

Tuna azma kubwa ya kuonyesha uwezo wetu kwani tunaamini NMB ni mahali sahihi kwenye ukuaji katika nyanja zote. Kila wakati tunaangalia ubunifu uboreshaji mpya na kamwe hatutakwepa matatizo bali tunatambua changamoto zinazotukabili na kuzitafutia ufumbuzi.

Umiliki

Tunatambua majukumu ya kazi zetu za kila siku hivyo tunapangilia kazi zetu katika mpango sahihi na hatutachoka mpaka kufikia malengo yetu. Pia tunachukua majukumu ya usafi na mazingira salama kwa ujumla bila kujali eneo tunalofanya kazi.

Ushirikiano

Tunamlenga Mdau

Tunalenga kukidhi mahitaji ya wadau wetu wa ndani na wa nje kwa kuwapa ushirikiano ili kukidhi matarajio yao, kutekeleza kile kinachotakiwa na kuangalia mafanikio baadae. Tunatambua sikuzote tunatakiwa kuwa mabalozi wa huduma zetu na bila kusahau wateja wetu ndio wanao tulipa mshahara yetu.

Ushirikiano Wetu

Kazi yetu haijaisha ikiwa bado tunaweza kusaidia wenzetu. Tunashirikiana na tuna ari ya kujifunza mbinu mpya na sahihi kwani tuko tayari kupokea maoni kutoka kwa wadau. Pia tunatoa na kupokea taarifa muhimu kwa njia iliyo sahihi. Tunajiona wote ni sehemu ya familia ya NMB na tunasheherekea mafanikio yetu pamoja.

Uongozi

Uaminifu

Uaminifu ndio mwongozo wetu mkuu. Wakati wote Wateja na Uongozi wanatakiwa kuangalia na kupata Uthibitisho na kamwe wasikatishwe tamaa. Tunatunza siri za wateja wetu na kutoa taarifa mara moja kwa uongozi pale ambapo mambo hayaendi sawa.

Utimilifu

Tuna uelewa na ujuzi wa kutosha na siku zote tunafuata sheria za ndani na nje ya Benki katika kutimiza wajibu wetu. Ikiwa hatuwezi kufuata sheria kwa sababu za msingi basi tunaenda mbele zaidi na kutafuta ufumbuzi wa tatizo. Tunatekeleza kazi zetu kitaalamu kwa kubeba majukumu yote ya lazima ya kisheria kuepuka makosa katika matukio ya kila siku.

History and Ownership

Maelezo Mafupi ya Kampuni (Historia na Umiliki)



National Microfinance Bank Plc (NMB) is one of the largest commercial banks in Tanzania, providing banking services to individuals, small to medium sized corporate clients, as well as large businesses.

It was established under the National Microfinance Bank Limited Incorporation Act of 1997, following the break-up of the old National Bank of Commerce, by an Act of Parliament. Three new entities were created at the time, namely: NBC Holdings Limited, National Bank of Commerce (1997) Limited and National Microfinance Bank Limited.

Initially NMB could only provide payment services as well as offer savings accounts, with limited lending capabilities, before becoming a fully-fledged universal retail bank.

In 2005, the Government of the United Republic of Tanzania privatized the bank when it sold part of its shareholding (49%) to a consortium led by the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ('Rabobank Group').

Subsequently, there was further divestiture in 2008 when the Tanzanian Government off loaded another 21% of its shareholding to the Tanzanian public through an Initial Public Offering (IPO). The listing of the bank's stock on the Dar es Salaam Stock Exchange has led to a diversified ownership structure.

National Microfinance Bank PLC (NMB) ni miongoni mwa Benki kubwa za biashara hapa Tanzania, inayotoa huduma kwa wateja binafsi, wateja wadogo, wa kati, na wakubwa.

Benki ilianzishwa kutokana na Sheria ya Bunge ya "National Microfinance Bank Limited" ya mwaka 1997, kufuatia kuvunjwa kwa iliyokuwa Benki ya Taifa ya Biashara kwa mujibu wa sheria ya Bunge. Taasisi tatu ziliundwa wakati huo ambazo ni NBC Holding Corporation Ltd, NBC (1997) na National Microfinance Bank Limited (NMB).

Mwanzoni NMB ilikuwa ikitoa huduma za malipo na akaunti za akiba pamoja na mikopo kwa kiwango kidogo.

Mwaka 2005, Serikali ya Tanzania ilibinafsisha benki kwa kuuza asilimia arobaini na tisa (49%) ya hisa kwa ushirika uliokuwa ukiongozwa na Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ('Rabobank Group').

Kwa mara nyingine, mwaka 2008 Serikali ya Tanzania ilipunguza tena asilimia ishirini na moja (21%) ya hisa zake kwenye benki kwa kuziua kwa mara ya kwanza kwa umma wa Watanzania (Initial public offering).

Our Customers

NMB's customer base remains representative of Tanzania as a whole and includes government, civil servants, large corporates, SME's and MSME's, agriculture including small scale farmers, and microfinance institutions, as well as the Tanzanian public, both in rural and urban areas. NMB relies on its widespread distribution network to reach out to its customers and is one of the key players in improving financial inclusion in Tanzania.

Our People

Our staff are also shareholders in NMB and together with their families have a direct interest and stake in the long term success of NMB.

Ownership

The total number of shareholders during the year 2012 is 19,950.

Wateja wetu

Aina ya wateja wanaohudumiwa na NMB wana uwakilishi wa makundi yote ya Tanzania ikiwa ni pamoja na serikali, watumishi wa umma, mashirika makubwa, wateja wadogo na wa kati na wakubwa, wakulima wakiwemo pia wakulima wadogo na taasisi ndogo ndogo za kifedha, pamoja na umma wa Watanzania waishio vijijini na mijini. NMB inategemea mtandao wake mpana wa utoaji huduma katika kuwafikia wateja wake na ni moja ya taasisi zinazoongoza katika kuwawezesha Watanzania kupata huduma za kifedha.

Wafanyakazi

Wafanyakazi wetu ni wanahisa wa NMB pamoja na familia zao wana masilahi ya moja kwa moja na wananufaika na mafanikio ya muda mrefu ya NMB.

Umiliki

Jumla ya wanahisa kwa mwaka 2012 ni 19,950.

List of shareholders who individually own 0.5% or more shares

Orodha ya Wanahisa ambao wanaomiliki 0.5% au zaidi

Name of Shareholder	Number of shares held	Percentage of shares held
Jina la Mwanahisa	Idadi ya hisa wanazomiliki	Asilimia ya hisa wanazomiliki
Cooperative Centrale Raiffeisen-Boerenleenbank B.A "Rabobank Nederland" (Rabobank)	174,500,000	34.9%
Treasury Registrar (Government of Tanzania)	158,901,800	31.8%
National Investment Company Limited (NICOL)	33,000,000	6.6%
Exim Bank (Tanzania) Limited	22,975,904	4.6%
Aunali F.Rajabali	11,588,882	2.3%
Sajjad F.Rajabali	11,435,526	2.3%
Standard Chartered Bank (Tanzania) Nominee Limited	10,150,249	2.0%
Standard Bank Plc	6,666,872	1.3%
Parastatal Pension Fund (PPF)	4,831,636	1%
National Social Security Fund (NSSF)	3,592,561	0.7%
TCCIA Investment Company Limited	2,611,886	0.5%

Founding Members

Rabobank Consortium

Rabobank is a full-range financial services provider operating on the basis of co-operative principles. Its origins are in the local loan co-operatives that were founded in the Netherlands nearly 110 years ago by enterprising people who had virtually no access to the capital market. The local Rabobank member banks that evolved from this have a strong tradition in the agricultural sector and in small and medium-sized enterprises.

Rabobank is one of the leading banks in the Netherlands. Rabobank Group employs more than 55,000 people who serve approximately 10 million clients in 48 countries. In terms of Tier I capital, Rabobank Group ranks among the world's 25 largest financial institutions. Rabobank Group has the highest credit rating, awarded by rating agencies Standard & Poor's, Moody's Investor Service and DBRS. For more information, please visit www.rabobank.com

Other founder members of the Rabobank Consortium are Exim Bank (Tanzania) Limited, National Investment Company Limited (NICOL) and TCCIA Investment Company Limited.

Government of Tanzania

The Government of Tanzania holds 31.78% of the shares of NMB. It holds these shares through the Treasury Registrar in the Ministry of Finance.

Non Founder Members

Public shareholders hold 21.2% of the shares of NMB.

Foreign investors

Foreign investors also hold 3.36% of NMB shares, directly or as nominees.

Wanachama Waanzilishi

Kundi la Rabobank

Rabobank inatoa huduma kamili za za kifedha na inafuata dhana za vyama vya ushirika. Ilitokana na vikundi vya ushirika vya kukopeshana huko Uholanzi takribani miaka 110 iliyopita vilivyojumuisha wajasiriamali ambao mwanzoni hawakupewa fursa ya kupata mitaji kutoka kwenye masoko ya mitaji. Rabobank iliyoundwa kutokana na misingi imara kwenye sekta ya kilimo na biashara ndogo ndogo na za kati.

Rabobank ni miongoni mwa mabanki yanayoongoza huko Uholanzi. Imejiri zaidi ya watu 55,000 ambao wanahudumia wateja wanaokadiriwa kufikia milioni 10 katika nchi 48. Kwa mtaji, Rabobank ni moja kati ya taasisi 25 kubwa zaidi za kifedha duniani, pia ina tathmini ya juu kabisa ya kukopesheka iliyopewa na wakala wa tathmini Standard & Poor's, Moody Investor Services na DBRS. Kwa taarifa zaidi tafadhali tembelea tovuti hii www.rabobank.com.

Wanahisa wengine waanzalishi ni pamoja na benki ya Exim Tanzania, Kampuni ya Uwekezaji Tanzania (NICOL) na TCCIA Investment Company Limited.

Serikali ya Tanzania

Serikali ya Tanzania inamiliki asilimia 31.78 ya hisa za NMB. Inamiliki hisa hizi kupitia kwa Msajili wa Hazina katika Wizara ya Fedha.

Wanahisa Wasio Waanzilishi

Umma wa Watanzania unamiliki asilimia 21.2 ya hisa za NMB.

Wawekezaji wa nje

Wawekezaji wa kigeni kupitia kwa mawakala pia wanamiliki asilimia 3.36 ya hisa za benki ya NMB.

Board of Directors Bodi ya Wakurugenzi



Back Row / Mstari wa Nyuma

Left to Right / Kushoto kwenda Kulia

Mr. Jos van Lange, Mrs. Anne Mbughuni, Mr. Mike Laiser, Mr. Protase Tehingisa

Front Row / Mstari wa Mbele

Left to Right / Kushoto kwenda Kulia

Mr. William Mlaki, Mr. Albert Jonkergouw, Prof. Joseph Semboja, Mrs. Margaret Ikongo

Joseph Semboja**Board Chairman**

Prof. Joseph Semboja heads a leadership capacity building organization, Institute of African Leadership for Sustainable Development (UONGOZI Institute) and is an acknowledged leader in the field of development economics, with extensive research experience in the areas of growth and poverty reduction. He holds a BA and MA from the University of Dar es Salaam, MSc and PhD from the University of Illinois, Urbana-Champaign.

Mike Laiser

Mr. Mike Laiser is the Director General of Small Industries Development Organisation (SIDO). He has over 25 years working experience in managing and consulting SME development in Tanzania and other SADC countries. He holds BA Hons in Economic Planning from the University of Dar es Salaam and MA Development Economics from Boston, USA.

Jos van Lange

Mr. Jos van Lange is the Chief Financial and Risk Officer (CFRO) in the Executive Board of Rabo Real Estate Group, an international real estate company of Rabobank formed by the merger of several real estate companies. Prior to this role, Mr. van Lange was the Director of Retail Banking of Rabobank in the Netherlands. He is an Economist by profession.

Anne Mbughuni

Mrs. Anne Mbughuni is the Director of Finance and Administration at the National Insurance Corporation of Tanzania Ltd. She is an Accountant, registered with the National Board of Accountants and Auditors (NBAA) as a Certified Public Accountant and holds an Advanced Diploma in Certified Accountancy, a Certified Public Accountant (CPA) professional degree and a Masters of Social Science in Accounting and Development Finance from the University of Birmingham, UK.

Joseph Semboja**Mwenyekiti wa Bodi**

Prof. Joseph Semboja kwa sasa anaongoza taasisi ya kujenga uwezo inayojulikana kama Taasisi ya Uongozi Afrika kwa Maendeleo Endelevu (Uongozi Institute) na ana uzoefu mkubwa wa utafiti kwenye ukuaji wa uchumi na kupunguza umaskini. Ni mtaalamu aliyebobea katika masuala ya uchumi na ana shahada ya BA na MA kutoka Chuo Kikuu cha Dar es Salaam, MSc na PhD kutoka Chuo Kikuu cha Illinois, Urbana – Champaign.

Mike Laiser

Bwana Mike Laiser ni Mkurugenzi Mkuu wa Shirika la Maendeleo ya Viwanda Vidogo vidogo (SIDO). Ana uzoefu wa zaidi ya miaka 25 katika kuongoza na kushauri wafanyabiashara wadogo na wa kati nchini Tanzania na katika nchi nyingine za SADC. Ana shahada mbili za Uchumi kutoka Chuo Kikuu cha Dar es Salaam na Chuo Kikuu cha Boston, USA.

Jos van Lange

Bwana Jos van Lange ni Afisa Mkuu wa Fedha na Mambo ya Tahadhari (CFRO) katika Bodi ya Jumuiiko la Makampuni ya Kimataifa ya Mali zisizohamishika ya Rabo, (Rabo Real Estate Group). Awali iliungana na kampuni mbalimbali za mali zisizohamishika. Kabla ya kushika wadhifa huu, Bwana van Lange alikuwa Mkurugenzi wa kitengo cha huduma kwa wateja (Retail Banking) cha Rabobank ya Uholanzi. Bwana Jos van Lange ni mtaalamu wa Uchumi.

Anne Mbughuni

Bi Anne Mbughuni ni Mkurugenzi wa Fedha na Utawala katika Shirika la Bima la Taifa. Pia ni Mhasibu kitaaluma na amesajiliwa na Bodi ya Taifa ya Uhasibu na Ukaguzi (NBAA) kama "Certified Public Accountant". Bi Anne Mbughuni ana shahada ya juu ya Uhasibu, cheti cha juu cha kitaaluma katika uhasibu yaani CPA na shahada ya uzamili katika Sayansi ya Jamii katika Uhasibu na masuala ya Fedha kutoka Chuo Kikuu cha Birmingham, Uingereza.

Protase Tehingisa

Mr. Protase Tehingisa is a Legal Practitioner specialising in corporate and investment law. He worked as Secretary/Chief Legal Counsel of the East African Development Bank. Prior to that he worked as a State Attorney at the Attorney General's Chambers, and was also once the Corporation Counsel at the Tanzania Legal Corporation. He holds a LL.B Degree from the University of Dar es Salaam.

Margaret Ikongo

Mrs Margaret Ikongo is an independent insurance consultant and a Chartered Insurer by profession. She was the Managing Director of the National Insurance Corporation for over 10 years and served on the boards of different re insurance companies.

William Mlaki

Mr. William Mlaki is an independent business consultant and an Economist/Banker by profession with over 35 years of development banking experience. He was Managing Director of Tanzania Investment Bank for 13 years and served on the boards of a number of companies and financial institutions within and outside Tanzania. He holds a BA Hons. in Economics and Management from the University of Dar es Salaam and MSc in Business Management from ADL, USA.

Albert Jonkergouw

Mr. Albert Jonkergouw is responsible for managing investments in Africa within Rabo Development NV and has over 16 years' experience in retail and wholesale banking internationally and within Rabobank Netherlands. He holds two university degrees in Accounting & Auditing and is member of NOREA (Netherlands Order of Registered IT Auditors) and the South African Institute of Professional Accountants (IPA).

Protase Tehingisa

Bwana Protase Tehingisa ni Mwanasheria na mtalaamu wa sheria za uwekezaji wa makampuni. Amewahi kufanya kazi kama Katibu/Mwanasheria Mfawidhi katika Benki ya Maendeleo ya Afrika Mashariki (EADB). Kabla ya hapo alikuwa Mwanasheria wa Serikali katika ofisi ya Mwanasheria Mkuu wa Serikali na pia alishawahi kuwa Mshauri katika Chama cha Wanasheria Tanzania. Bwana Protase Tehingisa ana shahada ya Sheria kutoka Chuo Kikuu cha Dar es Salaam.

Margaret Ikongo

Bi Margaret Ikongo ni mshauri wa kujitegemea katika masuala ya Bima, pia amesalihiwa kama "Chartered Insurer" katika taalumu ya Bima. Alikuwa Mkurugenzi Mtendaji wa Shirika la Bima la Taifa kwa zaidi ya miaka 10. Pia amewahi kuwa mkurugenzi wa bodi katika makampuni mbalimbali ya Bima.

William Mlaki

Bwana William Mlaki ni mshauri wa kujitegemea katika masuala ya biashara na ana uzoefu wa zaidi ya miaka 35 katika shughuli za kibenki. Alikuwa Mkurugenzi Mtendaji wa Benki ya Rasilimali (TIB) kwa miaka 13. Pia amewahi kuwa mkurugenzi wa kwenye bodi za makampuni mbalimbali na taasisi za fedha hapa Tanzania na nje ya nchi. Bwana William Mlaki ana shahada ya Uchumi kutoka Chuo Kikuu cha Dar es Salaam na Shahada ya Uzamili kwenye masuala ya Biashara na Uongozi kutoka ADL, USA.

Albert Jonkergouw

Bwana Albert Jonkergouw anahusika na kusimamia vitegauchumi Afrika ndani ya Kitengo cha Maendeleo cha Benki ya Rabo na ana ujuzi wa miaka 16 wa shughuli za benki za wateja wadogo na wakubwa kimataifa ndani ya Benki ya Rabo ya Uholanzi. Ana shahada mbili za Uhasibu na Ukaguzi na ni mwanachama wa NOREA (Chama cha Wakaguzi Uholanzi) na Chama cha Wahasibu Afrika Kusini (IPA).

Close to everyone



NMB

Chairman's Report

Taarifa ya Mwenyekiti



It is a great pleasure for me to report to the shareholders and other stakeholders of the National Microfinance Bank PLC (NMB) on the financial and operational results of the bank in 2012. This pleasure is enhanced not only by the fact that this is the very first time that I have the honour of submitting this report, but also as a result of the outstanding results being reported by the bank whose chairmanship I assumed as recently as November 2012.

I would like to congratulate my predecessor, Mr. Misheck Ngatunga for having led NMB for almost a decade in his capacity as non-executive director and Chairman, from prior to the bank's privatization in 2005 until early 2012 when he retired from the Board. It is clear that NMB has evolved significantly over those years, from being a bank with a limited mandate to become a full-fledged commercial bank, leading the market in many areas, and making a significant contribution to the Tanzanian economy.

Nina furaha kubwa kutoa taarifa ya fedha na matokeo ya utendaji wa benki kwa wanahisa na wadau wengine wa NMB kwa mwaka 2012. Furaha yangu haitokani tu na ukweli kwamba hii ni mara yangu ya kwanza ninapata heshima ya kuwasilisha taarifa hii, bali pia ni kutokana na matokeo mazuri ya benki ambayo nimepokea uwenyekiti wake hivi karibuni, mwezi Novemba 2012.

Napenda kumpongeza mtangulizi wangu Ndg. Misheck Ngatunga kwa kuingoza NMB kwa takribani mwongo mmoja kwa nafasi yake kama mkurugenzi asiye mtendaji na Mwenyekiti, tangu wakati benki haijabinafsishwa mwaka 2005 mpaka mwaka 2012 alipostaafu kama mjumbe wa bodi. Ni wazi kuwa NMB imeshuhudia mabadiliko makubwa kwa kipindi chote hicho tangu ilipokuwa benki iliyoruhusiwa kutoa huduma chache mpaka ilipokuwa benki kamili ya kibiashara, inayoongoza soko katika maeneo mengi na kutoa mchango mkubwa kwenye maendeleo ya kiuchumi nchini Tanzania.

Economic Context

It has almost been five years since the global economic crisis erupted in 2008. Indeed, the global economy is still struggling with the aftermath, more so in the so-called developed economies than in what are referred to as emerging markets. The European debt crisis that erupted 3 years ago has had significant adverse economic and social consequences through reduced economic activity globally. The advanced economies have depended on emerging markets for growth, although the latter have also felt the impact of deteriorating economic conditions.

Nonetheless, Tanzania's economy remained relatively resilient to the international developments. Over the past decade Tanzania has remained one of the fastest growing economies at around 7% p.a., thanks to its relative isolation from global markets, and effective economic policies. The country's indicators once again point to a growth percentage of some 7% in 2012.

The year 2012 was also marked by a gradual but consistent decline in the domestic inflation rate, and a stable foreign exchange rate, despite the deficit in the country's current account deficit. This was achieved on the back of a number of economic and monetary policy decisions. Interest rates which had increased toward the end of 2011 have also started coming down but are still well aligned with inflation and resulted in positive real interest rates for most of the year.

Financial and Operational Performance

Thanks to the resilient domestic economy, NMB has continued to do well in 2012. All key indicators point to solid growth, including loans (up 19% to TZS 1.35 trillion) and deposits (up 27% to TZS 2.3 trillion), comparing well to market growth rates (up 14% and 11% respectively), per published prudential accounts (pursuant to section 32(3) of the Banking and Financial Institutions Act). This indicates that NMB has maintained or gained market share in these key indicators.

These positive developments have translated in strong

Hali ya Uchumi

Ni takribani miaka mitano sasa tangu mdororo wa uchumi duniani ulipolipuka mwaka 2008. Bado uchumi wa dunia unayumba kutokana na athari zake, zaidi sana kwenye nchi zinazojulikana kama zenye uchumi ulioendelea kuliko kwenye zile za uchumi unaokua au wa masoko mapya. Mgogoro wa deni la Ulaya uliojitokeza miaka mitatu iliyopita umekuwa na madhara ya kiuchumi na kijamii kutokana na kupungua kwa shughuli za kiuchumi duniani. Maendeleo ya Uchumi wa nchi zilizoendelea ulitegemea masoko mapya kwa ukuaji wake ingawaje hata masoko mapya pia yamepata madhara kutokana na kudorora kwa uchumi.

Hata hivyo, uchumi wa Tanzania kwa kiwango kikubwa uliweza kuhimili mabadiliko hayo ya kimataifa. Katika mwongo uliopita Tanzania imebaki kuwa moja ya nchi zenye uchumi unaokua kwa kasi, kiasi cha asilimia 7 kwa mwaka. Hii ni kutokana na kuwa kwake pembeni ya mfumo wa masoko ya kimataifa na sera nzuri za kiuchumi. Viashiria vya kiuchumi vinaonyesha kwamba uchumi ilikua kwa kiwango cha asilimia 7 katika mwaka 2012.

Katika mwaka 2012 kulikuwa na mwendelezo wa kushuka kwa mfumuko wa bei ingawa kwa taratibu na kutobadilika sana kwa viwango vya kubadilisha fedha za urairi kigeni, japokuwa kulikuwa nakisi kubwa katika biashara. Hii imefikiwa kutokana na maamuzi mbalimbali yaliyofanywa ya kisera katika uchumi na fedha. Viwango vya riba ambavyo viliongezeka mwishoni mwa mwaka 2011 vimeanza kushuka lakini bado vinaendana na mfumuko wa bei na vikatoa matokeo chanya ya riba halisi katika muda mwingi wa mwaka.

Matokeo ya Kifedha na Kiutendaji

Utulivu katika uchumi wa ndani umeiwezesha NMB kuendelea kufanya vizuri mwaka 2012. Viashiria vyote vinaonyesha ukuaji imara, ikiwemo mikopo (imeongezeka kwa asilimia 19 kufikia TZS 1.35 trilioni) na amana (zimeongezeka kwa asilimia 27 hadi kufikia TZS 2.3 trilioni), kulinganisha ukuaji wa soko (ongezeko la asilimia 14 na asilimia 11 kwa mfuatano), kama taarifa za fedha zilizochapishwa (kwa mujibu wa kifungu 32(3) cha sheria ya Mabenki na Taasisi za Fedha). Hii inaonyesha wazi kuwa

revenue growth (up 39% to TZS 373 billion), principally driven by higher net interest income, on the back of higher interest rates and increased loans and investment volumes. Costs have also grown (up 32% to TZS 202 billion), but we derive comfort from the fact that these include a not insignificant element of non-recurring costs and provisions.

The non-performing loan (NPL) ratio remains at a commendably low rate of some 2.4%, thanks to conservative write off and impairment decisions.

Overall, these developments have resulted in Profit Before Tax growth of 41% to TZS 144.6 billion. The Profit after Tax has grown 36% to TZS 97 billion for the full year 2012.

The bank's key performance indicators also remained strong with the cost to income ratio slightly improved to 55% and the loan to deposit ratio slightly lower at 59% (changed from 60% and 64% respectively in 2011).

Share Price and Investor Relations

The bank's Net Asset Value (NAV) increased by 25.5% to TZS 356 billion. On a per share basis, the NAV per share increased from TZS 568 to TZS 713, while earnings per share increased from TZS 144 to TZS 195.

The bank's share price has evolved favorably over the course of 2012, having shown steady improvement from its opening level of TZS 850 per share at the start of the year, and closing at TZS 1,120 at the end of 2012.

Governance

The Board of Directors witnessed some changes in 2012, with Directors Misheck Ngatunga and Felix Mosha retiring, to be replaced by Directors Anne Mbughuni and Professor Joseph Semboja.

One further vacancy remains on the Board of Directors of NMB, and we are hopeful to identify a candidate for approval by the bank's shareholders on the occasion of the next Annual General Meeting.

NMB imeongeza kiwango cha umiliki wake wa soko katika viashiria hivi.

Maendeleo haya chanya yamejidhihirisha katika ukuaji wa mapato (ongezeko la asilimia 39 hadi kifikia TZS 373 bilioni), kimsingi yametokana na faida ya mapato halisi ya riba, yakiendana na riba kubwa na kuongezeka kwa mikopo na uwekezaji. Gharama pia zimeongezeka (ongezeko la asilimia 32 hadi kifikia TZS 202 bilioni), lakini tunapata faraja kutokana na ukweli kwamba hii inajumuisha gharama za uwekezaji ambazo hazijirudii na zilizotengwa.

Uwiano mikopo isiyolipika imeendelea kuwa katika kiwango kinachoridhisha cha asilimia 2.4, tunashukuru kwa utaratibu mzuri wa kufuta madeni na kufanya maamuzi. Kwa ujumla, maendeleo haya yamepelekea faida kabla ya kodi kuwa asilimia 41 (TZS 144.6 bilioni). Faida baada ya kodi imekua kwa asilimia 36 (TZS 97 bilioni) kwa mwaka mzima 2012.

Vigezo vya kiutendaji vya mafanikio ya benki vilionyesha pia kuimarika ambapo uwiano wa mapato na matumizi yaliboreka kiasi kufikia asilimia 55 na uwiano wa mikopo na amana ilikuwa chini kidogo yaani asilimia 59 (ilibadilika kutoka asilimia 60 hadi asilimia 64 kwa mfuatano kwa mwaka 2011.)

Bei ya Hisa na Mahusiano ya Wawekezaji,

Thamani halisi ya rasilimali za benki (NAV) iliongezeka kwa 25.5% mpaka TZS 356 bilioni, wakati pato la hisa liliongezeka kutoka TZS 144 hadi TZS 195.

Bei ya hisa za benki iliendelea kufanya vizuri katika soko kwa mwaka 2012, kwa kuonyesha mafanikio kutoka kwenye bei ya TZS 850 mwanzo wa mwaka kwa hisa hadi TZS 1,120 mwishoni wa mwaka 2012.

Utawala

Bodi ya Wakurugenzi imeshuhudia mabadiliko katika mwaka 2012, ambapo Wakurugenzi Misheck Ngatunga na Felix Mosha walistaafu, na nafasi zao kuchukuliwa na Wakurugenzi Anne Mbughuni na Profesa Joseph Semboja.

In addition, the tenure of some of our directors has reached the statutory three year limit and one third of those who have reached the limit will resign but may offer themselves for reelection, in line with the bank's Articles of Association.

More generally, the bank continues to subscribe to the highest standards of corporate governance, in applying best practice standards but also through regular board and/or committee self-assessments and in endeavoring appropriate disclosures to its stakeholders.

Dividend Proposal

The Board of Directors of NMB, at their meeting on 9th February 2013, recommended a dividend of TZS 68 per share, up 36% from TZS 50 in the previous year.

The proposal is in line with the bank's improved profitability and existing regulatory guidelines, but is also mindful of remaining adequately capitalized for unforeseen circumstances and in anticipation of increased minimum regulatory capitalization levels to be proclaimed by the Bank of Tanzania, and generally in line with the bank's prudent Risk Policies which have been adopted by the Board.

The proposed dividend at TZS 68 per share, would represent a dividend yield of some 6% based on the bank's December 2012 share price of TZS 1,120.

Conclusion

The banks' future remains encouraging. Despite continued uncertainty, there is a sense that slowly but surely the global economy may gradually start emerging from its slump.

On the back of Tanzania's own multi year track record of high nominal growth rates, we do expect once again strong domestic growth of some 7% in 2013, despite short term weaknesses associated with the current account

Nafasi moja bado ipo wazi kwenye Bodi ya Wakurugenzi wa NMB, na tunatarajia kuleta pendekezo la Bodi kwa ajili yakupitishwa na wanahisa kwenye Mkutano Mkuu wa mwaka ujao.

Muda wa baadhi ya Wakurugenzi umefikia ukomo kikanuni wa miaka mitatu na robo ya hao waliofikia ukomo watajiuzulu lakini wanaweza kuomba wenyewe kuchaguliwa tena, kulingana na Kanuni za uanzishwaji wa benki.

Kwa ujumla, benki itaendelea kutumia kanuni za utawala bora, katika kufuata viwango bora vya utendaji na pia bodi na/au kamati zake kuendelea kujipima mara kwa mara na kujaribu kujiweka karibu nawadau wake.

Pendekezo la Gawio

Bodi ya Wakurugenzi wa NMB, katika mkutano wake uliofanyika tarehe 9 mwezi wa 2 mwaka 2013, ulipendekeza gawio la TZS 68 kwa hisa ambapo ni ongezeko la asilimia 36 kutoka TZS 50 kwa mwaka uliopita.

Pendekezo hili ni sambamba na ukuaji wa faida ya benki na sheria zilizopo zinazoongoza, lakini pia limezingatia kiwango kinachotakiwa kubaki ili kukuza mtaji ili kukabili mazingira yasiyotarajiwa, nakujiandaa na ongezeko la kiwango cha chini cha lazima cha mtaji kinachotarajiwa kutangazwa na Benki Kuu ya Tanzania. Pia ni sambamba na sera za benki za uangalifu makini ambazo zimepitishwa na Bodi.

Pendekezo la gawio la 68 kwa hisa, inawakilisha pato la hisa la asilimia 6 msingi wake ukiwa ni bei ya hisa ya TZS1,120 ya Desemba 2012.

Hitimisho

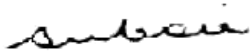
Mwelekeo wa Benki una matarajio ingawa kwa taratibu, uchumi wa dunia utaanza kukua kwa taratibu kutoka katika mdororo wake.

Katika Tanzania kumbukumbu za miaka iliyopita zinaonyesha kukua kwa uchumi na pia tunatarajia tena kukua kwa uchumi kwa asilimia ile ile asilimia 7 katika

deficit, and dependence on donors. The potential of agriculture and the country's natural resources such as gold, gas, may also give a strong foundation for medium term sustainability.

In the meantime, a stable monetary policy combined with strong investment and private consumption should bode well for the banking sector as a whole and for NMB itself.

On behalf of the Board, I wish to thank Management and staff for delivering another successful year, both financially and operationally, and of course to thank our stakeholders including Government of Tanzania, shareholders, and our customers for their support of NMB.

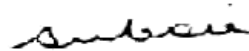


Professor Joseph Semboja
Chairman

mwaka 2013, japokuwa kuna changamoto ndogo za muda mfupi zinazotokana na uwiano hasi kwenye nakisi ya bajeti na kutegemea wafadhili. Matarajio ya kilimo na rasilimali za nchi kama dhahabu na gesi vinatoa msingi imara wa muda wa kati kwa kuimarika kwa uchumi.

Wakati huo huo, sera thabiti za fedha pamoja na uwekezaji imara na matumizi binafsi vinaongeza matumaini kwa sekta ya benki kwa ujumla wake na NMB yenyewe.

Kwa niaba ya Bodi ya Wakurugenzi, ninapenda kushukuru Uongozi wa Benki na wafanyakazi kwa kuwa na mwaka mwingine wa mafanikio kifedha na kiutendaji na pia kuwashukuru wadau wetu wote hususan Serikali ya Tanzania, wanahisa wetu na wateja wote kwa kuiunga mkono NMB.



Profesa Joseph Semboja
Mwenyekiti

01

02



NMB FAST TRACK



Management Team Uongozi wa Benki



Back Row / Mstari wa Nyuma

Left to Right / Kushoto kwenda Kulia

Mr. Danny van Det (Chief Risk Officer), Mr. Aziz Chacha (Treasurer), Mr. Charles Kazuka (Chief Human Resource Officer), Mr. Arjan Molenkamp (Chief Retail Banking Officer)

Front Row / Mstari wa Mbele

Left to Right / Kushoto kwenda Kulia

Mr. Waziri Barnabas (Chief Financial Officer), Mr. Mark Wiessing (Chief Executive Officer), Mrs. Lilian R. Komwihangiro (Company Secretary & Legal Counsel), Mr. John Ncube (Chief Information & Operations Officer).



**Huduma za kibenki
karibu yako zaidi...**

Chief Executive Officer's Report

Taarifa ya Afisa Mtendaji Mkuu



The year 2012 has been a good one for NMB, continuing on its mission to provide affordable customer focused financial services to the Tanzanian community, through its extensive branch network, while realizing sustainable benefits to all its stakeholders.

We have continued to provide transactional-, savings and investment-, and lending solutions to our growing customer base in our chosen wholesale, MSME (micro-, small- and medium enterprises), food and agriculture, government, and personal banking segments, nationwide.

Of course, for NMB to remain relevant to its stakeholders in the longer run, and to achieve its vision of becoming the preferred financial service partner in Tanzania, it must also deliver sufficient and sustainable financial results.

Mwaka 2012 ulikuwa ni mwaka wa mafanikio kwa NMB, kwani iliendeleza kauli mbiu yake ya kutoa huduma za kibenki kwa gharama nafuu zenye kumlenga mteja wa jamii ya Kitanzania, kutumia mtandao mpana wa matawi yake, ili kupata manufaa endelevu kwa wadau wake wote.

Tumeendelea kutoa huduma ya miamala, akiba na kuwekeza, na huduma ya mikopo kwa wateja wetu ambao wanaongezeka katika idara zetu za wateja wakubwa, wadogo na wateja wa kati, chakula na kilimo, serikali na wateja binafsi nchi nzima.

Bila shaka ili NMB iendelelee kuwa na umuhimu kwa wadau wake kwa kipindi kirefu, na ili iweze kufanikisha dira yake ya kuwa chaguo la kwanza katika asasi za utoaji huduma za kibenki hapa nchini Tanzania, ni lazima itoe huduma timilifu na inayotoa matokeo mazuri endelevu ya mahesabu yake kifedha.

It is therefore with great pleasure that I can report that the bank's financials have continued to develop strongly, with record Profit After Tax (PAT) of TZS 97 billion (up 36% from previous year) and return on shareholders' funds of 27%, while retaining a strong balance sheet with a low Non Performing Loan (NPL) ratio of less than 2.4%.

Economic and Market Developments

In a year of slow global growth, Tanzania stood out by the resilience of its economic growth at some 7% p.a. The local financial markets also evolved favorably, with headline inflation gradually reducing to about 12%, a stable exchange rate hovering at around TZS 1600 per USD, and reducing but still positive real interest rates. The economic performance appeared tempered only by the large current account deficit of 12% of GDP, while official reserves hovered around 4 months of imports. The fiscal deficit of 8.5% also relies significantly on foreign grants.

In this economic context, the Tanzanian banking market saw continued new entrants in the sector, with a total of 50 licensed banks (46 in 2011), who together operated 552 branches (of which NMB own 150) and had total assets of some TZS 15.4 trillion (of which NMB represents TZS 2.8 trillion).

According to data published by all the banks pursuant to Section 32 (3) of the Banking and Financial Institutions Act, the markets have developed as follows:

Ni kwa sababu hii ninayo furaha kubwa kutoa taarifa kwamba benki imeendelea kuimarika zaidi kwenye mahesabu yake kifedha, kwa kupata faida baada ya kodi ya TZS 97 Bilioni (imeongezeka kwa asilimia 36 kutoka ile ya mwaka jana) na rejesho kwenye faida za wanahisa la asilimia 27 wakati ambapo imeendelea kuwa na mizania imara na uwiano mdogo wa mikopo isiyolipika chini ya asilimia 2.4.

Uchumi na Maendeleo ya Soko

Mwaka ulikuwa na ukuaji wa polepole wa uchumi duniani, Tanzania ilikuwa imara na uchumi wake uliendelea kukua kwa asilimia 7 kwa mwaka. Soko la fedha la ndani pia lilikua, mfumuko wa bei uliendelea kushuka kufikia takribani asilimia 12, bei ya kubadilisha shilingi kwa dola kufikia 1600 kwa dola moja, ikiwa na kupungua kwa pato halisi la riba ingawa bado ni chanya. Matokeo ya kiuchumi yanaonekana yanakabiliwa na pengo hasi kwa pato la taifa kwa asilimia 12 ya pato la ndani, kiwango cha akiba ya lazima kisheria kinafikia takribani miezi minne (4) ya bidhaa kutoka nje. Nakisi ya kifedha ya asilimia 8.5 pia inategemea zaidi misaada kutoka nje.

Katika muktadha huwa kiuchumi, soko la benki nchini limeshuhudia kuongezeka kwa mabanki mapya, kukiwa na jumla ya mabanki 50 yenye leseni (46 yalikuwepo mwaka 2011), ambayo yote kwa pamoja yana matawi 552 (ambapo NMB ina matawi 150) na rasilimali za jumla ya TZS 17 trilion (ambapo kati ya hizo zile za NMB zina thamani ya TZS 2.8 trilion)

Kutokana na takwimu zilizotolewa na mabanki yote kwa mujibu wa kifungu cha 32 (3) cha Sheria za Mabanki na Taasisi za Fedha. Sura ya Soko la Fedha ilikua kama ifuatavyo:

	Total market	Top 8 banks	NMB
Deposit growth	11%	9%	27%
Loan growth	14%	10%	19%
Revenue growth	20%	21%	39%
Cost to income ratio	71%	66%	55%
Loan to deposit ratio	66%	61%	59%

Financial Results

After the somewhat disappointing customer deposit growth in 2011, we are pleased to report that NMB's deposit generation capability was strengthened across both wholesale and retail segments and constituted the banks engine for growth in 2012. After a slow start, deposits closed at TZS 2.3 trillion, up 27% on 2011, and growing well ahead of the market as a whole.

The increased liquidity was applied to loan growth and the balance was invested proactively in the domestic money markets. Loan growth was respectable at around 19%, exceeding the market as whole.

Interest income benefited from this volume growth, but also from re-pricing measures implemented early in 2012, and from higher re-investment rates in the local money markets.

Non interest income growth remained subdued, with growth of about 15%, partially as a result of deferral of loan processing fees in line with IFRS accounting treatment. Despite significantly higher customer foreign exchange volumes, trading income did not follow suit as a result of tightened regulatory environment (reduced net open position limits and increased statutory reserve requirements imposed by Bank of Tanzania).

Accordingly, total revenues grew at a very respectable 39% in 2012, to a total of TZS 373 billion.

	Jumla ya Soko	Benki 8 kubwa	NMB
Ukuaji wa amana	11%	9%	27%
Ukuaji wa mikopo	14%	10%	19%
Ukuaji wa mapato	20%	21%	39%
Uwiano wa gharama na mapato	71%	66%	55%
Uwiano wa mikopo na amana	66%	61%	59%

Matokeo ya Kifedha

Baada ya kuwa na ukuaji wa amana za wateja usioridhisha kwa mwaka 2011, tunayo furaha kutoa taarifa kwamba uwezo wa kuongeza amana wa NMB umeimarika kwa idara zote za biashara za jumla na biashara ya rejareja na kwa ujumla imechangia kuwa ndio kichocheo cha benki kukua kwa mwaka 2012. Baada ya kuanza taratibu, amana ziliweza kufikia TZS. 2.3 trilion ni asilimia 27 ya matokeo ya mwaka 2011, na hii ilikuwa ni vyema kutokana na ukuaji wetu kutangulia zaidi ukuaji wa soko kwa ujumla wake.

Ukuaji wa ukwasi kulipelekea kukua kwa mikopo na kilichobaki kuwekezwa kwa uangalifu kwenye soko la fedha la ndani. Mikopo ilikua kwa takribani asilimia 19, kiwango kilichozidi ukuaji wa soko kwa ujumla.

Mapato yatokanayo na na riba pia yalichangiwa ukuaji huu, na vile vile kutokana na mkakati wa upangaji upya wa bei uliotekelwa mwanzoni mwa mwaka 2012, pia kutokana upatikana wa viwango vikubwa vya uwekezaji kutoka katika soko la fedha la ndani.

Mapato yasiyotokana na riba yamekua kwa kiwango cha asilimia 15. Kwa kiasi fulani biashara yametokana na gharama zinazokatwa kwa kutayarisha mikopo sambamba na kanuni za kimataifa za utoaji taarifa za fedha (IFRS). Pamoja na ukuaji wa mapato yatokanayo na ukubwa wa biashara ya ubadilishaji wa fedha za kigeni, mapato ya biashara hii hayakukua sambamba na ukuaji huu kutokana ubanaji wa taratibu mazingira ya usimamizi ya mabenki.

On the other hand, total expenses grew by about 32%, to a total of TZS 202 billion, on the back of staff and operating expenses. Staff expenses increased as a result of headcount growth (up from 2,659 to 2,783), but also on the back of a collective agreement with staff in the bargaining unit, resulting in a sizable adjustment of salaries, on top of the annual inflationary adjustment, to ensure the bank's remuneration remained competitive compared to the market.

With regards to the bank's lending activities it is gratifying to see that the bank was able to maintain a very strong loan book closing the year at TZS 1.35 trillion, of which 2.4% were classified Non Performing Loans or NPL's. The NPL ratio was achieved on the back of a conservative stance on impairments and write-offs. Impairments for the year represented 2% of the gross loans and advances, write offs represented 1%, while the coverage ratio, being the amount of provisions as a percentage of total NPL's, was 92%.

Overall, the bank's profit before tax increased by 41% from TZS 102.7 billion to TZS 144.6 billion, and the year closed with a Profit After Tax of TZS 97, also up 36% on 2011.

Accordingly, the bank's key efficiency ratios remained stable or improved in 2012, with the cost to income ratio closing at 55% and the loan to deposit ratio of 61% remaining well below the regulatory maximum of 80%.

On the basis of these strong results, the bank's Return on equity stood at a commendable 27%, and the bank's total core capital base of TZS 328 billion resulting in a capital adequacy ratio of 21% (before appropriation of profits), well above the regulatory minimum of 12% and in line with the bank's policies.

In reflecting on the results of the bank, it is also useful to look at the bank's value added statement, which indicates that, of all the value added created by NMB, it has allocated 31% or TZS 66.4 billion to government (in the form of corporate taxes, PAYE etc...), 34% or TZS

Kwa hiyo, mapato ya jumla yalikuwa kwa kiwango cha asilimia 39 katika mwaka 2012, kwa jumla ya TZS 373 bilioni.

Kwa upande mwingine, matumizi yalikuwa kwa takribani asilimia 32, kwa jumla ya TZS 202 bilioni, kutokana na kuongezeka gharama za wafanyakazi na gharama za uendeshaji. Gharama za wafanyakazi ziliongezeka kutokana na kuongezeka kwa idadi ya wafanyakazi (kutoka 2,659 hadi 2,783), lakini pia kutokana na makubaliano ya pamoja na wafanyakazi kupitia chama chao, iliyoipelekea kuongezeka kwa mishahara juu zaidi ya kiwango cha mfumuko wa bei kwa mwaka, ili kufanya mishahara ya wafanyakazi kuendelea kubaki katika kiwango cha ushindani katika soko.

Kwa upande wa shughuli za mikopo inafurahisha kuona benki iliendelea kua na mikopo mizuri ya TZS 1.35 trilion mwishoni mwa mwaka, ambapo kati yake asilimia 2.4 ni mikopo chechefu (inayoweza kutolipika). Uwiano huu mdogo wa mikopo chechefu umepatikana kutokana na msimamo thabiti wa kudhibiti hasara na kufuta mikopo. Tenge la hasara kwa mwaka ni asilimia 2 ya mikopo yote na mikopo iliyofutwa ni asilimia 1, wakati ambapo uwiano wa mikopo iliyo kwenye hatari ni asilimia 92 ya mikopo yote chechefu.

Kwa ujumla faida ya benki kabla ya kodi imeongezeka kwa asilimia 41 kutoka TZS.102.7 bilioni hadi TZS 144.6 bilioni na mwisho wa mwaka faida baada ya kodi ilikuwa TZS 97, ambapo pia imeongezeka kwa asilimia 36 ikilinganishwa na mwaka 2011.

Vilevile, uwiano wa vigezo vya ufanisi vimebaki kuwa imara na kuongezeka katika mwaka 2012, uwiano wa gharama na mapato ilifikia asilimia 55 na uwiano wa mikopo na amana ukisimama kwenye asilimia 61 chini ya kiwango cha juu cha asilimia 80.

Kutokana na matokeo haya mazuri, marejesho ya benki yatokanayo na mtaji yalikuwa asilimia 27, na mtaji wa msingi wa benki ulikuwa TZS.328 bilioni uliwezesha kua na

75.9 billion to Employees (salaries and benefits), 11% or TZS 25 billion to providers of capital (dividends), and 23% or TZS 53.9 billion to expansion and growth of its operations.

Business Developments

In the course of 2012, the bank slightly adjusted its top level organization chart to better leverage its core competencies and align them with the needs of the bank's customers. We believe that this new organisation structure will strengthen the focus on controls, sales and service for our key segments.

The heart of our organization remains our retail business, powered by the country's largest distribution network (150 branches, 485 ATM's), focused on servicing the payment, credit and savings needs of over 1,700,000 personal banking customers and 55,000 micro-, small- and medium sized enterprises (MSME). The total loan book to these retail segments represents TZS 961 billion, or 71% of the bank's total loans to the private sector. While it is estimated that 40% of those Tanzanians who have a bank account have an account at NMB, and financial inclusion is at the core of our mission.

Our wholesale banking business is focused on the financial requirements of large corporates (private and state owned), government (local and central government and institutions), and other institutions (such as non bank financial institutions, international organisations and NGO's). In addition to our lending capabilities, we are rapidly developing our liabilities driven transactional capabilities such as cash management and trade finance. Total loans from this segment are about TZS 327 billion.

Our treasury activities are also evolving from predictably placing excess liquidity in the market to an active funding and gapping strategy with an increased number of counterparties in the local market. Similarly, our foreign exchange activities are growing on the back of increased trade finance volumes generated by our wholesale and retail teams.

kiwango toshelezi cha mtaji ambacho ni asilimia 21 (kabla ya gawio kodi) kikiwa juu ya kiwango kinachokubalika kisheria cha asilimia 12 kwa mujibu wa sera za benki.

Katika kuangalia matokeo ya kifedha ya benki, ni muhimu kuangalia taarifa ya benki ya kuongeza thamani, katika ongezeko la thamani lililofanywa na NMB, benki imetenga asilimia 31 au TZS 55.4 bilioni kwa serikali (kama kodi ya mapato, PAYE...), asilimia 34 au TZS 75.9 bilioni kwa wafanyakazi (mishahara na mafao), asilimia 11 au TZS 25 bilioni kwa watoa mtaji (gawio) na asilimia 23 au TZS 53.9 bilioni kwa kupanua mtandao na kukua kwa uendeshaji.

Maendeleo ya Biashara

Katika mwaka 2012, benki ilifanya mabadiliko kidogo kwenye ngazi ya juu ya uongozi wa shirika ili iwe bora zaidi kulingana na msingi yake ili uendane na mahitaji ya wateja wa benki. Ni matumani yetu kwamba muundo huu mpya wa uongozi wa shirika utaimarisha muelekeo kwenye uhibititi, mauzo na huduma kwa makundi yetu muhimu.

Msingi wa benki yetu bado uko kwa wateja wetu wa rejareja, msingi unaoimarishwa na mtandao mkubwa wa matawi tuliyonayo (matawi 150, ATM's 485), kwa kulenga kutoa huduma ya malipo, mikopo na mahitaji ya akiba kwa zaidi ya wateja binafsi wa benki wapatao 1,700,000, na wateja wadogo na wakati wapatao 55,000. Jumla ya mikopo iliyotolewa kwa kundi la wateja wa rejareja ina thamani ya shilingi za kitanzania 961 bilioni, au asilimia 71 ya jumla ya mikopo yote iliyotolewa na benki kwa sekta binafsi. Wakati inakadiriwa kuwa asilimia 40 ya Watanzania wenye akaunti za benki wana akaunti NMB, na mjumlisho wa fedha ndio kiini cha dira yetu.

Kitengo chetu cha biashara ya jumla kinalenga kwenye mahitaji ya kifedha kwa wateja wakubwa (biashara binafsi), serikali (serikali kuu, serikali mitaa na taasisi zake) pamoja na taasisi nyingine (NGO's, taasisi za kimataifa n.k). Pamoja na uwezo wetu wa kukopesha tunaendeleza kwa kasi uwezo wetu wa miamala kama uangalizi wa fedha na biashara za fedha. Jumla ya mikopo kwenye sekta hii ni takribani TZS 327 bilioni.

Agriculture remains one of the largest contributors to the Tanzanian economy, but the sector remains highly fragmented and subject to regular outside intervention in a number of crops. These interventions make the outcome of the banks lending activities in this sector more unpredictable and require active engagement with the value chain stakeholders in order to map out a sustainable future. For now the bulk of our agricultural lending activities include our pioneering warehouse receipt financing structures, including the country's cashew crop, as well as input finance for other crops. Total primary agriculture financing amounts to some TZS 116 billion, or 9% of total loans, fluctuating with agricultural seasons. Through some many more AMCOS we reach out to over 15,000 private individuals and their households.

Outlook

The economic outlook for Tanzania remains favorable, with expected GDP growth of 7% in 2013, a likely continued strong performance even in the context of other emerging markets.

Strong economic growth rates often translate in attractive market growth rates for deposits and loans and advances, if monetary policies remain stable. This bodes well for the Tanzanian banking sector in general and for NMB in the future.

Key dependencies that may have an impact on the economy and on NMB in 2013 and beyond include:

- the endowment effect of possible continued downward adjustment in interest rates, which could have an adverse impact on the bank's interest income
- price volatility on key international commodities that may have a direct impact on the Tanzanian external position, including crude oil, cashew and tobacco, gold etc...)

Utendaji wa Idara yetu ya Hazina pia unabadilika kutoka kwenye kutabiri uwepo wa ziada ya ukwasi kwenye soko la fedha, hadi kuwa na mkakati wa kuangiza fedha kwa kuwekeza na kuziba mapengo kwa kushirikiana na wenzetu kwenye soko la ndani. Wakati huo huo shughuli za kubadilisha fedha zinaongezeka kutokana na kuongezeka kwa biashara za nje zinazofanywa na vitengo vyetu vya biashara za jumla na rejareja.

Kilimo kinabakia kuwa ni mojawapo ya wachangiaji wakubwa katika uchumi wa Tanzania, lakini inabaki kuwa sekta ambayo haijaunganika na inayoingiliwa mara kwa mara na sera za nje katika mazao mengi. Kuingiliwa huko kunapelekea matokeo yasitabirika kwa benki zinazokopesha katika sekta hii na kupelekea kuhitajika muunganiko wa wadau mbalimbali ili angalau kuweza kutengeneza biashara imara ya baadae. Kwa sasa sehemu kubwa ya mikopo ya kilimo inajumuisha waanzilishi wa Stakabadhi za mazao ghalani, ikijumisha zao la korosho, na pia kuwezesha kilimo cha mazao mengine. Kimsingi kukopesha kwenye kilimo kumefikia TZS.116 bilioni au asilimia 9 ya mikopo, ambayo inapanda na kushuka kutokana na misimu ya kilimo. Kupitia vyama vya Ushirika wa Kilimo na Masoko tuliwafikia watu binafsi na familia zao wapatao zaidi ya 15,000.

Muonekano

Muonekano wa uchumi wa Tanzania unabaki kuimarika, kwa kutegemea kuongezeka kwa pato la taifa kwa asilimia 7 katika mwaka 2013, na mafanikio kama hayo kwenye nchi za masoko mengine yanayokua.

Kuimarika kwa kiwango cha kukua kwa uchumi kinapelekea kukua kwa viwango vya amana, mikopo na mikopo ya muda mfupi, iwapo sera za fedha hazitabadilika. Hii inaashiria mafanikio katika sekta ya benki ya nchini Tanzania na NMB kwa ujumla wake baadae.

Mambo muhimu ambavyo vitakuwa na athari kwenye uchumi na kwa NMB katika mwaka 2013 na kuendelea ni pamoja na:

- Uwezekano wa kuendelea kupungua kwa viwango vya riba, ambayo ina madhara kwenye mapato ya

- increased competition from new banking entrants, and from quasi banks such as the mobile money offerings by mobile network operators
- and, of course, the risk of adverse developments from loan portfolio deterioration continues to be an inherent part of our business

Some of the key initiatives to be focused on in 2013 will include the rollout of a new transactional/savings account for the mass market, further expansion and improvement of our head office and branch premises, and further developing the long term productivity benefits and improved controls associated with the successful roll out of our new Core Banking System, supported by continued conservative risk appetite, and increased engagement with staff.

In short, barring unforeseen circumstances, there are still opportunities for further financial and operational improvements, to the benefit of all of our stakeholders, especially our customers and we look forward to the future with confidence.



Mark Wiessing
Chief Executive Officer

- benki yanayotokana na riba.
- Kuyumba kwa bei za mazao muhimu kimataifa ambayo itaathiri moja kwa moja nafasi ya Tanzania katika biashara ya nje, (ikijumuisha mafuta ghafi, korosho na tumbaku, dhahabu nk...)
- Kuongezeka kwa ushindani kutoka kwa benki mpya zinazoanzishwa na makampuni yanayofanya kazi za fedha kama vile usafirishaji wa fedha kwa njia ya mtandao unofanywa na makampuni ya simu.
- na pia athari za maendeleo hasi kutokana na ukuaji wa vitabu vya mikopo kuendelea kudorora kuwa sehemu ya asili ya biashara yetu

Baadhi ya mipango na malengo muhimu kwa mwaka 2013 itajumuisha kuanzisha akaunti mpya ya miamala/ akiba kwenye soko, kupanua na kuboresha makao makuu yetu, kupanua na kuboresha majengo ya matawi yetu na kuendeleza tija ya muda mrefu na kuongeza udhibiti unaofuatana na mafanikio ya kuingia kwenye mfumo mpya wa benki, ikisaidiwa na muendelezo wa sera thabiti wa kukabili athari na kuongeza wafanyakazi.

Kwa ufupi, licha ya mazingira yasiyotarajiwa, bado kuna fursa za kuongeza ufanisi wa kifedha na kiutendaji kwa manufaa ya wadau wetu wote, wateja wetu na tunautazama mustakabali wetu kwa matumaini.



Mark Wiessing
Afisa Mtendaji Mkuu

6th Tax Payer Day 2012



“NMB awarded overall Winner”

Corporate Governance

Utawala Bora

We believe in adopting best practices in Corporate Governance. The Board, Management and NMB employees are committed to upholding the core values of transparency, integrity, honesty and accountability, which are fundamental to the attainment of good governance and excellent performance in any organisation.

Good corporate governance principles are accepted as the drivers of improved corporate performance throughout the world. Responsibility for overseeing the proper implementation of good corporate governance rests with the directors.

The Board of Directors Functions

The Board is responsible and accountable for providing effective corporate governance, direction and control of the company. The directors have a duty to exercise leadership, enterprise, integrity and judgment based on transparency, fairness, accountability and responsibility. The Board is responsible for appointing Management, adopting a corporate strategy, policies, procedures and monitoring operational performance including identifying risks impacting the company. It is also responsible for managing good relationships with all stakeholders.

Composition

In 2012 the Board of Directors was made up of eight non-executive directors with a mix of skills, experience and diversity.

Appointment

The appointment of directors is regulated by the Memorandum and Articles of Association of the Company, as well as the guidelines issued by the Bank of Tanzania (BOT) and the Capital Markets and Securities Authority, pursuant to the Banking and Financial Institutions Act 2006 and the Capital Markets and Securities Act 1994, respectively. Shareholders with more than a 10% stake in the share capital of NMB are entitled to nominate one director for every 10% of the shares held by them. The names are presented to the AGM for ratification and appointments are submitted to BOT for approval.

NMB tunaamini katika kutumia kanuni za utawala bora. Bodi, uongozi na wafanyakazi wa NMB wamejipanga kusimamia maadili ya msingi ya ukweli na uwazi, uadilifu, uaminifu na uwajibikaji ambayo ni muhimu ili kuwa na utawala bora na utendaji mzuri katika taasisi yoyote.

Misingi ya utawala bora inakubalika kuwa kichocheo cha utendaji mzuri duniani kote. Jukumu la kusimamia utekelezaji mzuri wa utawala bora liko chini ya Wakurugenzi.

Bodi ya Wakurugenzi Majukumu

Bodi ina jukumu la kusimamia kwa umakini utawala bora na muongozo wa kampuni. Wajumbe wa Bodi wana jukumu la kuonyesha uongozi, ujasiri wa kibiashara, uadilifu na kutoa maamuzi yaliyo wazi, yenye haki na yanayotekelezeka.

Bodi ina majukumu ya kuchagua uongozi, kufuata mbinu za kibihashara, sheria, taratibu na kusimamia taratibu za kazi ikiwa ni pamoja na kutambua hatari zinazokabili benki. Bodi pia ina majukumu ya kusimamia mahusiano mazuri na Wanahisa wote wa benki.

Wajumbe

Mwaka 2012 bodi ya wakurugenzi ilikuwa na wajumbe nane wasio watendaji wote wakiwa na ujuzi na uelewa.

Uteuzi

Uteuzi wa Wakurugenzi wa Bodi ya NMB unaongozwa na sheria ya benki (Memorandum and Articles of Association) na miongozo inayotolewa na Benki Kuu ya Tanzania na Mamlaka ya Masoko ya Mitaji na Dhamana Tanzania kulingana na sheria ya Benki na Taasisi za Fedha ya mwaka 2006 na sheria ya Soko la Mitaji na Dhamana ya mwaka 1994. Wanahisa walio na hisa zaidi ya asilimia 10 kwenye mtaji wote wa hisa za NMB wanaruhusiwa kuchagua mkurugenzi mmoja kwa kila asilimia 10 ya hisa wanazozimiliki. Majina yanawakilishwa kwenye Mkutano Mkuu wa Mwaka wa Wanahisa kwa kupitishwa. Uteuzi wao uwasilishwa Benki Kuu ya Tanzania ili kupata kibali.

All non-executive directors are subject to retirement by rotation and re-election by shareholders periodically in accordance with the Articles of Association. Rotation is staggered to ensure continuity of experience and knowledge. The number of terms an individual may serve is not limited. The Companies Act 2002 requires that directors retire at the age of 70 years, however there is a provision in the law for re-election.

Resignations

At the AGM held in June 2012, the Board Chairman Misheck Ngatunga retired from the Board of Directors. He was replaced by Prof. Joseph Semboja who was appointed director for a three year term and was at a later date appointed Chairman of the Board in line with the Company's Articles of Association.

Directors Felix Mosha, Mike Laiser, Protase Tehingisa and Jos van Lange also tendered their resignations to the Board after completing their terms. Directors Mike Laiser, Protase Tehingisa and Jos van Lange were re-appointed as directors for a further three year term.

The Board, Management and stakeholders of NMB wish to warmly thank the directors for their contribution to NMB.

Board meetings

The Board meets quarterly, with additional meetings convened as and when necessary.

During 2012, the Board and its committees met to discuss and decide on the business activities. The Board Committees act on behalf of the Board to direct the bank effectively and accelerate the decision-making process. The four Board committees are: the Board Executive Committee (BEC), the Board Audit, Risk and Compliance Committee (BARCC), the Board Human Resources and Remuneration Committee (BHRRC) and the Board Credit Committee (BCC).

Wakurugenzi wote wasio watendaji wanatakiwa kustaafu kwa mzunguko na kuchaguliwa tena na wanahisa kila mara kulingana na muongozo na sheria za Benki. Mzunguko huu ni muhimu ili kuhakikisha muendelezo wa kupata wakurugenzi wenye ujuzi na uelewa. Miaka ya kuwa mkurugenzi haina kikomo. Sheria za Makampuni ya mwaka 2002 inahitaji mkurugenzi astaafu akiwa na miaka 70 ila sheria inaruhusu pia mkurugenzi huyo kuchaguliwa tena.

Kujiuzulu

Kwenye Mkutano Mkuu wa Mwaka ulofanyika Juni 2012, Mwenyeketi wa Bodi ya Wakurugenzi Bwana Misheck Ngatunga alistaafu kwenye Bodi hiyo. Aliyechukua nafasi yake ni Prof. Joseph Semboja aliyeteuliwa kua Mkurugenzi kwa kipindi cha muda wa miaka mitatu na baadaye akachaguliwa kuwa Mwenyeketi wa Bodi kwa kufuatana na kanuni za kampuni.

Wakurugenzi Felix Mosha, Mike Laiser, Protase Tehingisa na Jos van Lange pia waliwasilisha taarifa za kujiuzulu kwenye bodi baada ya kumaliza muda wao. Mkurugenzi Mike Laiser, Protase Tehingisa na Jos van Lange waliteuliwa tena kua Wakurugenzi kwa kipindi cha miaka mitatu mingine.

Bodi, Uongozi na Wanahisa wote wa NMB wanawashukuru sana Wakurugenzi hawa kwa mchango wao kwa NMB.

Vikao vya Bodi

Bodi inakutana kila miezi mitatu lakini inaweza kufanya vikao vingine ikilazimika.

Mwaka 2012, Bodi na kamati zake zilikutana kujadili na kuamua maswala na shughuli za kibiashara. Kamati za Bodi zinatenda kwa niaba ya Bodi kuelekeza benki kwa usahihi na kuchochea mchakato wa kufanya maamuzi. Kamati nne za bodi ni: Kamati ya Bodi ya Wakurugenzi, Kamati ya Ukaguzi na Usimamiaji, Kamati ya Rasilimali Watu na Mishahara na Kamati ya Bodi ya Mikopo.

The number of meetings held over the course of the year is given in brackets:

- Board of Directors (6)
- Board Executive Committee (0)
- Board Audit Risk and Compliance Committee (4)
- Board Human Resources and Remuneration Committee (5)
- Board Credit Committee (11)

Members of the Board and respective committees as at 31st December 2012 are shown in the table below:

Namba ya vikao vilivyofanyika mwaka uliopita vinaonekana kwenye mabano:

- Bodi ya Wakurugenzi (6)
- Kamati ya Wakurugenzi Watendaji (0)
- Kamati ya Bodi ya Ukaguzi na Usimamizi (4)
- Kamati ya Bodi ya Rasilimali Watu na Mishahara (5)
- Kamati ya Bodi ya Mikopo (11)

Wajumbe wa Bodi ya Wakurugenzi na kamati husika kufikia tarehe 31 Desemba 2012 kama inavyoonyeshwa kwenye jedwali hapa chini

S/No.	Name	Main Board	BEC ¹	BARCC ²	BCC ³	BHRRC ⁴
	Jina	Bodi Kuu	Kamati ya Bodi ya Utendaji	Kamati ya Bodi ya Ukaguzi na Usimamizi	Kamati ya Bodi ya Mikopo	Kamati ya Bodi ya Rasilimali Watu na Mishahara
1.	Joseph Semboja	Chairman Mwenyekiti	Chairman Mwenyekiti			
2.	Anne Mbughuni			Member Mjumbe	Member Mjumbe	
3.	Albert Jonkergouw	Member Mjumbe	Member Mjumbe		Member Mjumbe	Member Mjumbe
4.	Jos van Lange	Member Mjumbe		Chairman Mwenyekiti		
5.	Mike Laiser	Member Mjumbe	Member Mjumbe	Member Mjumbe		Chairman Mwenyekiti
6.	Protase Tehingisa	Member Mjumbe			Member Mjumbe	Member Mjumbe
7.	Margaret Ikongo	Member Mjumbe				Member Mjumbe
8.	William Mlaki	Member Mjumbe		Member Mjumbe	Chairman Mwenyekiti	

Directors' Attendance and Remuneration List for the year 2012 / Mahudhurio ya Wakurugenzi, Posho na Marupurupu kwa mwaka 2012

DIRECTORS	Board Meeting	BHR & RC	BARCC	BCC	BEC	12th AGM	OFFSITE MEETING	Business Trip/Travel Expenses	Director Fee & Remuneration in (TZS) 2012
WAKURUGENZI	Kamati ya Bodi	Kamati ya Bodi ya Rasilimali Watu	Kamati ya Bodi ya Ukaguzi na Usimamizi	Kamati ya Bodi ya Mikopo	Kamati ya Bodi ya Dharura	Mkutano Mkuu wa 12 wa Wanahisia	Vikao vya nje ya ofisi	Malipo ya safari za kikazi	Posho na Marupurupu ya Wakurugenzi kwa mwaka 2012 (TZS)
Mr. Misheck Ngatunga	2	-	-	-	-	1	-	EURO 835.-	10,900,000
Mr. Mike Laizer	6	5	4	-	-	1	1	EURO 835.-	18,700,000
Mr. Albert Jonkergouw	5	5	-	10	-	1	1	-	21,550,000
Mr. Jos Van Lange	5	-	4	-	-	-	1	-	17,200,000
Mr. Protase Tehingisa	6	5	3	8	-	1	1	EURO 835.-	23,400,000
Mr. Felix Mosha	2	3	-	2	-	1	-	-	10,650,000
Mrs. Margaret Ikongo	6	4	-	-	-	1	1	EURO 835.-	18,650,000
Mr. William Mlaki	5	-	4	11	-	1	1	EURO 835.-	20,850,000
Prof. Joseph Semboja	2	-	-	-	-	-	1	EURO 835.-	5,800,000
Mrs. Anne Mbughuni	2	-	1	5	-	1	1	-	10,200,000

Directors Evaluation

The Board itself regularly undergoes self-assessment and evaluation under the guidance of an independent party in order to improve the internal Governance of the Board and its Committees.

Relationship with Auditors

The Board Audit, Risk and Compliance Committee and the full Board held meetings with the external auditors to discuss these auditors' terms of engagement, duties and various other issues during the year under review.

Company Secretary

The Company Secretary is Mrs Lilian R. Komwihangiro and she provides support and guidance to the Board in matters relating to governance and ethical practices. She is also responsible for induction programs of new directors, keeping board members abreast of relevant changes in legislation and governance principles.

Communication with shareholders

The company recognizes that effective communication with stakeholders is essential to good governance. Following the publication of its financial results, it engages with investors to present the results and answer questions accordingly.

Shareholders are encouraged to attend the Annual General Meeting to be held on Saturday, 1st June 2013 at Mlimani City Hall, Dar es Salaam and participate in the affairs of the company.

Tathmini ya Wakurugenzi

Bodi mara kwa mara itafanya tathmini ya utendaji wake kwa kufuata muongozo wa kujisimamia ili kuboresha uongozi ndani ya bodi na kamati zake.

Mahusiano na Wakaguzi

Kamati ya Bodi ya Ukaguzi na Usimamizi na Bodi nzima walifanya vikao na wakaguzi wa nje kujadili maswala ya ukaguzi, majukumu yao na mambo mengine yaliyojitokeza kwa mwaka uliokaguliwa.

Katibu wa Kampuni

Katibu wa Kampuni ni Bi Lilian R. Komwihangiro na anatoa ushirikiano na kuishauri bodi kwa maswala yanayohusu uongozi na utendaji sahihi. Pia ana jukumu la kutoa mafunzo kwa wakurugenzi wapya na kuhakikisha wajumbe wa bodi wanafahamu mabadiliko ya kisheria na kanuni za uongozi.

Mawasiliano na wanahisa

Kampuni inatambua kuwa mawasiliano na wanahisa yanahitajika katika uongozi bora. Kutokana na matangazo ya matokeo ya kifedha, kampuni na wawekezaji watawasilisha matokeo na kujibu maswali kama yatakavyoulizwa.

Wanahisa wanashauriwa kuhudhuria Mkutano Mkuu wa Mwaka utakaofanyika Jumamosi tarehe 1 Juni 2013 katika ukumbi wa Mlimani City, Dar es Salaam.

Close to you wherever you go
Widest & Unmatched
Bank Network in Tanzania



Corporate Social Responsibility

Wajibu wa Kampuni kwa Jamii



GIVING A POSITIVE CONTRIBUTION TO THE SOCIETY

NMB places great importance on supporting communities in Tanzania and aims at making a positive contribution to society, not just through the provision of banking services for customers but also by sharing our success through contributions to the communities where we operate. The Bank's policy is to spend approximately 1% of the previous year's profit after tax for Corporate Social Responsibility activities.

As part of the community it operates in, NMB cares about sustainability and responsible social and economic development. It firmly believes that every actor has its responsibility towards these goals. In the year 2012, NMB Corporate Social Responsibility's prime objective focused

KUTOA MCHANGO CHANYA KWA JAMII

NMB inazingatia umuhimu wa kusaidia jamii katika Tanzania na imedhamiria kutoa mchango chanya kwa jamii, sio tu kwa kutoa huduma za kibenki kwa wateja, bali pia kutoa sehemu ya mafanikio yetu ili kusaidia jamii zinazozunguka maeneo yetu ya kazi. Ni sera ya Benki kutumia asilimia 1 ya faida baada ya kodi kwa mwaka uliopita kuhudumia jamii.

Kama sehemu ya jamii inapofanyia kazi NMB inajali ustawi na maendeleo endelevu ya kijamii na kiuchumi. NMB ina amini kwa dhati kuwa kila mmoja kwenye jamii husika ana wajibu kuhusu hilo. Mwaka 2012 katika kuonyesha wajibu wa kampuni kwa jamii, NMB ililenga katika utoaji elimu kwenye nyanja za kifedha, kutoa misaada mashuleni, kuchangia katika sekta ya afya na kutoa mchango kwenye sehemu zilizoathirika na majanga.

on Financial Literacy, School Support, Health Sector Support and Disaster Support.

a) Financial Literacy

NMB recognizes that to be financially fit, one has to develop a mind -set of thinking and managing money differently and in doing that one must develop a financially fit attitude towards money. One of Tanzania's major challenges is the low level of financial literacy. According to research conducted by Financial Sector Deepening Trust (FSDT), at present only 12 percent of the Tanzanian population has access to financial services. This small number of bank accounts is mostly attributed to the low level of financial literacy amongst Tanzanians.

- **Educating students;** In May 2012, NMB launched the NMB Financial Fitness program that aimed at educating customers and building customer ability to make informed decisions and take appropriate actions on matters affecting one's financial wealth and well-being. NMB financial literacy program has reached more than 50,000 primary school students country wide. Primary school students all over Tanzania have had the opportunity of becoming literate on key financial aspects such as financial planning, borrowing, banking and saving culture.
- **Educating NMB MSME customers;** Through NMB Business Clubs, Micro, Small and Medium Enterprises (MSME) customers have been educated on matters relating to Business Plan, Book keeping, financial planning, Borrowing and other financial literacy areas as requested by Club members. A total of 48 trainings were conducted in 2012 whereas 5,030 individual MSME customers were trained.
- **Educating Farmers through cooperative societies or informal groups;** The NMB Foundation for Agricultural Developments has by 31st December 2012, managed to train 565 farmer organisations Primary Cooperatives Societies (PCSs), Agricultural Marketing Cooperatives Societies (AMCOS), Associations and Groups. A total of 2,404 individual influential farmers in organisations and 2,720

a) Kutoa Elimu Kuhusu Huduma za Kifedha

NMB inatambua kwamba ili mtu aweze kuimarika kifedha, ni lazima ajenge mfumo wa fikra na adhibiti fedha kwa namna tofauti na ili kufanikisha hilo ni lazima ajenge mtazamo unaofaa kuhusu fedha. Moja ya changamoto kubwa ya Tanzania ni kiwango kidogo cha uelewa mdogo kuhusu masuala ya kifedha. Kulingana na utafiti uliofanywa na Financial Sector Deepening Trust (FSDT) ni asilimia 12 ya Watanzania wenye uwezo wa kufikia na kutumia huduma za kibenki. Idadi hii ndogo ya akaunti katika mabanki inatokana na uelewa mdogo wa huduma za kibenki kwa Watanzania.

- **Kuelimisha Wanafunzi;**

Mei 2012, NMB ilizindua programu ya kuelimisha jamii kuhusu masuala ya kifedha kwa lengo la kuwaelimisha wateja na kumjengea uwezo wa kufanya maamuzi na kuchukua hatua zinazofaa juu ya masuala yanayoathiri uwezo wake kifedha na ustawi wake. Program hii imewafikia wanafunzi wa shule za msingi zaidi ya 50,000 Tanzania nzima. Wanafunzi wa Shule za msingi kote Tanzania walipata nafasi za kuelimishwa juu ya mambo muhimu ya kifedha kama vile namna ya kupanga matumizi ya fedha, kukopa, huduma za kibenki na na kuwaweka kwenye utamaduni wa kuweka akiba.

- **Kuwaelimisha wateja wa Kati na Wadogo;**

Kupitia Klabu za Biashara za NMB, wateja wa kati na wadogo wamepewa elimu juu ya masuala yanayohusu mipangilio ya biashara, utunzaji wa vitabu vya fedha, mipangilio ya fedha, kukopa na elimu katika maeneo mengine ya fedha kama yalivyoombwa na wanachama. Jumla ya semina 48 zilifanyika katika mwaka wa 2012 ambapo wateja binafsi 5030 wa sekta isiyo rasmi walipewa mafunzo hayo.

- **Kuwaelimisha Wakulima Kupitia Vyama vya Ushirika au Vikundi Visivyo Rasmi;**

Mpaka kufikia 31 Desemba 2012 Taasisi ya NMB Foundation for Agriculture imefanikiwa kutoa mafunzo kwa vikundi 565 vya wakulima (Vyama vya Ushirika vya Msingi, AMCOS, vyama na vikundi). Jumla ya wakulima binafsi wenye ushawishi 2,404 katika vikundi mbali mbali na wajumbe wa bsodi za vikundi hivi 2,720

individual board members of those organs were represented. These societies represent farmers dealing with Cashew nut, Tobacco, Cotton, Coffee, Sunflower, Maize, Milk (Dairy), Citrus, Horticulture, Tea and Onion.

NMB Foundation for Agriculture has continued to assist cooperatives to improve their governance, efficiency and performance by providing training in the areas of (1) Good governance and administration, (2) Marketing and loan administration.

b) School support

An important objective is to reach a good geographical spread with these donations. NMB supports requests benefiting public schools that seek to address the shortage of desks for students. Desks donated are manufactured in the country. Moreover, NMB donates used computers to these schools. In the year 2012, more than 58 schools have benefited from these donations.

c) Health sector support

NMB Corporate Social Responsibility's main focus is targeted at providing hospital beds. A total of 3 hospitals benefited in 2012.

d) Disaster support

In 2012, NMB supported victims of disasters such as floods in Dar es Salaam and Arusha, accidents and other calamities that affected large groups of people.



waliwakilishwa. Hivi vyama vilivyowakilishwa vinajumuisha wakulima wa korosho, tumbaku, pamba, kahawa, alizeti, mahindi, maziwa, machungwa, ukulima wa maua, chai na vitunguu.

Asasi ya NMB Foundation for Agriculture umeendelea kusaidia vyama vya ushirika katika uboreshaji wa utawala bora, ufanisi na utendaji uilo bora kwa kutoa mafunzo katika maeneo ya utawala bora, masoko na usimamizi wa mikopo

b) Misaada Mashuleni

Lengo muhimu ni kufikia maeneo tofauti kijiografia katika kutoa misaada hii. NMB inasaidia kutafuta ufumbuzi wa uhaba wa madawati katika shule za serikali. Madawati yaliyotolewa katika shule hizi yalitengenezwa katika viwanda vya hapa nchini. Aidha, NMB ilichangia kutoa kompyuta zilizokwisha tumika shuleni. Katika mwaka 2012, zaidi ya shule 58 zilifaidika na misaada hii.

c) Kuchangia katika Sekta ya Afya

Katika mwaka 2012 NMB iliweka lengo la kuchangia katika sekta ya afya kwa kutoa vitanda hospitalini. Hospitali tatu zilifaidika na msaada huu.

d) Mchango Kwenye matukio ya Maafa

Katika mwaka 2012, NMB ilitoa mkono wa pole katika majanga mbali mbali kama vile mafuriko ndani ya Dar es Salaam na Arusha, ajali na majanga mengine ambayo waathirika wake yalikuwa ni makundi makubwa ya watu.



Report of the Directors

1 The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2012, which disclose the state of affairs of National Microfinance Bank Plc ('the Bank') and its subsidiaries, Upanga Joint Venture Company Limited and Ohio Street Properties (together the 'Group').

2 INCORPORATION

The Bank is incorporated in Tanzania under the Companies Act as a public limited liability company.

3 VISION

To be the preferred financial services partner in Tanzania.

4 MISSION

Through innovative distribution, and its extensive branch network, the Bank offers affordable, customer focused financial services to the Tanzanian community, in order to realise sustainable benefits for all its stakeholders

5 PRINCIPAL ACTIVITIES

The Bank is engaged in taking deposits on demand, provision of credit facilities and other commercial banking services and is licensed under the Banking and Financial Institutions Act, 2006.

6 DIRECTORS

The Directors of the Bank at the date of this report and who have served since 1 January 2012, except where otherwise stated, are:-

No.	Name	Position	Year of Birth	Nationality	Qualification/ Discipline	Date of Appointment/Resignation
1	Misheck Ngatunga	Chairman	1940	Tanzanian	Independent Consultant	Retired on 11 June 2012
2	Protase Tehingisa	Member	1947	Tanzanian	Lawyer	Re-appointed on 11 June 2012
3	Mike Laizer	Member	1949	Tanzanian	Enterprise Development Economist	Re-appointed on 11 June 2012
4	Felix Moshia	Member	1944	Tanzanian	Economist	Resigned on 11 June 2012
5	Margaret Ikongo	Member	1957	Tanzanian	Chartered Insurer	
6	William Mlali	Member	1954	Tanzanian	Economist/Banker	
7	Jos Van Lange	Member	1956	Dutch	Economist/Banker	Re-appointed on 11 June 2012
8	Albert Jonkerouw	Member	1958	Dutch	Auditor	
9	Prof. Joseph Semboja	Member	1951	Tanzanian	Economist	Appointed on 11 June 2012
10	Anne Mbuguni	Member	1959	Tanzanian	Certified Public Accountant	Appointed on 11 June 2012

7 COMPANY SECRETARY

The Bank's secretary as at 31 December 2012 was Mrs. Lilian R. Komwihangiro.

8 CORPORATE GOVERNANCE

The Board of Directors consists of eight Directors. None of the Directors hold executive positions in the Bank. The Board takes overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system

of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Chief Executive Officer assisted by the Management Team. The Management Team is invited to attend board meetings and facilitate the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units.

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

Board Executive Committee

No	Name	Position
1	Joseph Semboja	Chairman
2	Mike Laiser	Member
3	Albert Jonkergouw	Member

Board Audit, Risk and Compliance Committee

No	Name	Position
1	Jos Van Lange	Chairman
2	William Mlaki	Member
3	Mike Laiser	Member
4	Anne Mbughuni	Member

Board Human Resources and Remuneration Committee

No	Name	Position
1	Mike Laiser	Chairman
2	Margaret Ikongo	Member
3	Protase Tehingisa	Member
4	Albert Jonkergouw	Member

Board Credit Committee

No	Name	Position
1	William Mlaki	Chairman
2	Protase Tehingisa	Member
3	Albert Jonkergouw	Member
4.	Anne Mbughuni	Member

During the year, there were 6 Board meetings (2 of which were special meetings). There were also 11 Board Credit Committee meetings, 0 Board Executive Committee meetings, 5 Board Human Resources and Remuneration Committee meetings and 4 Board Audit, Risk and Compliance Committee meetings.

9 REMUNERATION POLICIES

The bank has in place processes and procedures in determining remuneration paid to its directors. Management normally prepares a proposal of fees and other emolument paid to directors after having conducted a market survey and consultation with the two largest shareholders (Government of Tanzania and Rabobank) before forwarding the same to the Annual General Meeting (AGM) for final approval.

10 ACCOUNTING POLICIES

The accounting policies of the bank disclosed in Note 2 have been approved by the Board. The accounting policies for financial instruments forms significant part of the policies and are disclosed from (e) to (j) in Note 2. There have been no changes in accounting policies in the current year.

11 MANAGEMENT TEAM

The Management of the Bank is under the Chief Executive Officer, assisted by the following:-

- Chief Wholesale Banking;
- Chief Financial Officer;
- Chief Human Resources Officer;
- Chief Risk Officer;
- Chief Information and Operations Officer;
- Chief Retail Banking;
- Treasurer.

12 CAPITAL STRUCTURE

The Bank's capital structure for the year under review is shown below:-

Authorised

625,000,000 ordinary shares of TZS 40 each (2011: 625,000,000 ordinary shares of TZS 40 each).

Called up and fully paid

500,000,000 ordinary shares of TZS 40 each (2011: 500,000,000 ordinary shares of TZS 40 each).

Details of the capital management, regulatory capital and capital structure have been disclosed under Note 4.6.

13 SHAREHOLDERS OF THE BANK

The total number of shareholders during the year 2012 is estimated to be 19,950 (2011: 21,300) shareholders. None of the Directors is holding significant shares of the Bank. The following is a list of shareholders who individually owns 0.5% or more:

Name of the Shareholder	%	2012 number of shares	2011 number of shares
CooperativeCentraleRaiffeisen-Boerenleenbank - B.A "Rabobank Nederland" (Rabobank)	34.9	174,500,000	174,500,000
The Treasury Registrar	31.8	158,901,800	158,901,800
National Investment Company Limited (NICOL)	6.6	33,000,000	33,000,000
Exim Bank (Tanzania) Limited	4.6	22,975,904	22,975,904
Aunali F.Rajabali	2.3	11,588,882	8,378,418
Sajjad F.Rajabali	2.3	11,435,526	8,099,569
SCB (T) Nominee Limited	2.0	10,150,249	9,801,749
Standard Bank Plc	1.3	6,666,872	6,666,872
Parastatal Pension Fund (PPF)	1.0	4,831,636	4,138,786
National Social Security Fund (NSSF)	0.7	3,592,561	3,379,261
TCCIA Investment Company Limited	0.5	2,611,886	2,611,886
General Public	11.9	59,744,684	74,234,564

14 STOCK EXCHANGE INFORMATION

In 2008 the Bank was listed at the Dar es Salaam Stock Exchange. The share price at the year end was TZS 1,120 (2011: TZS 850). Market capitalisation as at 31 December 2012 was TZS 560,000 million (31 December 2011: TZS 425,000 million).

15 FUTURE DEVELOPMENT PLANS

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

16 PERFORMANCE FOR THE YEAR

During the year the Group had a net profit for the year of TZS 97,322 million (2011: TZS 71,789 million). In addition, the following achievements were recorded in the year:-

- The Group recorded a profit before tax of TZS 144,662 million (2011: TZS 102,756 million); The good performance was contributed by overall growth of loan portfolio and high yields on Government securities.
- Total assets of the Group increased to TZS 2,800,747 million (2011: TZS 2,170,243 million). The growth was driven by the increase of loan portfolio and in particular Salary Workers loan, Corporate and SME contributing a significant part. The high yields on Government securities also attracted the Bank to increase its investment.

The audited financial statements for the year are set out on pages 50 to 110.

17 CASH FLOW PROJECTION

The Bank's cash projections indicate that future cash flows will mostly be generated from deposits. The Bank will continue to implement different strategies to mobilise deposits by targeting individual depositors but also offering

competitive rates for fixed deposits and improving cash collection solutions to big corporate customers, pension funds, NGO's and other agencies. The future cash flow projections of the Bank will be affected by the timing of capital expenditure commitment which for year 2013 is expected to be TZS 56,976 million (2012: TZS 41,757 million).

18 BORROWING

The bank engaged in borrowings from other banks as part of its day to day liquidity management in foreign currency funding.

19 DIVIDEND

The Directors propose payment of a dividend of TZS 68 per share, amounting to TZS 34 billion. In 2011, a dividend of TZS 50 per share, amounting to TZS 25 billion was approved and paid.

20 RESOURCES

Employees with appropriate skills and experience in running the business are a key resource available to the Bank and they assist in pursuing the Bank's business objectives.

21 PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks that may significantly affect the Bank's strategies and development are mainly operational, fraud and financial risks. Below we provide a description of the operational fraud and financial risks facing the Bank:

Fraud risk

There is a general increase in fraudulent transactions in the Banking industry in Tanzania.

Operational risk

This is a risk resulting from the Bank's activities not being conducted in accordance with formally recognised procedures including non compliance with Know Your Customer (KYC) and account opening procedures.

Management ensures that the Bank complies with KYC and other internal procedures.

Financial risk

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. More details of the financial risks facing the Bank are provided in Note 4 to the financial statements.

22 RISK MANAGEMENT AND INTERNAL CONTROL

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

- The effectiveness and efficiency of operations;
- The safeguarding of the Bank's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviours towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2012 and is of the opinion that they met accepted criteria.

The Board carries out risk and internal control assessment through the Board Audit, Risk and Compliance Committee.

23 KEY PERFORMANCE INDICATORS FOR BANK

The following Key Performance Indicators (KPIs) are effective in measuring the delivery of the Bank's strategy and managing the business.

Performance indicator	Definition and calculation method	NMB ratios	
		2012	2011
Return on equity	Net profit/Total equity	27%	25%
Return on assets	Net profit/Total assets	3%	3%
Cost to income ratio	Total costs/Net income	55%	63%
Interest margin on earning assets	Total interest income/(interest in government securities + balances with other financial institutions + interbank loan receivables + investments in other securities + net loans, advances and overdraft)	13%	12%
Non - interest income to Gross income	Non - interest income/Total income	23%	32%
Gross loans to customers to customer deposits	Total loans to customers/Total deposits from customers	59%	62%
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances	2%	2%
Earning assets to total assets	Earning assets/Total assets	77%	76%
Growth on total assets	Trend (2012 total assets – 2011 total assets/2011 total assets)	28%	3%
Growth on loans and advances to customers	Trend (2012 loans and advances – 2011)/2011 loans)	19%	31%
Growth on customer deposits	Trend (2012 deposits - 2011 deposits/2011 deposits)	27%	-1%
Capital adequacy			
Tier 1 Capital	Risk weighted assets including Off balance sheet items/CORE CAPITAL	21%	22%
Tier 1+Tier 2 Capital	Risk Weighted assets including off-balance sheet items/TOTAL CAPITAL	21%	22%

24 SERIOUS PREJUDICIAL MATTERS

In the opinion of the directors, there are no serious unfavourable matters that can affect the Bank.

25 SOLVENCY

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

26 EMPLOYEES' WELFARE

Management and employees' relationship

There was continued good relation between employees and management for the year 2012. There were no unresolved complaints received by Management from the employees during the year. A healthy relationship continues to exist between management and the Trade Union.

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.

Training facilities

During the year the Bank spent TZS 1,901 million (2011: TZS 1,724) on staff training in order to improve employees' technical skills and hence effectiveness. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade skills and enhance development.

Medical assistance

All members of staff and their spouses up to a maximum number of four beneficiaries (dependants) for each employee were availed medical services by the Bank through an external service provider.

Financial assistance to staff

Loans are available to all confirmed employees depending on the assessment of and the discretion of management as to the need and circumstances. Loans provided to employees include vehicle loans, personal loans and other advances.

Persons with disabilities

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

Employees benefit plan

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

The number of employees during the year was 2,783 (2011: 2,650).

27 GENDER PARITY

The Bank had 2,783 employees, out of which 1,606 were male and 1,177 were female (2011: male 1,535, female 1,115).

28 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 34 to the financial statements.

29 POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. Donations made to charitable and other organizations during the year amounted to TZS 891 million (2011: TZS 570 million).

30 RELATIONSHIP WITH STAKEHOLDERS


The Bank continued to maintain a good relationship with all stakeholders including the regulators.

31 CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Bank encourages its employees' initiatives on participating in the CSR activities. Various activities were carried out during the year including supporting schools by providing school desks. The Bank launched financial fitness program with the objective of teaching secondary school students basic skills on financial management.

32 AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office. A resolution proposing an appointment of the Bank's auditors for the year ending 31 December 2013 will be put to the Annual General Meeting.

BY ORDER OF THE BOARD


Prof. Joseph Semboja - Chairman


28 March 2013

Statement of Director's Responsibilities

The Directors are required by the Companies Act, CAP 212 Act No. 12 of 2002 to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss for the year. The Directors are also obliged to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of Companies Act, CAP 212 Act No. 12 of 2002. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit in accordance with International Financial Reporting Standards (IFRS). The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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



Prof. Joseph Semboja - Chairman

28 March 2013

Auditor's Report

Report on the financial statements

We have audited the accompanying financial statements of National Microfinance Bank Plc ('the Bank') and its subsidiaries (together the 'Group'), which comprise the statements of financial position as at 31 December 2012 of the Bank and Group, their statements of profit or loss, statements of other comprehensive income, statements of changes in equity and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Group's and the Bank's financial affairs at 31 December 2012 and of their profits and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act, CAP 212 Act No. 12 of 2002.

Report on Other Legal and Regulatory Requirements

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

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



Michael M Sallu

FCCA - PP

For and on behalf of PricewaterhouseCoopers

Certified Public Accountants

Dar es Salaam

28 March 2013

Consolidated Statement of Profit or Loss and other Comprehensive Income

	Note	2012 TZS' Million	2011 TZS' Million
Interest and similar income	6	287,924	193,005
Interest and similar expenses	7	(9,348)	(7,832)
Net interest income		278,576	185,173
Loan impairment charges	19	(25,851)	(11,752)
Net interest income after loan impairment		252,725	173,421
Fee and commission income	8	84,201	67,995
Fee and commission expense	8	(3,639)	(856)
Net fee and commission income		80,562	67,139
Total operating income		333,287	240,560
Foreign exchange income	9	9,086	7,437
Other income	10	1,302	6,845
Employee benefit expenses	11	(75,955)	(63,646)
General and administrative expenses	12 (a)	(99,191)	(77,015)
Depreciation and amortisation	13	(23,867)	(11,445)
Profit before income tax		144,662	102,736
Income tax expense	14	(47,340)	(30,947)
Profit for the year		97,322	71,789
Other comprehensive income, net of tax	-	-	-
Total comprehensive income for the year		97,322	71,789
Attributable to:			
Owners of the parent		97,354	71,809
Non-controlling interests		(32)	(20)
Total comprehensive income for the year		97,322	71,789
Basic and diluted earnings per share (TZS)	15	194.64	143.57

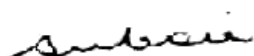
Bank's Statement of Profit or Loss and other Comprehensive Income

	Note	2012 TZS' Million	2011 TZS' Million
Interest and similar income	6	287,924	193,005
Interest and similar expenses	7	(9,348)	(7,832)
Net interest income		278,576	185,173
Loan impairment charges	19	(25,851)	(11,752)
Net interest income after loan impairment		252,725	173,421
Fee and commission income	8	84,201	67,995
Fee and commission expense	8	(3,639)	(856)
Net fee and commission income		80,562	67,139
Total operating income		333,287	240,560
Foreign exchange income	9	9,086	7,437
Other income	10	1,302	6,845
Employee benefit expenses	11	(75,955)	(63,646)
General and administrative expenses	12(b)	(99,112)	(76,965)
Depreciation and amortisation	13	(23,867)	(11,445)
Profit before income tax		144,741	102,786
Income tax expense	14	(47,340)	(30,947)
Profit for the year		97,401	71,839
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year		97,401	71,839
Basic and diluted earnings per share (TZS)	15	194.8	143.68

Consolidated Statement of Financial Position

	Note	2012 TZS' Million	2011 TZS' Million
Assets			
Cash and balances with Bank of Tanzania	17	521,658	430,243
Loans and advances to banks	18	203,062	172,737
Loans and advances to customers	19	1,345,932	1,123,518
Investment securities held-to-maturity	20	617,347	361,943
Equity investments	21(a)	1,200	1,200
Other assets	22(a)	22,044	9,197
Property and equipment	23(a)	70,316	60,894
Intangible assets	24	1,226	846
Current income tax		-	3,546
Deferred income tax	25	17,962	6,119
Total assets		2,800,747	2,170,243
Liabilities			
Deposits from banks		72,657	31,970
Deposits from customers	26(a)	2,288,074	1,804,495
Current income tax		6,015	-
Other liabilities	27(a)	67,749	47,662
Provisions	28	1,872	854
Total liabilities		2,436,367	1,884,981
Capital and reserves			
Share capital	29	20,000	20,000
Retained earnings	29	336,310	262,230
Regulatory reserve	29	-	1,726
Capital and reserves attributable to owners of the parent		356,310	283,956
Non controlling interests		8,070	1,306
Total equity and liabilities		2,800,747	2,170,243

The financial statements on pages 50 to 110 were approved and authorised for issue by the Board of Directors and signed on its behalf by:



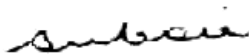
Prof. Joseph Semboja - Chairman

28 March 2013

Bank's Statement of the Financial Position

	Note	2012 TZS' Million	2011 TZS' Million
Assets			
Cash and balances with Bank of Tanzania	17	521,658	430,243
Loans and advances to banks	18	203,062	172,737
Loans and advances to customers	19	1,345,932	1,123,518
Investment securities held-to-maturity	20	617,347	361,943
Equity investments	21(b)	14,612	3,805
Other assets	22(b)	19,509	8,688
Property and equipment	23(b)	54,570	58,805
Intangible assets	24	1,226	846
Current income tax		-	3,546
Deferred income tax	25	17,962	6,119
Total assets		2,795,878	2,170,250
Liabilities			
Deposits from banks		72,657	31,970
Deposits from customers	26(b)	2,289,979	1,804,699
Current income tax		6,015	-
Other liabilities	27(b)	68,595	48,368
Provisions	28	1,872	854
Total liabilities		2,439,118	1,885,891
Capital and reserves			
Share capital	29	20,000	20,000
Retained earnings	29	336,760	262,633
Regulatory reserve	29	-	1,726
Total equity		356,760	284,359
Total equity and liabilities		2,795,878	2,170,250

The financial statements on pages 50 to 110 were approved and authorised for issue by the Board of Directors and signed on its behalf by:



Prof. Joseph Semboja - Chairman

28 March 2013

Consolidated Statement of Changes in Equity

	Share capital TZS/Millions	Retained earnings TZS/Millions	Regulatory reserves TZS/Millions	Total TZS/Millions	Non controlling interest TZS/Millions	Total equity TZS/Millions
Year ended 31 December 2012						
At start of year	20,000	262,230	1,726	283,956	1,306	285,262
Comprehensive income						
Profit/(loss) for the year	-	97,354	-	97,354	(32)	97,322
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	97,354	-	97,354	(32)	97,322
Transfer from regulatory reserve	-	1,726	(1,726)	-	-	-
Transactions with owners						
Additional capital contribution	-	-	-	-	6,796	6,796
Dividends paid - Final 2011	-	(25,000)	-	(25,000)	-	(25,000)
At end of year	20,000	336,310	-	356,310	8,070	364,380
Year ended 31 December 2011						
At start of year	20,000	210,147	-	230,147	1,205	231,352
Comprehensive income						
Profit/(loss) for the year	-	71,809	-	71,809	(20)	71,789
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	71,809	-	71,809	(20)	71,789
Transfer to regulatory reserve	-	(1,726)	1,726	-	-	-
Transactions with owners						
Additional capital contribution	-	-	-	-	121	121
Dividends paid - Final 2010	-	(18,000)	-	(18,000)	-	(18,000)
At end of year	20,000	262,230	1,726	283,956	1,306	285,262

Bank's Statement of Changes in Equity

	Share capital TZS'Millions	Retained earnings TZS'Millions	Regulatory reserve TZS'Millions	Total equity TZS'Millions
Year ended 31 December 2012				
At start of year	20,000	262,633	1,726	284,359
Comprehensive income				
Profit for the year	-	97,401	-	97,401
Other comprehensive income	-	-	-	-
Total comprehensive income	-	97,401	-	97,401
Transfer from regulatory reserve	-	1,726	(1,726)	-
Transactions with owners				
Dividends paid - Final 2011	-	(25,000)	-	(25,000)
At end of year	20,000	336,760	-	356,760
Year ended 31 December 2011				
At start of year	20,000	210,520	-	230,520
Comprehensive income				
Profit for the year	-	71,839	-	71,839
Other comprehensive income	-	-	-	-
Total comprehensive income	-	71,839	-	71,839
Transfer to regulatory reserve	-	(1,726)	1,726	-
Transactions with owners				
Dividends paid - Final 2010	-	(18,000)	-	(18,000)
At end of year	20,000	262,633	1,726	284,359

Regulatory reserve represents an amount set aside to cover additional provision for loan losses required in order to comply with the requirements of the Bank of Tanzania. This reserve is not available for distribution.

Consolidated Statement of Cash Flows

	Note	2012 TZS' Million	2011 TZS' Million
Cash flows from operating activities			
Interest receipts		254,284	194,190
Interest payments		(7,414)	(7,949)
Net fee and commission receipts		85,645	67,139
Other income received (foreign exchange and other income)		10,827	14,443
Payments to employees and suppliers		(173,203)	(153,384)
Income tax paid		(49,623)	(34,508)
Cash flows from operating activities before changes in operating assets and liabilities		120,516	79,931
Changes in operating assets and liabilities:			
Loans and advances		(222,414)	(264,457)
Investment securities held-to-maturity		(182,966)	138,392
Statutory Minimum Reserves (SMR)		(47,580)	(19,955)
Other assets		(12,847)	(148)
Deposits from customers		483,579	(7,061)
Other liabilities		20,087	10,063
Deposits from banks		40,687	2,528
Net cash generated from /(used in) operating activities		199,062	(60,707)
Cash flows from investing activities			
Purchase of property and equipment	23	(33,739)	(22,300)
Purchase of intangible assets	24	(82)	(522)
Proceeds from sale of property and equipment		74	32
Acquisition of shares in other companies		-	(600)
Net cash used in investing activities		(33,747)	(23,390)
Cash flows from financing activities			
Proceeds from issuance of shares to non controlling interest		6,796	121
Dividends paid	16	(25,000)	(18,000)
Net cash used in financing activities		(18,204)	(17,879)
Net increase/(decrease)in cash and cash equivalents		147,111	(101,976)
Cash and cash equivalents at start of year		485,441	587,578
Effects of exchange rate changes on cash and cash equivalents		(513)	(161)
Cash and cash equivalents at end of year	30	632,039	485,441

Bank's Statement of Cash Flows

	Note	2012 TZS' Million	2011 TZS' Million
Cash flows from operating activities			
Interest receipts		254,284	194,190
Interest payments		(7,414)	(7,949)
Net fee and commission receipts		85,645	67,139
Other income received (foreign exchange and other income)		10,827	14,443
Payments to employees and suppliers		(173,124)	(152,794)
Income tax paid		(49,623)	(34,508)
Cash flows from operating activities before changes in operating assets and liabilities		120,595	80,521
Changes in operating assets and liabilities:			
Loans and advances		(222,414)	(264,457)
Investment securities held-to-maturity		(182,966)	138,392
Statutory Minimum Reserves (SMR)		(47,580)	(19,955)
Other assets		(10,821)	(418)
Deposits from customers		485,280	(7,948)
Other liabilities		20,227	10,074
Deposits from banks		40,687	2,528
Net cash generated from /(used in) operating activities		203,008	(61,263)
Cash flows from investing activities			
Purchase of property and equipment	23	(20,082)	(21,249)
Purchase of intangible assets	24	(82)	(522)
Proceeds from sale of property and equipment		74	32
Acquisition of shares in other companies	21	(10,807)	(974)
Net cash used in investing activities		(30,897)	(22,713)
Cash flows from financing activities			
Dividends paid	16	(25,000)	(18,000)
Net cash used in financing activities		(25,000)	(18,000)
Net increase/(decrease)in cash and cash equivalents		147,111	(101,976)
Cash and cash equivalents at start of year		485,441	587,578
Effects of exchange rate changes on cash and cash equivalents		(513)	(161)
Cash and cash equivalents at end of year	30	632,039	485,441

Notes to the Financial Statements

1 GENERAL INFORMATION

The Bank is a public limited liability company and is incorporated and domiciled in the United Republic of Tanzania. The address of its registered office is as follows:

NMB House
Azikiwe /Jamhuri Street
PO Box 9213
Dar es Salaam

The Bank is listed on the Dar es Salaam stock exchange (DSE).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the Tanzania Companies Act 2002 is included where appropriate.

The financial statements comprise statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the notes. The measurement basis applied in the preparation of these financial statements is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania shillings (TZS) and the amounts are rounded to the nearest million, except where otherwise indicated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in

assumptions may have a significant impact on the financial statements in the period the assumptions changed. The directors believe that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

- (i) New and amended standards adopted by the bank
There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on the Bank.
- (ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the bank.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:-

Amendment to IAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The application of this amendment will mainly impact the presentation of the primary statements.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements

for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The application of IFRS 13 may enhance fair value disclosures in a lot of circumstances.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. Issued in November 2009 and October 2011, it replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The directors are yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

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

(b) **Interest income and expense**

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest

income' or 'interest expense' in the profit and loss account using the effective interest method.

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. The calculation includes all fees 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.

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 that was used to discount the future cash flows for the purpose of measuring the impairment loss.

(c) **Fee and commission income**

Fees and commission are generally recognised on an accrual basis when the service has been provided. 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 – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

(d) Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of the Bank 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 rounded to the nearest thousand, which is the Bank's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into Tanzania Shillings using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(e) Financial assets

The Bank classifies its financial assets into the following categories: loans and receivables, held-to-maturity and available for sale financial assets. Management determines the appropriate classification of its financial assets at initial recognition.

(i) Loans and receivables

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

- (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Bank upon initial recognition designates as available for sale; or
- (c) those for which the holder may not recover substantially all of its initial investment, other

than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method. Loans and receivables are reported in the balance sheet as loans and advances to other banks or customers or as investment securities.

Interest on loans is included in the profit and loss account and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the profit and loss account as 'loan impairment charges'.

(ii) Held-to-maturity investments

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, other than:

- (a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Bank designates as available for sale; and
- (c) those that meet the definition of loans and receivables.

Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

(iii) Available for sale

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

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

(f) **Recognition of financial assets**

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the balance sheet as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

(g) **Financial liabilities**

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Financial liabilities are derecognised when extinguished. Such financial liabilities include deposits from banks or customers and other liabilities.

(h) **Derecognition of financial assets and liabilities**

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

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

(i) **Classes of financial instruments**

The Bank classifies the financial instruments into

classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen on the table below:

<i>Item on balance sheet</i>	<i>Class</i>
Financial assets	
Cash and cash equivalent	Loans and receivables
Loans and advances to banks	Loans and receivables
Loans and advances to customer	Loans and receivables
Investment securities	Held to maturity
Other assets	Loans and receivables
Equity investments	Available for sale
Financial liabilities	
Deposits from banks	Financial liabilities at amortised cost
Deposits from customers	Financial liabilities at amortised cost
Other liabilities	Financial liabilities at amortised cost

(j) **Impairment of financial assets**

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

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

- Significant financial difficult of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payment;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;

- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The 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 twelve 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 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 assets 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 profit and loss account.

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 the loss has been determined.

If, in 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 revised by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account in impairment charge for credit losses.

(ii) Assets classified as available-for-sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. 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 profit and loss account.

(iii) 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 again.

(k) 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 set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(l) **Impairment of non-financial assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2012.

(m) **Income tax**

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the Tanzanian Income Tax Act.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(n) **Provisions**

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(o) **Property and equipment**

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Depreciation is provided on the straight line basis so as to write down the cost of assets to their residual values over their useful economic lives, at the following rates:-

(o) **Property and equipment (continued)**

	%
Building	5
Motor vehicles	25
Furniture, fittings and equipment	20
Computer equipment	33.3

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income in the profit and loss account.

(p) **Intangible assets**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

(q) **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with Bank of Tanzania, Investment securities and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Bank of Tanzania.

(r) **Employee benefits**

(i) **Retirement benefit obligations**

The Bank has a statutory requirement to contribute to the Parastatal Pension Fund (PPF), which is a defined contribution scheme. The Bank contributes

15% of the required 20% of gross emoluments to the scheme and the contributions are recognised as an expense in the period to which they relate. The remaining 5% is deducted from employees. The Bank has no legal or constructive obligation to pay further contributions if PPF does not hold sufficient assets to pay all employees the benefit relating to the employees service in the current and prior periods.

(ii) **Other entitlements**

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(s) **Share capital**

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(t) **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

The leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to other operating expenses in the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(u) Consolidation

I Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost

The Group's share of its associates' postacquisition profits or losses is recognised in the profit and loss account, and its share of postacquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

II Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent

liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

III Separate financial statements

In the separate financial statements, investments in subsidiaries and associates are accounted for at cost less impairment.

(w) Contingencies and commitments

Transactions are classified as contingencies where the bank's obligations depend on uncertain future events. Items are classified as commitments where the bank commits itself to future transactions if the items will result in the acquisition of assets.

Financial guarantees

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and

the value of the premium agreed corresponds to the value of the guarantee obligation.

Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

(x) Comparatives

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

3 SEGMENT REPORTING

The Bank's subsidiaries have not commenced operations and are currently engaged in the initial

stage of property development. Consequently, the segment information presented below relates only to the Bank which is a trading entity.

The Bank has the following business segments: Treasury, Retail and Corporate banking.

The operating segment are reported in a manner consistent with the internal reporting provided to the Bank's Management Team (The Chief Executive Officer), which is responsible for allocating resources to the reportable segments and assessing their performances. All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8.

The segment information provided to the Bank's Management Team for the reportable segments for the year ended 31 December 2012 is as follows (all amounts in TZS million):

2012 Segmental Profit and loss account	Treasury	Wholesale banking	Retail banking	Total
Interest income	76,418	48,390	163,116	287,924
Interest expense	(56,995)	6,328	41,319	(9,348)
Net Interest Income	19,423	54,718	204,435	278,576
Credit impairment charges	-	(7,956)	(17,895)	(25,851)
Non-interest income	9,086	15,840	69,663	94,589
Depreciation and amortisation	(2,387)	(5,966)	(15,514)	(23,867)
Staff costs	(5,317)	(9,115)	(61,523)	(75,955)
Other expenses	(10,275)	(25,688)	(66,788)	(102,751)
Operating profit	10,530	21,833	112,378	144,741
Income tax provision	(3,444)	(7,141)	(36,755)	(47,340)
Profit after tax	7,086	14,692	75,623	97,401
Segment assets, liabilities and equity				
Total assets	1,371,510	395,233	1,029,135	2,795,878
Total liabilities and equity	428,280	619,239	1,748,359	2,795,878

All customers are based in Tanzania.

There was no income deriving from transactions with a single external customer that amounted to 10% or more of Bank's total income. There were no restructuring costs recognised in 2012 and 2011.

The segment information provided to the Bank's Management Team for the reportable segments for the year ended 31 December 2011 is as follows (all amounts in TZS million):

2011 Segmental Profit and loss account	Treasury	Wholesale banking	Retail banking	Total
Interest income	38,174	36,291	118,540	193,005
Interest expense	(26,725)	(14,275)	33,168	(7,832)
Net Interest Income	11,449	22,016	151,708	185,173
Credit impairment charges	-	(3,388)	(8,364)	(11,752)
Non-interest income	6,891	11,147	63,383	81,421
Depreciation and amortisation	(824)	(1,432)	(9,189)	(11,445)
Staff costs	(4,585)	(7,963)	(51,098)	(63,646)
Other expenses	(5,544)	(9,630)	(61,791)	(76,965)
Operating profit	7,387	10,750	84,649	102,786
Income tax provision	(2,640)	(1,925)	(26,382)	(30,947)
Profit after tax	4,747	8,825	58,267	71,839
Segment assets, liabilities and equity				
Total assets	964,923	375,965	829,362	2,170,250
Total liabilities and equity	316,329	864,146	989,775	2,170,250

All customers are based in Tanzania.

There was no income deriving from transactions with a single external customer that amounted to 10% or more of Bank's total income.

4 FINANCIAL RISK MANAGEMENT

The Bank's subsidiaries have not commenced operations and are currently engaged in the initial stage of property development. Consequently, the financial risk management information presented below relates only to the Bank which is a trading entity.

Taking risk is core to the banking business, and the operational risks are 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.

Risk management is carried out by the Risk Department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important risks are credit risk, liquidity risk and market risk.

4.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Management therefore, carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in the credit risk management team of the Bank and reported to the Board of Directors and heads of department regularly.

4.1.1 Credit risk measurement

Loans and advances

In measuring credit risk of loans and advances to customers and banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses.

Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all customers are segmented into five rating classes as shown below:

Bank's rating	Number of days past due	
	Micro loans	Other loans
Current	0	0 - 30
Especially mentioned	1 - 30	31 - 90
Sub-standard	31 - 60	91 - 180
Doubtful	61 - 90	181 - 270
Loss	91 or more	271 and more

4.1.2 Risk limit control and mitigation policies

(a) Lending limits

The Bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(b) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises inventory and accounts receivable;

- Charges over financial instruments such as debt securities and equities.

Corporate loans, SME loans, Agriculture loans and MSE loans are generally secured while Salaried Workers loans are unsecured.

Credit-related commitments

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

shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

4.1.3 Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

The impairment provision shown in the balance sheet at year end is calculated on the basis of the requirements of IAS 39 and is made up of the following: (All amounts in TZS Millions)

	31 December 2012		31 December 2011	
	Loans and advances to customers	Impairment provision	Loans and advances to customers	Impairment provision
Micro and Small Enterprises (MSE)	121,524	3,466	107,826	1,940
Consumer	721,110	14,180	619,265	7,720
Corporate customers	373,433	3,184	239,276	2,733
Small and Medium size Enterprises (SME)	159,920	9,225	172,840	3,296
	1,375,987	30,055	1,139,207	15,689

In assessing the level of impairment, management determines whether objective evidence of impairment exists under IAS 39, based on the criteria detailed in Note 2 [j (i)].

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

In addition, the Bank makes portfolio impairment based on the probability of losses using historic default ratios.

The regulatory provision is derived from each of the five rating classes as shown below:

Bank's rating	31 December 2012		31 December 2011	
	Loans and advances %	Impairment provision %	Loans and advances %	Impairment provision %
1. Current	91.5	0.2	91.3	0.8
2. Especially mentioned	6.5	1.3	5.5	0.6
3. Sub-standard	0.9	18.9	1.7	0.6
4. Doubtful	0.4	55.3	0.8	61
5. Loss	0.7	100	0.7	100
	100	2.3	100	1.4

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancement

76% of the total maximum exposure is derived from loans and advances to banks and customers (2011: 75%); 23% represents investments in government securities (2011: 6%).

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

- 98% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2011: 96.8%);
- 91.1% of the loans and advances portfolio are considered to be neither past due nor impaired (2011: 78%);
- The Bank has introduced a more stringent selection process upon granting loans and advances; and
- Investment in government treasury bills and treasury bonds has minimal credit risk.

4.1.5 Loans and advances

Loans and advances are summarised as follows: Amounts are in TZS Millions.

	31 December 2012		31 December 2011	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	1,252,529	203,062	896,824	172,737
Past due but not impaired	95,706	-	227,978	-
Impaired	27,752	-	14,405	-
Gross	1,375,987	203,062	1,139,207	172,737
Less: allowance for impairment	(30,055)	-	(15,689)	-
Net	1,345,932	203,062	1,123,518	172,737
Portfolio allowance	(14,389)	-	(6,231)	-
Individually impaired	(15,666)	-	(9,458)	-
	(30,055)	-	(15,689)	-

The total impairment provision for loans and advances is TZS 30,055 million (2011: TZS 15,689 million). This amount represents both the individually impaired loans and portfolio impairment provision. Further analysis of the impairment provision for loans and advances to customers is provided in Note 19.

During the year ended 31 December 2012, the Bank's total loans and advances increased by 22% as a result of the expansion of the lending business. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Bank focused more on the business with large corporate enterprises, quality SMEs and guaranteed Salary Workers Loans.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

Loans and advances that were neither past due nor impaired can be analysed as follows:

	2012 TZS Millions	2011 TZS Millions
MSE's	113,349	100,871
Consumer loans	633,001	406,877
Corporate customers	368,178	232,316
SMEs	138,001	156,760
	<u>1,252,529</u>	<u>896,824</u>
Loans and advances to banks	<u>203,062</u>	<u>172,737</u>

91.1% of the loans and advances that were neither past due nor impaired fall under top grade of the internal rating system, known as Current. The rest fall under next grades known as Especially mentioned and Sub standard.

Loans and advances to banks include bank balances and placements with both local and international banks. The local banks are subsidiaries of highly rated global banks. All international banks are also highly rated banks.

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 181 days past due are not usually considered impaired (in some cases over 270 days if the loan is cash guaranteed), unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follow: (Amount in TZS' Millions):

	Individual (retail) customers		Corporate customers		Total
	MSEs	Consumer	Corporate customers	SMEs	
31 December 2012					
Past due up to 30 days	3,367	58,993	2,108	8,789	73,257
Past due 30 - 60 days	1,013	13,006	-	-	14,019
Past due 60 - 90 days	548	2,039	-	-	2,587
Past due 90 - 180 days	1,060	4,783	-	-	5,843
Total	5,988	78,821	2,108	1,304	95,706
31 December 2011					
Past due up to 30 days	2,839	129,388	6,961	4,110	143,298
Past due 30 - 60 days	1,624	59,164	-	4,180	64,968
Past due 60 - 90 days	663	9,738	-	910	11,311
Past due 90 - 180 days	797	6,779	-	825	8,401
Total	5,923	205,069	6,961	10,025	227,978

Upon initial recognition of loans and advances, the fair value of collateral, if any, is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or a valuation by professional valuers.

(c) Loans and advances individually impaired

The amount of individually impaired loans and advances as at 31 December 2012 was TZS 27,752 million (2011: TZS 14,405 million).

The breakdown of the gross amount of individually impaired loans and advances by class is as follows:

	2012 TZS Millions	2011 TZS Millions
MSEs	2,187	1,360
Consumer loans	9,287	3,937
Corporate customers	3,148	4,679
SMEs	13,130	4,429
	27,752	14,405

(d) Amounts due from banks

The total gross amount of individually impaired amounts due from banks as at 31 December 2012 was Nil (2011: Nil). No collateral is held by the Bank, and no impairment provision has been provided against the gross amount.

4.1.6 Debt securities, treasury bills and other eligible bills

The only investment securities held by the Bank are Treasury Bills and Treasury bonds issued by the Government. At the balance sheet date, these investments were not impaired. There are no credit ratings for these investments.

4.1.7 Repossessed collateral

During the year, the Bank did not obtain assets by taking possession of collateral held as security. Repossessed properties are usually sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

4.1.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2012. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties (Amounts are in TZS' Millions)

4.1.8 Concentration of risks of financial assets with credit risk exposure (continued)

(a) Geographical sectors (continued)

Credit risk exposures relating to on-balance sheet assets for 2012 are as follows:

	Tanzania	Europe	America	Others	Total
31 December 2012					
Balances with the Bank of Tanzania	336,614	-	-	-	336,614
Loans and advances to banks	145,659	8,403	37,279	11,721	203,062
Investment securities held to maturity	617,347	-	-	-	617,347
Loans and advances to customers:					
Loans to individuals:					
- MSEs	118,058	-	-	-	118,058
- Consumer loans	706,930	-	-	-	706,930
Loans to corporate entities:					
- Corporate customers	370,249	-	-	-	370,249
- SMEs	150,695	-	-	-	150,695
Other assets	19,509	-	-	-	19,509
As at 31 December 2012	2,465,061	8,403	37,279	11,721	2,522,464
Credit risk exposures relating to off-balance sheet assets are as follows:					
Overdraft	39,734	-	-	-	39,734
Acceptances and letters of credit – See note 32(a)	82,951	-	-	-	82,951
As at 31 December 2012	122,685	-	-	-	122,685

Credit risk exposures relating to on-balance sheet assets for 2011 are as follows:

	Tanzania	Europe	America	Others	Total
31 December 2011					
Balances with the Bank of Tanzania	243,606	-	-	-	243,606
Loans and advances to banks	115,821	18,637	38,268	11	172,737
Investment securities held to maturity	361,943	-	-	-	361,943
Loans and advances to customers:					
Loans to individuals:					
- MSEs	105,886	-	-	-	105,886
- Consumer loans	611,545	-	-	-	611,545
Loans to corporate entities:					
- Corporate customers	236,543	-	-	-	236,543
- SMEs	169,544	-	-	-	169,544
Other assets	3,490	-	-	-	3,490
As at 31 December 2011	1,848,378	18,637	38,268	11	1,905,294
Credit risk exposures relating to off-balance sheet assets are as follows:					
Guarantees and Indemnities	230	-	-	-	230
Overdraft	47,829	-	-	-	47,829
Acceptances and letters of credit	11,338	-	-	-	11,338
As at 31 December 2011	59,397	-	-	-	59,397

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts at 2012, as categorised by the industry sectors of its counterparties. (Amounts are in TZS' Millions):

	Financial institutions	Manufacturing	Trading and commercial	Transport and communication	Wholesale and Retail	Agriculture	Individuals	Others	Total
Balances with the bank of Tanzania	336,614	-	-	-	-	-	-	-	336,614
Loan and advances to banks	203,062	-	-	-	-	-	-	-	203,062
Investment securities held to maturity	617,347	-	-	-	-	-	-	-	617,347
Loans and advances to customers:									
Loans to individuals:									
-MSE	-	2,260	108,718	1,087	-	1,871	2,011	2,111	118,058
-Consumer loans	-	-	-	-	-	-	647,764	59,166	706,930
Loans to corporate entities:									
-Corporate customers	845	121,282	100,280	30,228	2,606	26,554	-	88,454	370,249
-SMEs	2,320	2,834	88,750	1,850	653	39,857	-	14,431	150,695
Other assets	19,509	-	-	-	-	-	-	-	19,509
As at 31 December 2012	1,171,181	126,376	297,748	33,165	3,259	68,282	649,775	164,162	2,522,464
Credit risk exposures relating to off-balance sheet assets are as follows:									
Overdraft	-	10,585	5,872	398	-	22,567	-	312	39,734
Acceptances and letters of credit	-	8973	20829	150	-	5912	-	47086	82,950
As at 31 December 2012	-	19,558	26,701	548	-	28,479	-	47,398	122,684

The following table breaks down the Bank's main credit exposure at their carrying amounts at 2011, as categorised by the industry sectors of its counterparties. (Amounts are in TZS' Millions):

	Financial institutions	Manufacturing	Trading and commercial	Transport and communication	Wholesale and Retail	Agriculture	Individuals	Others	Total
Balances with the Bank of Tanzania	243,606	-	-	-	-	-	-	-	243,606
Loan and advances to banks	172,737	-	-	-	-	-	-	-	172,737
Investment securities held to maturity	361,943	-	-	-	-	-	-	-	361,943
Loans and advances to customers:									
Loans to individuals:									
- MSEs	-	-	18,073	1,322	66,401	6,020	1,458	12,612	105,886
- Consumer loans	-	-	-	-	-	-	598,511	13,034	611,545
Loans to corporate entities:									
- Corporate customers	2,222	103,735	62,536	26,208	-	2,561	-	39,281	236,543
- SMEs	8,418	2,449	10,164	3,394	53,504	32,061	52,795	6,759	169,544
Other assets	-	-	-	-	-	-	-	3,490	3,490
As at 31 December 2011	788,926	106,184	90,773	30,924	119,905	40,642	652,764	75,176	1,905,294
Credit risk exposures relating to off-balance sheet assets are as follows:									
Guarantees and Indemnities	-	9,921	28,093	-	9,590	-	-	230	230
Overdraft	-	-	-	-	-	-	-	182	47,786
Acceptances and letters of credit	-	-	-	-	-	-	-	11,338	11,338
As at 31 December 2011	-	9,921	28,093	-	9,590	-	-	11,750	59,354

FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Market risk

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

The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly. Regular reports are submitted to the Banks Assets and Liability Committee (ALCO) and heads of department.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

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

4.2.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2012. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Tanzania Shillings).

Concentrations of currency risk - on - and off - balance sheet financial instruments for 2012:

As at 31 December 2012	TZS	USD	EURO	GBP	Others	Total
Assets						
Cash and balances with Bank of Tanzania	477,437	41,248	2,193	780	-	521,658
Loans and advances to banks	145,671	44,421	1,005	11,958	7	203,062
Investment securities held to maturity	617,347	-	-	-	-	617,347
Loans and advances to customers	1,310,464	35,468	-	-	-	1,345,932
Equity investments	14,612	-	-	-	-	14,612
Other assets	19,509	-	-	-	-	19,509
Total financial assets	2,585,040	121,137	3,198	12,738	7	2,722,120
Liabilities						
Deposits from customers	2,233,751	54,067	1,512	649	-	2,289,979
Deposits from banks	2,011	67,286	2,085	1,275	-	72,657
Other liabilities	68,595	-	-	-	-	68,595
Total financial liabilities	2,304,357	121,353	3,597	1,924	-	2,431,231
Net on-balance sheet financial position	290,281	(216)	(399)	10,814	7	300,487
Off balance sheet position:						
Credit commitments	82,951	-	-	-	-	82,951

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

Concentrations of currency risk - on - and off - balance sheet financial instruments for 2011:

As at 31 December 2011	TZS	USD	EURO	GBP	Others	Total
Assets						
Cash and balances with Bank of Tanzania	407,995	19,945	2,167	136	-	430,243
Loans and advances to banks	112,843	55,793	1,236	2,854	11	172,737
Investment securities held to maturity	361,943	-	-	-	-	361,943
Loans and advances to customers	1,121,894	1,624	-	-	-	1,123,518
Equity investments	3,805	-	-	-	-	3,805
Other assets	3,490	-	-	-	-	3,490
Total financial assets	2,011,970	77,362	3,403	2,990		2,095,736
Liabilities						
Deposits from customers	1,763,573	39,899	958	269	-	1,804,699
Deposits from banks	-	28,699	2,048	1,223	-	31,970
Other liabilities	48,368	-	-	-	-	48,368
Total financial liabilities	1,811,941	68,598	3,006	1,492	-	1,885,037
Net on-balance sheet financial position	200,029	8,764	397	1,498	11	210,699
Off balance sheet position:						
Credit commitments	47,829	-	-	-	-	47,829

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.1 Foreign exchange risk (continued)

Foreign exchange sensitivity analysis

At 31 December 2012, if the Tanzanian shilling (TZS) had weakened/strengthened by 10% (2011: 10%) against US Dollar, with all other variables held constant, Bank's post tax profit for the year would have been TZS 6 million (2011: TZS 262 million) higher/lower mainly as a result of foreign exchange losses on translation of US Dollar dominated cash and balances with Bank of Tanzania, Loan and advances to banks and customers and deposits from customers and other banks.

At 31 December 2012, if the Tanzanian shilling (TZS) had weakened/strengthened by 10% (2011: 10%) against Euro, with all other variables held constant, Bank's post tax profit for the year would have been TZS 12 million (2011: TZS 12 million) higher/lower mainly as a result of foreign exchange losses on translation of Euro dominated loan and advances to banks and deposits from customers and other banks.

At 31 December 2012, if the Tanzanian shilling (TZS) had weakened/strengthened by 10% (2011: 10%) against Pound (GBP), with all other variables held constant, Bank's post tax profit for the year would have been TZS 324 million (2011: TZS 41 million) higher/lower mainly as a result of foreign exchange losses on translation of Pound dominated cash and balances with Bank of Tanzania, Loan and advances to banks and customers and deposits from customers and other banks.

The effect of translation of loans and advances to banks in other currencies (Kenyan shillings, Japanese Yen and South African Rand) is not considered to be significant.

4.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly by the Bank. The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.2 Interest rate risk (continued)

	Up to 1 month TZS 'Millions'	1-3 months TZS 'Millions'	3-12 months TZS 'Millions'	1-5 years TZS 'Millions'	Over 5 TZS 'Millions'	Non-interest bearing TZS 'Millions'	Total TZS 'Millions'
As at 31 December 2012							
Assets:							
Cash and balances with Bank of Tanzania	-	-	-	-	-	521,659	521,659
Investment securities held to maturity	35,894	126,002	259,342	155,239	40,870	-	617,347
Loan and advances to banks	128,200	15,490	-	-	-	59,372	203,062
Loans and advances to customers	200,738	56,609	286,892	742,023	59,670	-	1,345,932
Other assets	-	-	-	-	-	19,509	19,509
Total financial assets	364,832	198,101	546,234	897,262	100,540	600,540	2,707,509
Liabilities:							
Deposits from customers	29,179	8,667	49,704	100	-	2,202,329	2,289,979
Deposit from banks	72,657	-	-	-	-	-	72,657
Other liabilities	68,595	-	-	-	-	-	68,595
Total financial liabilities	170,431	8,667	49,704	100	-	2,202,329	2,431,231
Total interest repricing gap	194,401	189,434	496,530	897,162	100,540		

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Up to 1 month TZS 'Millions'	3-12 months 1-3 months TZS 'Millions'	1-5 years TZS 'Millions'	Non-interest bearing TZS 'Millions'	Non-interest bearing Over 5 TZS 'Millions'	Total TZS 'Millions'	TZS 'Millions'
As at 31 December 2011							
Assets:							
Cash and balances with Bank of Tanzania	-	-	-	-	-	430,243	430,243
Investment securities held to maturity	27,866	61,592	204,793	41,346	26,346	-	361,943
Loan and advances to banks	47,607	29,583	-	-	-	95,547	172,737
Loans and advances to customers	64,571	85,180	238,942	700,066	34,759	-	1,123,518
Other assets	-	-	-	-	-	3,490	3,490
Total financial assets	140,044	176,355	443,735	741,412	61,105	529,280	2,091,931
Liabilities:							
Deposits from customers	110,607	11,405	5,108	8,741	-	1,668,838	1,804,699
Deposit from banks	19,108	-	12,862	-	-	-	31,970
Other liabilities	-	-	-	-	-	48,368	48,368
Total financial liabilities	129,715	11,405	17,970	8,741	-	1,717,206	1,885,037
Total interest repricing gap	10,329	164,950	425,765	732,671	61,105	-	-

4 FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.2 Interest rate risk (continued)

Interest rate risk sensitivity

The interest rate risk sensitivity of the net mismatch between interest bearing assets and liabilities up to 12 months is summarised in the table below. This assumes a 1% adverse movement in interest rates over the period (amounts in TZS Million).

2012 Sensitivity period	Weighted average	Net Interest Bearing Funding	Net position	Impact
Less than 30 days	10,407	249,772	(239,365)	2,394
1 year	304,424	843,343	(538,918)	5,389
2011				
Less than 30 days	5,039	120,927	(115,888)	1,159
1 year	276,130	637,811	(361,680)	3,617

4.3 Liquidity risk

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

4.3.1 Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 4.3.3).

4.3.2 Funding approach

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

4.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table below are the contractual discounted cash flows. (Amounts are in TZS millions). The impact of cash outflow due to interest is not significant as deposits which attract interest are bonus, fixed deposits and junior account. As at 31 December 2012, the interest bearing deposits had a balance of TZS 218,583 million (2011: TZS 117,748 million).

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	Over 1 year
Liabilities				
Deposits from customers	2,231,508	8,667	49,704	100
Deposits from banks	72,657	-	-	-
Other liabilities	68,595	-	-	-
Total liabilities	2,372,760	8,667	49,704	100
As at 31 December 2011				
Liabilities				
Deposits from customers	1,779,866	11,448	5,363	9,615
Deposits from banks	19,108	-	12,862	-
Other liabilities	48,368	-	-	-
Total liabilities	1,847,342	11,448	18,225	9,615

4.3.4 Assets held for managing liquidity risk

The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with the Bank of Tanzania (excluding SMR);
- Treasury and other eligible bills;
- Placements with other banks; and

In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

4.4 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 32), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 32) are also included below based on the earliest contractual maturity date.

	No later than 1 year TZS'Millions	1 – 5 years TZS'Millions	Over 5 years TZS'Millions	Total TZS'Millions
As at 31 December 2012				
Outstanding letters of credit,	82,951	-	-	82,951
guarantees and indemnities				
Commitments to extend credit	39,735	-	-	39,735
Total	122,686	-	-	122,686
As at 31 December 2011				
Outstanding letters of credit,	11,568	-	-	11,568
guarantees and indemnities				
Commitments to extend credit	47,829	-	-	47,829
Total	59,397	-	-	59,397

4.5 Fair value of financial assets and liabilities

Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair values (amounts in TZS Millions):

	Carrying values		Fair value	
	2012	2011	2012	2011
Financial assets				
Investment securities held-to-maturity	617,347	361,943	603,354	362,091
Loan and advances to banks	203,062	172,737	203,062	172,737
Loans and advances to customers	1,345,932	1,123,518	1,345,932	1,123,518
Financial liabilities				
Deposits from customers	2,289,979	1,804,699	2,289,979	1,804,699
Deposits from banks	72,657	31,970	72,657	31,970

Most of the financial assets and liabilities are short term in nature and those which are long term bear interest at prevailing market rate therefore the carrying amounts approximate fair value.

Loan and advance to banks - The balance includes inter-bank placements, balances with other banks and items in the course of collection

Loans and advances to customers - The balance is net of impairment charges and includes all products offered by the bank such as MSE, SME, Salary Workers Loan, Personal loans, Corporate term loans and Overdrafts

Investment securities held to maturity - Government securities such as Treasury bills and bonds. It also includes recapitalisation bonds issued by the Government at the time of establishing the bank.

Deposits from customers - The balance covers both retail and corporate customers. The estimated fair value of deposits with no stated maturity, which includes non interest bearing deposits, is the amount repayable on demand.

Deposits from banks – The balance is includes inter-bank borrowings and deposits from other banks.

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

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

The BoT requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of TZS 15 billion, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the internationally agreed minimum of 12%.

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

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Prepaid expenses and deferred charges are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital and general provision which are held against future, presently unidentified losses and are freely available to meet losses which subsequently materialise.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2012 and year ended 31 December 2011. During those two periods, the Bank complied with all of the externally imposed capital requirements to which they are subject.

4.6 Capital management (continued)

	2012 TZS' Million	2011 TZS' Million
Tier 1 capital		
Share capital	20,000	20,000
Retained earnings	336,760	262,633
Less: Prepaid expenses	(7,884)	(5,198)
Less: Intangible assets	(1,226)	(846)
Less: Deferred tax assets	(18,741)	(6,119)
Total qualifying Tier 1 capital	328,909	270,470
Tier 2 capital		
General provision (portfolio impairment)	14,389	6,231
Total qualifying Tier 2 capital	14,389	6,231
Total regulatory capital	343,293	276,701
Risk-weighted assets		
On-balance sheet	1,442,689	1,203,316
Off-balance sheet	122,676	49,677
Market risk	144	3,052
Total risk-weighted assets	1,565,509	1,256,045
	Bank's ratio 2012	Bank's ratio 2011
Tier 1 capital (required ratio 10%)	21%	22%
Tier 1 + Tier 2 capital (required ratio 12%)	22%	22%

The increase of the regulatory capital in the 2012 is mainly due to the contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the business in 2012.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies.

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

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the 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 the 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, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The effect of sensitivity analysis is not material due to the impairment approach adopted by the bank.

b) 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 judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If all held to maturity investments were to be reclassified as at 31 December 2012 the carrying value would increase by TZS 13,993 million in the fair value reserve account in shareholders' equity.

GROUP AND BANK

6 INTEREST AND SIMILAR INCOME

Loans and advances

- To customers

- To banks

Government securities held to maturity

2012 TZS'Millions	2011 TZS'Millions
211,506	154,832
6,999	7,206
69,419	30,967
287,924	193,005

There is no interest income recognized on impaired financial assets (2011: Nil).

7 INTEREST AND SIMILAR EXPENSES

Deposits from customers

- Saving deposits

- Current accounts

- Time deposits

Deposits from banks

5,350	6,152
579	232
3,017	520
402	928
9,348	7,832

8 NET FEES AND COMMISSION INCOME

Fees and commission income

Credit related fees and commissions

Government service fees

Maintenance fees

Teller withdrawal fees

ATM fees and card issuing

Commission - mobile banking

Other fees

15,455	14,581
5,811	5,811
15,258	8,878
6,019	6,027
20,558	15,401
5,352	3,980
15,748	13,317
84,201	67,995

Fees and commission expense

Financial charges

(3,639)	(856)
80,562	67,139

9 FOREIGN EXCHANGE INCOME

Foreign currency trading

Others

9,086	6,891
-	546
9,086	7,437

GROUP AND BANK		
	2012 TZS'Millions	2011 TZS'Millions
10 OTHER INCOME		
Miscellaneous income	1,178	6,770
Rental income	50	38
Profit on sale of property and equipment	74	37
	1,302	6,845
11 EMPLOYEE BENEFIT EXPENSES		
Salaries and allowances	47,344	44,444
Pension costs - defined contribution plan	6,869	5,470
Other emoluments	21,742	13,732
	75,955	63,646
12 (a) GENERAL AND ADMINISTRATIVE EXPENSES (GROUP)		
Administrative expenses	61,002	52,371
Management contract expenses	4,468	3,525
Travelling expenses	5,689	4,936
Repairs and maintenance	17,192	11,510
Auditors' remuneration	356	345
Directors' remuneration:		
- Fees	87	72
- Others	234	208
Other expenses	10,163	4,048
	99,191	77,015
12 (b) GENERAL AND ADMINISTRATIVE EXPENSES (BANK)		
Administrative expenses	61,002	52,371
Management contract expenses	4,468	3,525
Travelling expenses	5,689	4,936
Repairs and maintenance	17,192	11,510
Auditors' remuneration	356	345
Directors' remuneration:		
- Fees	87	72
- Others	234	208
Other expenses	10,084	3,998
	99,112	76,965

13 DEPRECIATION AND AMORTISATION

GROUP AND BANK

Depreciation of property and equipment (Note 23)
Amortisation of intangible assets (Note 24)

	2012 TZS'Millions	2011 TZS'Millions
Depreciation of property and equipment (Note 23)	18,595	10,792
Amortisation of intangible assets (Note 24)	5,272	653
	23,867	11,445

14 INCOME TAX EXPENSE

Tax expense for the year is arrived at as follows:

Current income tax – current year
Current income tax – under provision in prior year
Deferred income tax – current year
Deferred income tax – under provision in prior year

Current income tax – current year	53,265	31,972
Current income tax – under provision in prior year	5,918	647
Deferred income tax – current year	(9,613)	(993)
Deferred income tax – under provision in prior year	(2,230)	(679)
	47,340	30,947

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

Profit before income tax

Tax calculated at the statutory income tax rate of 30% (2011:30%)

Tax effect of:

Depreciation on non-qualifying assets

Expenses not deductible for tax purposes

Income not subject to tax

Under/over provision of deferred tax and current income tax in prior year

Income tax expense

	2012 TZS'Millions	2011 TZS'Millions
Profit before income tax	144,741	102,786
Tax calculated at the statutory income tax rate of 30% (2011:30%)	43,422	30,836
Tax effect of:		
Depreciation on non-qualifying assets	86	63
Expenses not deductible for tax purposes	162	77
Income not subject to tax	(18)	3
Under/over provision of deferred tax and current income tax in prior year	3,688	(32)
Income tax expense	47,340	30,947

15 (a) EARNINGS PER SHARE GROUP

The calculation of the basic earnings per share was based on the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year, calculated as follows:

	2012 TZS'Millions	2011 TZS'Millions
Net profit attributable to shareholders	97,322	71,789
Weighted average number of shares in issue in millions (Note 29)	500	500
Basic and diluted earnings per share	194.64	143.57

	2012 TZS'Millions	2011 TZS'Millions
Net profit attributable to shareholders	97,401	71,839
Weighted average number of shares in issue in millions (Note 29)	500	500
Basic and diluted earnings per share	194.8	143.67

There being no dilutive or dilutive potential share options, the basic and diluted earnings per share are the same.

16 DIVIDEND PER SHARE

Dividends are not recognised as a liability until they have been ratified at the Annual General Meeting. The Directors propose payment of a dividend of TZS 68 per share, amounting to TZS 34,000 million out of 2012 profit. In 2011, dividend of TZS 50 per share, amounting to TZS 25,000 million was approved and paid.

17 CASH AND BALANCES WITH BANK OF TANZANIA

GROUP AND BANK

	2012 TZS'Millions	2011 TZS'Millions
Cash in hand	185,043	186,637
Balances with Bank of Tanzania		
- local currency	70,060	32,696
- foreign currency	11,978	3,913
Statutory minimum reserves (SMR)	254,577	206,997
	521,658	430,243

The SMR deposit is not available to finance the Bank's day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the cash flow statement (See Note 30). Cash in hand and balances with Bank of Tanzania are non-interest bearing.

18 LOANS AND ADVANCES TO BANKS

GROUP AND BANK

	2012 TZS'Millions	2011 TZS'Millions
Placement with local banks	144,507	103,030
Balances with banks abroad	46,611	56,916
Cheques and items for clearing from other banks	11,944	12,791
	203,062	172,737
Current	203,062	172,737
Non current	-	-

19 LOANS AND ADVANCES TO CUSTOMERS

GROUP AND BANK

	2012 TZS'Millions	2011 TZS'Millions
Loans and advances to customers		
Retail customers		
MSE customers	121,524	107,826
Consumer loans	721,110	619,265
	842,634	727,091
Corporate Entities		
Large Corporate Entities	199,012	91,741
SMEs	159,920	172,840
Overdrafts	174,421	147,535
	533,353	412,116
Gross loans and advances to customers	1,375,987	1,139,207
Less: allowance for impairment	(30,055)	(15,689)
Net loans and advances to customers	1,345,932	1,123,518
Current	555,170	901,875
Non current	820,817	237,332
	1,375,987	1,139,207

The reconciliation of allowance account for losses on loans and advances to customers by class is as follows;
(Amounts are in TZS Millions).

	Individual (retail) customers			Corporate entities	
	MSEs	Consumer	SMEs	Corporate	Total
Balance at 1 January 2012	1,940	7,720	3,296	2,733	15,689
Increase in allowance for loan impairment	2,519	15,376	7,505	451	25,851
Write-offs	(993)	(8,916)	(1,576)	-	(11,485)
At 31 December 2012	3,466	14,180	9,225	3,184	30,055
Balance at 1 January 2011	5,420	7,581	1,432	2,532	16,965
Increase in allowance for loan impairment	1,624	6,740	3,052	336	11,752
Write offs	(5,104)	(6,601)	(1,188)	(135)	(13,028)
At 31 December 2011	1,940	7,720	3,296	2,733	15,689

20 INVESTMENT SECURITIES HELD-TO-MATURITY

GROUP AND BANK

	2012 TZS'Millions	2011 TZS'Millions
Treasury Bills and Bonds:		
Maturing within 91 days	161,896	89,458
Maturing after 91 days	428,476	245,510
	590,372	334,968
Recapitalisation bond	26,975	26,975
	617,347	361,943
Current	421,232	281,287
Non current	196,115	80,656

Interest on recapitalisation bond is received semi-annually at a variable rate of 12.6% maximum and a minimum of 7% computed as a weighted average of interest rate on Treasury Bills over the last six months. Treasury bills and bonds are debt securities issued by the Government of the United Republic of Tanzania at an effective rate of 11.7% (2011: 8.5%)

The movement in investment securities may be summarised as follows:

	2012 TZS' Millions	2011 TZS' Millions
At 1 January	361,943	633,964
Additions	723,840	605,289
Matured securities	(468,436)	(877,310)
At 31 December	617,347	361,943

21 (a) EQUITY INVESTMENTS (BANK)

(i) Investment in a subsidiary and associate

The Bank has made equity investments in three companies shown below. All the companies are at development stage.

	2012 TZS' Millions	% age Shareholding	2011 TZS' Millions	% age Shareholding
Upanga Joint Venture Company Limited	7,642	32.00	1,324	32.00
Ohio Street Properties Limited	5,770	50.00	1,281	50.00
	13,412		2,605	

(ii) Investment at Available for sale

Company name	2012 TZS' Millions	% age Shareholding	2011 TZS' Millions	% age Shareholding
Tanzania Mortgage Refinance Company	1,200	11.48	1,200	14.63
	1,200		1,200	

22 (a) OTHER ASSETS (GROUP)

	2012 TZS' Million	2011 TZS' Million
Service fees receivable	1,752	3,196
Prepayments	7,884	5,198
Other receivables	12,465	651
Staff imprest	322	313
Less: impairment provision for other receivables	(379)	(161)
	22,044	9,197
Current	22,044	9,197

The movement in provision for impairment of other receivables is as follows:

	Million	Million
At start of the year	(161)	(720)
(Increase)/release of provision	(218)	559
At end of the year	(379)	(161)
Service fees receivable	1,752	3,196
Prepayments	7,884	5,198
Other receivables	9,930	142
Staff imprest	322	313
Less: impairment provision for other receivables	(379)	(161)
	19,509	8,688
Current	19,509	8,688

The movement in provision for impairment of other receivables is as follows:

	Million	Million
At start of the year	(161)	(720)
(Increase)/release of provision	(218)	559
At end of the year	(379)	(161)

23 (a) PROPERTY AND EQUIPMENT (GROUP)

	Owned building TZS' Millions	Leasehold improvements TZS' Millions	Motor vehicles TZS' Millions	Computers furniture, fittings and equipment TZS' Millions	Capital work in progress TZS' Millions	Total TZS' Millions
Year ended 31 December 2012						
Opening net book value	14,006	6,497	1,289	25,481	13,621	60,894
Additions	118	244	-	5,974	27,403	33,739
Transfer from work in progress	3,650	5,063	738	5,851	(15,302)	-
Write off	-	-	-	-	(152)	(152)
Transfer to intangible assets	-	-	-	-	(5,570)	(5,570)
Depreciation charge	(674)	(3,252)	(534)	(14,135)	-	(18,595)
Closing net book value	17,100	8,552	1,493	23,171	20,000	70,316
At 31 December 2012						
Cost	24,645	15,577	5,049	70,306	20,000	135,577
Accumulated depreciation	(7,545)	(7,025)	(3,556)	(47,135)	-	(65,261)
Net book value	17,100	8,552	1,493	23,171	20,000	70,316
Year ended 31 December 2011						
Opening net book value	12,364	6,351	1,003	11,039	18,885	49,642
Additions	-	113	-	7,831	14,356	22,300
Transfer from work in progress	2,761	1,640	714	14,268	(19,383)	-
Write off	-	-	-	-	(217)	(217)
Disposals	-	-	-	(19)	(20)	(39)
Depreciation charge	(1,119)	(1,607)	(428)	(7,638)	-	(10,792)
Closing net book value	14,006	6,497	1,289	25,481	13,621	60,894
At 31 December 2011						
Cost	20,877	10,270	4,311	58,481	13,621	107,560
Accumulated depreciation	(6,871)	(3,773)	(3,022)	(33,000)	-	(46,666)
Net book value	14,006	6,497	1,289	25,481	13,621	60,894

No property and equipment has been pledged as security for liabilities (2011: None).

23 (b) PROPERTY AND EQUIPMENT (BANK)

	Owne building TZS' Millions	Leasehold improvements TZS' Millions	Motor vehicles TZS' Millions	Computers furniture, fittings and equipment TZS' Millions	Capital work in progress TZS' Millions	Total TZS' Millions
Year ended 31 December 2012						
Opening net book value	14,006	6,497	1,289	25,481	11,532	58,805
Additions	118	244	-	5,974	13,746	20,082
Transfer from work in progress	3,650	5,063	738	5,851	(15,302)	-
Write off	-	-	-	-	(152)	(152)
Transfer to intangible assets	-	-	-	-	(5,570)	(5,570)
Depreciation charge	(674)	(3,252)	(534)	(14,135)	-	(18,595)
Closing net book value	17,100	8,552	1,493	23,171	4,254	54,570
At 31 December 2012						
Cost	24,645	15,577	5,049	70,306	4,254	119,831
Accumulated depreciation	(7,545)	(7,025)	(3,556)	(47,135)	-	(65,261)
Net book value	17,100	8,552	1,493	23,171	4,254	54,570
Year ended 31 December 2011						
Opening net book value	12,364	6,351	1,003	11,039	17,847	48,604
Additions	-	113	-	7,831	13,305	21,249
Transfer from work in progress	2,761	1,640	714	14,268	(19,383)	-
Write off	-	-	-	-	(217)	(217)
Disposals	-	-	-	(19)	(20)	(39)
Depreciation charge	(1,119)	(1,607)	(428)	(7,638)	-	(10,792)
Closing net book value	14,006	6,497	1,289	25,481	11,532	58,805
At 31 December 2011						
Cost	20,877	10,270	4,311	58,481	11,532	105,471
Accumulated depreciation	(6,871)	(3,773)	(3,022)	(33,000)	-	(46,666)
Net book value	14,006	6,497	1,289	25,481	11,532	58,805

No property and equipment has been pledged as security for liabilities (2011: None).

24 INTANGIBLE ASSETS

GROUP AND BANK

Movement during the year

	2012 Computer software TZS'Millions	2011 Computer software TZS'Millions
At start of year	846	977
Additions	82	522
Transfer from WIP (Note 23)	5,570	-
Amortisation	(5,272)	(653)

At end of year

1,226 **846**

At 31 December

Cost	11,877	6,226
Accumulated amortisation	(10,651)	(5,380)

Net book value

1,226 **846**

No intangible asset has been pledged as security for liabilities (2011: None). The intangible assets represent Computer software acquired by the bank.

25 DEFERRED INCOME TAX

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

GROUP AND BANK

	2012 TZS'Millions	2011 TZS'Millions
At start of year	6,119	4,447
Credit to profit and loss	11,843	1,672
At the end of year	17,962	6,119

Deferred income tax asset and deferred income tax credit to the profit and loss account are attributed to the following items:

	1 January 2012 TZS'Millions	Credited to profit and loss TZS'Millions	31 December 2012 TZS'Millions
Deferred income tax asset			
Property and equipment	2,756	1,879	4,635
Provisions	3,363	9,964	13,327
	6,119	11,843	17,962

25 DEFERRED INCOME TAX (GROUP AND BANK) (CONTINUED)

	1 January 2012 TZS'Millions	(Charge) Credited to profit and loss TZS'Millions	31 December 2012 TZS'Millions
Deferred income tax asset			
Property and equipment	3,170	(416)	2,754
Provisions	1,277	2,088	3,365
	4,447	1,672	6,119

26 (a) DEPOSITS FROM CUSTOMERS (GROUP)

Deposits due to customers are composed of the following;

	2012 TZS' Million	2011 TZS' Million
Current accounts	1,123,515	871,162
Personal accounts	1,076,908	916,079
Time deposit accounts	87,651	17,254
	2,288,074	1,804,495
Current	2,287,974	1,795,754
Non current	100	8,741
	2,288,074	1,804,495

26 (b) DEPOSITS FROM CUSTOMERS (BANK)

Current accounts	1,125,420	871,366
Personal accounts	1,076,908	916,079
Time deposit accounts	87,651	17,254
	2,289,979	1,804,699
Current	2,289,879	1,795,958
Non current	100	8,741
	2,289,979	1,804,699

27 (a) OTHER LIABILITIES (GROUP)

	2012 TZS' Million	2011 TZS' Million
Accrued expenses	30,015	15,185
Refundable deposits	8,639	8,644
Bills payable	3,433	7,036
Provision for fraud losses	2,319	3,269
Sundry liabilities	23,343	13,528
	67,749	47,662
Current	67,749	47,662

27 (b) OTHER LIABILITIES (BANK)

Accrued expenses	30,015	15,185
Refundable deposits	8,639	8,644
Bills payable	3,433	7,036
Provision for fraud losses	2,319	3,269
Sundry liabilities	24,189	14,234
	68,595	48,368
Current	68,595	48,368

28 PROVISIONS

GROUP AND BANK

	2012 TZS'Millions	2011 TZS'Millions
Provision for losses from legal cases	1,872	854
	1,872	854
Movement during the year		
At start of year	854	-
Increase in provision	1,018	854
At end of year	1,872	854
Non current	1,872	854

29 CAPITAL AND RESERVES

(i) Share capital

Authorised

625,000,000 ordinary shares of TZS 40 each

Called up and fully paid

500,000,000 ordinary shares of TZS 40 each

(ii) Retained earnings

Retained earnings consist of undistributed profits from previous years

(iii) Regulatory reserve

Regulatory reserve represents an amount set aside to cover additional provision for loan losses required in order to comply with the requirements of the Bank of Tanzania. This reserve is not available for distribution.

30 CASH AND CASH EQUIVALENTS

Cash and balances with Bank of Tanzania (Note 17)

Less: Statutory Minimum Reserves (Note 17)

Government securities (Note 20)

Loans and advances to banks (Note 18)

GROUP AND BANK

	2012 TZS'Millions	2011 TZS'Millions
	25,000	25,000
	20,000	20,000
	20,000	20,000

GROUP AND BANK

	2012 TZS'Millions	2011 TZS'Millions
	521,658	430,243
	(254,577)	(206,997)
	161,896	89,458
	203,062	172,737
	632,039	485,441

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition including: cash and balances with Bank of Tanzania, Government securities, and Placement with other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Tanzania.

31 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables TZS' Millions	Held to maturity TZS' Millions	Available for sale TZS' Millions	Total TZS' Millions
31 December 2012				
Financial assets				
Cash and balances with Bank of Tanzania	521,658	-	-	521,658
Investment securities	-	617,347	-	617,347
Placements with other banks	203,062	-	-	203,062
Loans and advances to customers	1,345,932	-	-	1,345,932
Available for sale investment	-	-	1,200	1,200
Other assets excluding prepayment	11,525	-	-	11,525
	2,082,177	617,347	1,200	2,700,724
Financial liabilities				Financial liabilities at amortised cost
Deposits from customers				2,289,979
Deposits from banks				72,657
Other liabilities				68,595
				2,431,231
31 December 2011				
Financial assets				
Cash and balances with Bank of Tanzania	430,423	-	-	430,423
Investment securities held-to-maturity	-	361,943	-	361,943
Placements with other banks	172,737	-	-	172,737
Loans and advances to customers	1,123,518	-	-	1,123,518
Available for sale investment	-	-	1,200	1,200
Other assets excluding prepayment	3,490	-	-	3,490
	1,730,168	361,943	1,200	2,093,311
Financial liabilities				Financial liabilities at amortised cost
Deposits from customers				1,804,699
Deposits from banks				31,970
Other liabilities				48,368
				1,885,037

32 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Loan commitments guarantee and other financial facilities

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

As at 31 December 2012, the Bank had the contractual amounts of off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities, as follows:-

	2012 TZS'Millions	2011 TZS'Millions
Commitments		
Guarantees and Indemnities	-	230
Overdraft	39,735	47,829
Acceptances and letters of credit	82,951	11,338
	<u>122,686</u>	<u>59,397</u>

Acceptances and letters of credit

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

(b) Legal claims

Various employees have sued the Bank for unfair dismissal. Furthermore, various loan customers are suing the Bank. With an exception of amount disclosed in Note 28, the amounts claimed in both situations are not material and professional advice indicates that it is unlikely that any significant loss will arise.

(c) Capital commitment

As at 31 December 2012, the Bank had capital commitments of TZS 56,976 million (2011: TZS 41,757 million) in respect of new branches, branch remodelling, equipment and information technology. The expenditure contracted as at the balance sheet date but not yet incurred is as follows:

	2012 TZS'Millions	2011 TZS'Millions
Information technology	14,952	10,893
New branches	5,800	1,500
Branch and business centres remodelling	23,730	10,980
Other including equipment, vehicles and furniture	10,594	15,373
Songambele Project	1,900	3,011
	56,976	41,757

The Bank's management is confident that future net revenues and funding will be sufficient to cover this commitment.

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:-

	2012 TZS'Millions	2011 TZS'Millions
Not later than 1 year	4,754	5,384
Later than 1 year and no later than 5 years	9,430	10,839
Later than 5 years	6,913	1,313
Total	21,097	17,536

33 EFFECTIVE INTEREST RATES OF FINANCIAL ASSETS AND LIABILITIES

The effective interest rates for the principal financial assets and liabilities at 31 December 2012 and 2011 were as follows:

	2012	2011
Government securities	11.71%	5.47%
Deposits with banking institutions	3.68%	5.25%
Loans and advances to customers	16.23%	14.47%
Customer deposits	0.39%	0.38%
Deposits from banks	2.94%	2.15%

34 RELATED PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions.

The volumes of related party transactions, outstanding balances at year end, and relating expense and income for the year are as follows:

(a) Loans and advances to related parties

At 31 December 2012 there were no loans issued to companies controlled by directors or their families. Advances to customers at 31 December 2012 include loans to key management personnel as follows:

	2012 TZS' Millions	2011 TZS' Millions
At start of year	580	251
Advanced during the year	342	371
Repaid during the year	(92)	(42)
At end of year	830	580
Interest income earned	48	46

No provisions have been recognised in respect of loans given to related parties (2011: Nil). Mortgage loans issued to key management were secured and the rest were unsecured. These loans carry off- market interest rates ranging between 5% and 9% and are repayable on demand.

(b) Deposits from related parties

	Directors and key management personnel		Related companies	
	2012 TZS' Millions	2011 TZS' Millions	2012 TZS' Millions	2011 TZS' Millions
Deposits				
Deposits at the beginning of the year	22	12	4,796	2,722
Deposits received during the year	865	1,208	226,243	134,167
Deposits repaid during the year	(864)	(1,198)	(178,976)	(132,093)
Deposits as at the end of the year	23	22	52,063	4,796
Interest expense	-	-	-	-

The above deposits are unsecured, carry variable interest rate and are repayable on demand.

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

Salaries and other short-term benefits

Post employment benefits

2012 TZS'Millions	2011 TZS'Millions
919	599
138	90

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The compensation made to expatriates from Rabobank are included in the management service contract highlighted in part (d) below and therefore excluded in the above benefits.

(d) Transactions and balances with Rabobank

Based on the management service contract approved by the Board, a total of TZS 4,468 million (2011: TZS 3,525 million) was paid to Rabobank during the year as management and technical assistance expenses. Management fees payable as at year end was TZS 1,477 million (2011: 702 million)

Nostro balances with Rabobank at year end amounted to TZS 8,337 million (2011: TZS 3,868 million). There was no inter-bank balance due to Rabo bank as at year end (2011: TZS 17,413 million)

(e) Transactions with other related banks

Inter-bank balances due to Exim Bank as at year end amounted to TZS 3,000 million (2011: TZS 5,000 million).

Nostro balances with Standard Bank PLC (South Africa) at year end amounted to TZS 8 million (2011: TZS 28 million).

(f) Transactions and balances with Government of Tanzania

The Government of Tanzania owns 31.8% equity in the Bank and has significant influence. The Bank invested in Government securities during the year and at the year end the amount receivable from the Government of Tanzania in the form of treasury bills and bonds amounted to TZS 617,347 million (2011: TZS 361,943 million). The Bank also accepts deposits from various Government institutions and agencies which do not attract interest.

(g) Directors' remuneration

Fees and other emoluments paid to Directors of the Bank during the period amounted to TZS 321 million (2011: TZS 280 million). Details of payment to individual directors will be tabled at the annual general meeting.

35 EVENTS AFTER REPORTING PERIOD

There were no events after the reporting period that had material impact to the financial statements.

Company Information and Key Personnel

Habari za Kampuni na Watendaji Wakuu

Registered Office

National Microfinance Bank Plc
NMB House
Azikiwe/Jamhuri Streets
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Dar es Salaam

Company Secretary & Legal Counsel

Lilian R. Komwihangiro

National Microfinance Bank Plc – 5th Floor
NMB House
Azikiwe/Jamhuri Streets
P.O. Box 9213
Dar es Salaam

Chief Internal Auditor

Augustino Mbogella

National Microfinance Bank Plc – 5th Floor
NMB House
Azikiwe/Jamhuri Streets
P.O. Box 9213
Dar es Salaam

Auditors

PricewaterhouseCoopers Tanzania
Pemba House
369 Toure Drive
Oysterbay, Dar es Salaam

Executive Management Team

Mark Wiessing

Chief Executive Officer

Waziri Barnabas

Chief Financial Officer

Danny van Det

Chief Risk Officer

Kees Verbeek

Chief Wholesale Banking

Arjan Molenkamp

Chief Retail Banking

Charles Kazuka

Chief Human Resources Officer

John Ncube

Chief Information & Operations Officer

Taarifa za Kampuni na Watendaji Wakuu

Ofisi iliyosajiliwa National Microfinance Bank Plc
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Katibu wa Kampuni na Mwanasheria wa Benki

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Mkaguzi Mkuu wa Ndani

Augustino Mbogella

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Wakaguzi

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Timu ya Menejimenti - Utendaji

Mark Wiessing

Afisa Mtendaji Mkuu

Waziri Barnabas

Afisa Mkuu wa Fedha

Danny van Det

Afisa Mkuu wa Idara ya Tahadhari

Kees Verbeek

Afisa Mkuu wa Huduma kwa Wateja Wakubwa

Arjan Molenkamp

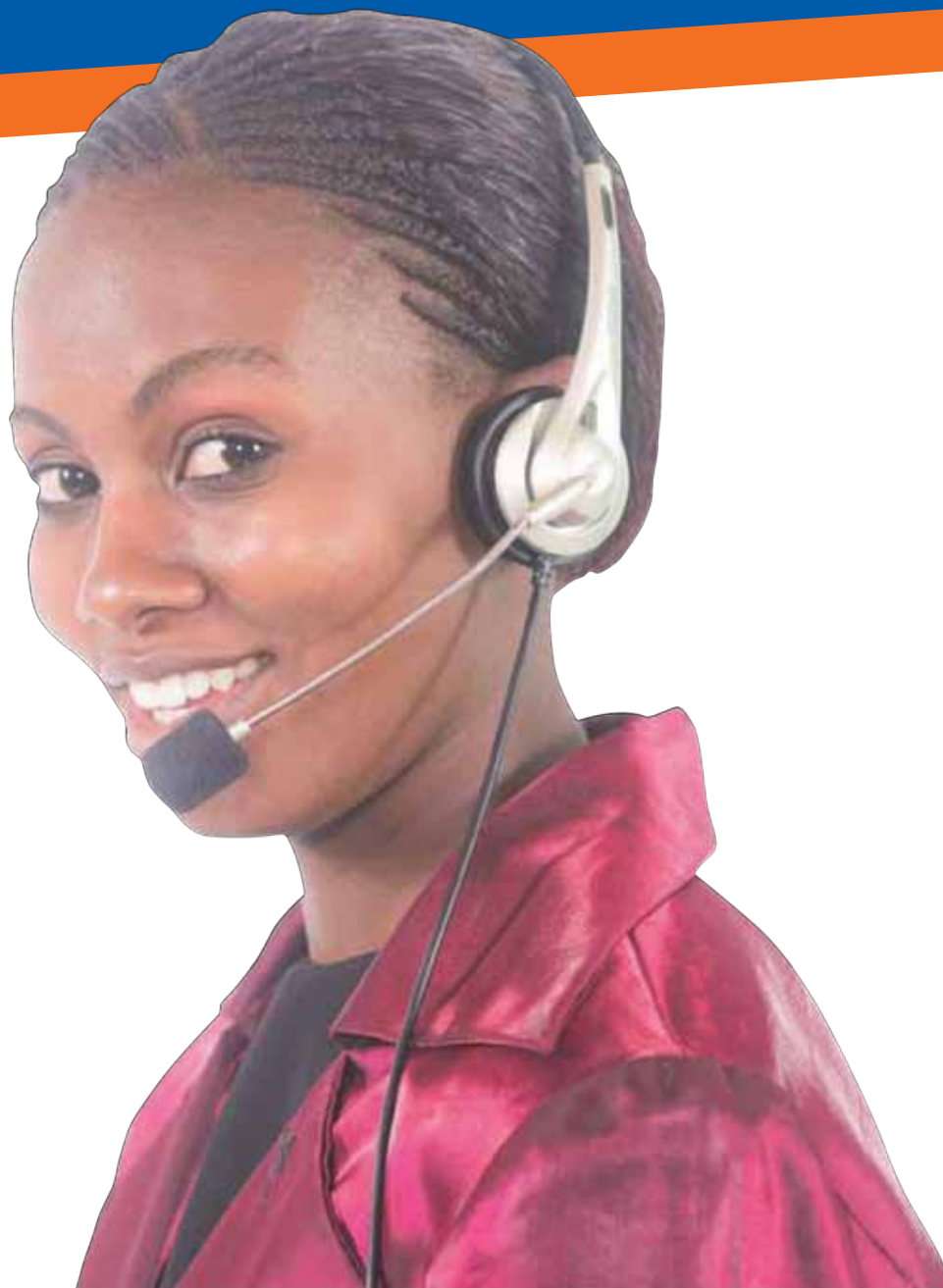
Afisa Mkuu Huduma kwa Wateja Wadogo

Charles Kazuka

Afisa Mkuu Rasilimali Watu

John Ncube

Afisa Mkuu Mawasiliano na Uendeshaji



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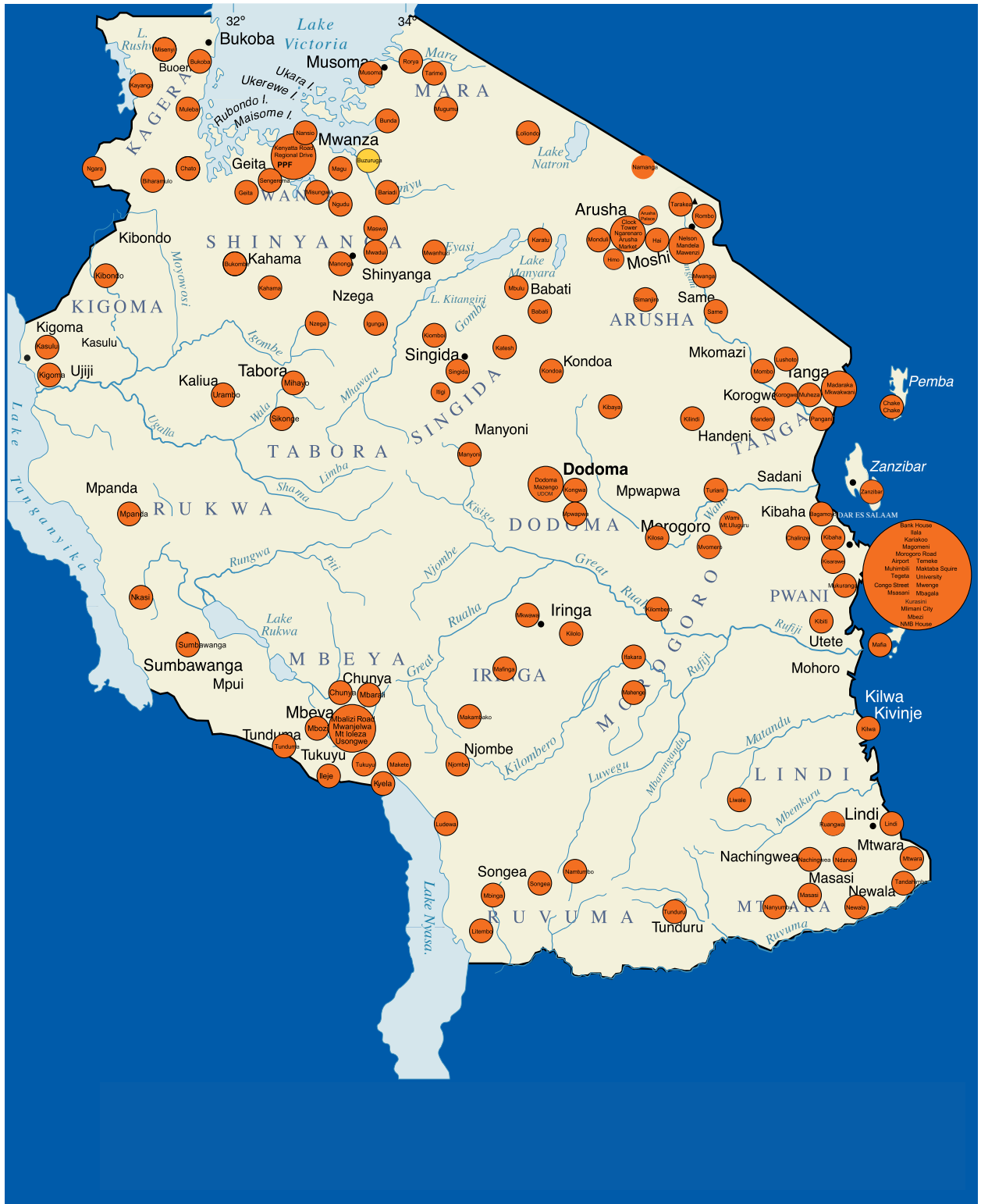
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Notice of Annual General Meeting

Taarifa ya Mkutano Mkuu wa 13 Mwaka

NOTICE OF THE 13th ANNUAL GENERAL MEETING OF THE MEMBERS OF NATIONAL MICROFINANCE BANK (NMB) PLC

Notice is hereby given that the 13th Annual General Meeting of NMB shareholders will be held at Mlimani City Hall in Dar es Salaam on Saturday, 1st June, 2013 at 10.00 a.m. The agenda will be as follows:

- 13.1 Notice and quorum
- 13.2 Adoption of the agenda
- 13.3 Confirmation of the minutes of the 12th annual general meeting held on 2nd June 2012
- 13.4 Matters arising from the previous minutes
- 13.5 To receive, consider and adopt the Directors' report and audited financial statements for year ended 31st december 2012
- 13.6 Dividend declaration for the financial year 2012
- 13.7 To receive and approve the proposal for Directors' remuneration
- 13.8 Resignation and appointment of Directors
- 13.9 To receive and approve appointment of external auditors for the financial year 2013
- 13.10 Any other business

IMPORTANT NOTES:

1. Members wishing to attend the meeting must come with one of the following: a copy of his/her depository receipt, passport, voters card, or bank card.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her behalf in accordance with the provisions of the Articles of the Company. The proxy form must be

TAARIFA YA MKUTANO MKUU WA 13 WA WANAHISA WA BENKI YA NATIONAL MICROFINANCE BANK (NMB) PLC

Taarifa inatolewa kwamba Mkutano Mkuu wa 13 wa mwaka wa wanahisa wa NMB utafanyika katika ukumbi wa Mlimani City Dar es Salaam saa 4 asubuhi siku ya Jumamosi, Juni 1, 2013. Agenda itakuwa kama ifuatavyo:

- 13.1 Matangazo na akidi
- 13.2 Kupitisha agenda za Mkutano
- 13.3 Kuthibitisha kumbukumbu za Mkutano Mkuu wa 12 uliofanyika Tarehe 2 Juni 2012
- 13.4 Yatokanayo na Mkutano wa 12 wa wanahisa
- 13.5 Kupokea, kujadili na kupitisha ripoti ya wakurugenzi na taarifa za fedha kwa mwaka ulioishia 31 Desemba 2012
- 13.6 Kuidhinisha gawio kwa mwaka unaoishia 31 desemba 2012
- 13.7 Kupokea na kuidhinisha malipo ya Wakurugenzi
- 13.8 Kuteua Wakurugenzi
- 13.9 Kupokea na kuthibitisha uteuzi wa Wakaguzi wa Hesabu kwa Mwaka unaomalizika 31 Desemba 2013
- 13.10 Mengineyo

MAELEZO MUHIMU

1. Mwanachama anayetarajia kuhudhuria mkutano lazima aje na nakala yake ya risiti ya uwekezaji wa hisa (Depository receipt) au kitambulisho chake au kadi yake ya benki.
2. Mjumbe anayeruhusiwa kuhudhuria na kupiga kura kwenye Mkutano anaruhusiwa kuchagua mwakilishi

deposited at the registered office of the company not later than 10.00 am Friday, 31st May 2013.

3. Members wishing to attend the meeting will have to attend at their cost. Copies of annual report and proxy forms will be available in NMB branches.
4. Directors propose payment of a dividend of TZS 68 per share, amounting to TZS 34 billion out of 2012 profit. In 2011, a dividend of TZS 50 per share, amounting to TZS 25 billion was approved and paid.

Dates to be noted:

Date of announcement of results: - 10th May 2013
 Shares trading cum div: - 10th May 2013
 Last day of trading cum-dividend: - 29th May 2013
 Shares start trading ex-div: - 30th May 2013
 Register Closing Date
 (Books Closure Date) - 5th June 2013
 Payment of dividend: - on or about 19th June 2013

By order of the Board.



Lilian R. Komwihangiro
 Company Secretary

May 10th, 2013

kuhudhuria na kupiga kura kwa niaba yake kwa kufuata /kuzingatia taratibu na Sheria za Kampuni kama zilivyorekebisha. Fomu ya uwakilishi lazima iwasilishwe kwenye ofisi iliyosajiliwa ya Kampuni kabla ya saa 4 asubuhi Ijumaa ya tarehe 31 Mei 2013.

3. Mwanachama anayetarajia kuhudhuria kikao atatakiwa kuhudhuria kwa gharama zake mwenyewe. Nakala za taarifa ya mwaka na fomu za uwakilishi zitapatikana matawini.
4. Wakurugenzi wamependekeza ulipwaji wa gawio la shilingi 68 kwa kila hisa, inayoleta jumla ya shilingi 34 bilioni kutokana na faida ya mwaka 2012. Mwaka 2011, gawio lilikuwa ni shilingi 50 kwa kila hisa, lililoleta jumla ya shilingi 25 bilioni zilizopitishwa na kulipwa.

Tarehe za kuzingatia:

Tarehe ya tangazo: 10 Mei 2013
 Hisa kuuzwa pamoja na gawio : 10 Mei 2013
 Mwisho wa hisa kuuzwa pamoja na gawio : 29 Mei 2013
 Hisa kuanza kuuzwa bila gawio: 30 Mei 2013
 Daftari la wanahisa kufungwa: 5 Juni 2013
 Malipo ya gawio kwa wanahisa: kuanzia tarehe 19 Juni 2013

Kwa amri ya Bodi ya Wakurugenzi.



Lilian R. Komwihangiro
 Katibu wa Kampuni

10 Mei 2013.

**Weka
pesa popote
ulipo!**



**Wakala yeyote wa
M-Pesa ni tawi la NMB**

Huduma
MPYA

NMB

Proxy

TO:
The Company Secretary
National Microfinance Bank PLC
NMB House
Azikiwe/Jamhuri Streets
P.O. Box 9213
Dar es Salaam

I/We, of
..... being a fully paid up member/members of the NATIONAL MICROFINANCE BANK
PLC and entitled to vote, hereby appoint of as
my/our proxy, to vote for me/us and on my/our behalf at the 13th ANNUAL GENERAL MEETING of the Company to be held
at the Mlimani City Hall in Dar es Salaam on Saturday, 1st June 2013, and at any adjournment thereof.

Signed this day of 2013

Signature(s) of member (s).....

Note: A member entitled to attend and vote may appoint, in writing a proxy to act on his/her behalf, to attend, vote
and speak instead of him/her. A proxy need not also be a member of the company.



Uwakilishi

TO:
The Company Secretary
National Microfinance Bank PLC
NMB House
Azikiwe/Jamhuri Streets
P.O. Box 9213
Dar es Salaam

Mimi/Sisi.....
..... wa
..... Mjumbe/Wajumbe wa NATIONAL MICROFINANCE BANK PLC ambaye/ambao nimeruhusiwa/
tumeruhusiwa kupiga kura, ninamchagua/tunamchagua.....
wa..... kama Mwakilishi kupiga kura kwa niaba yangu/yetu kwenye
MKUTANO MKUU WA KUMI NA TATU WA MWAKA wa kampuni utakaofanyika kwenye ukumbi wa Mlimani City Dar es
Salaam siku ya Jumamosi tarehe 1 Juni 2013, hata katika kuahirishwa kwake.

Imesainiwa tarehesiku ya2013

Sahihi ya/za mwanachama/wanachama

Angalizo: Mwanachama anayeruhusiwa kuhudhuria na kupiga kura anaweza kuchagua, kwa maandishi mwakilishi
kuhudhuria, kupiga kura na kuongea kwa niaba yake. Mwakilishi pia si lazima awe mjumbe wa kampuni.



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