



**THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE**



AZANIA BANK LIMITED

**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
FINANCIAL STATEMENTS AND COMPLIANCE AUDIT FOR THE
YEAR ENDED 31 DECEMBER 2022**

Controller and Auditor General,
National Audit Office,
Audit House,
4 Ukaguzi Road,
P.O. Box 950,
41101 Tambukareli,
Dodoma, Tanzania.
Tel: +255 (026) 2161200,
Fax: +255 (026) 2321245,
E-mail: ocag@nao.go.tz
Website: www.nao.go.tz

March, 2023

AR/PA/ABL/2022

About the National Audit Office

Mandate

The statutory mandate and responsibilities of the Controller and Auditor-General are provided for under Article 143 of the Constitution of the United Republic of Tanzania of 1977 and in Section 10 (1) of the Public Audit Act, Cap 418.

Vision

A credible and modern Supreme Audit Institution with high-quality audit services for enhancing public confidence.

Mission

To provide high-quality audit services through modernization of functions that enhances accountability and transparency in the management of public resources.

Motto: “Modernizing External Audit for Stronger Public Confidence”

Core values

In providing quality services NAO is guided by the following Core Values:

- i. Independence and objectivity
- ii. Professional competence
- iii. Integrity
- iv. Creativity and Innovation
- v. Results-Oriented
- vi. Teamwork Spirit

We do this by:

- ✓ Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them.
- ✓ Helping to improve the quality of public services by supporting innovation on the use of public resources.
- ✓ Providing technical advice to our clients on operational gaps in their operating systems.
- ✓ Systematically involve our clients in the audit process and audit cycles; and
- ✓ Providing audit staff with adequate working tools and facilities that promote independence.

© This audit report is intended to be used by ABL and may form part of the annual general report which once tabled to National Assembly, becomes a public document hence, its distribution may not be limited.

TABLE OF CONTENTS

INDEPENDENT REPORT OF THE CONTROLLER AND AUDITOR GENERAL.....	1
REPORT ON THE AUDIT OF FINANCIAL STATEMENTS.....	1
REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS.....	5
THE REPORT BY THOSE CHARGED WITH GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2022.....	8
STATEMENT OF DIRECTOR'S RESPONSIBILITIES.....	38
DECLARATION OF THE HEAD OF FINANCE.....	41
FINANCIAL STATEMENTS.....	42
NOTES TO THE FINANCIAL STATEMENTS.....	47

ABBREVIATIONS

AI	Artificial Intelligence
BOT	Bank of Tanzania
CSI	Corporate Social Investment
ICT	Information and Communication Technology
ECL	Expected Credit Loss
EIR	Effective Interest Rate
IFRS	International Financial Reporting Standards
LGD	Loss Given Default
MNOs	Mobile Network Operators
NPL	Non-Performing Loans
PD	Probability of Default
PPA	Public Procurement Act, 2011
PPR	Public Procurement Regulations, 2013
SDGs	Sustainable Development Goals
UAT	User Acceptance Test

1.0 INDEPENDENT REPORT OF THE CONTROLLER AND AUDITOR GENERAL

To:

Chairman of the Board of Directors,
Azania Bank Limited,
P.O. Box 32089,
DAR ES SALAAM.

1.1 REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

Unqualified Opinion

I have audited the financial statements of Azania Bank Limited, which comprise the statement of financial position as at 31 December, 2022 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly in all material respects, the financial position of Azania Bank Limited as at 31st December, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). My responsibilities under those standards are further described in the section below entitled "Responsibility of the Controller and Auditor General for the Audit of the Financial Statements". I am independent of Azania Bank Limited in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the National Board of Accountants and Auditors (NBAA) Code of Ethics, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, my description of how my audit addressed the matter is provided in that context.

No.	Key audit matter	How the audit addressed the key audit matter
1.	Credit risk and Expected Credit Losses on the financial instruments	
	<p>The IFRS 9 Expected credit losses (ECL) approach is applicable to all financial assets at amortized cost and debt financial assets at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and financial guarantee contracts.</p> <p>ECL represents management's best estimate of the losses as at the reporting date. The ECL allowances are significant in the context of the financial statements due to their magnitude as well as the estimation uncertainty and significant level of judgement inherent in determining the value of the allowances.</p> <p>The models used to determine the ECL estimate are complex and include inputs from multiple sources. Management applies adjustments to the model outputs to cater for factors not included in the model assessment, which can be highly subjective.</p> <p>As at 31 December 2022, the provision for impairment on financial assets was TZS 76.7 billion. This represents the estimation of expected losses at the year end</p> <p>There is a risk that the provision for impairment of financial assets does not represent a complete and accurate estimate of expected losses and that the carrying value of these items is misstated. This includes the risk that the ECL model is not in compliance with IFRS 9.</p> <p>The accounting policy and key sources of estimation uncertainty in relation to financial asset impairment provisions are disclosed in Note 6.7 and Note 42 to the financial statements.</p>	<p>The following procedures were performed:</p> <p>I undertook an assessment of the bank's new provisioning methodology and compared it with the requirements of IFRS 9.</p> <ul style="list-style-type: none"> I reviewed the application of the business model to existing portfolios and reviewed the results of the Solely Payments of Principal and Interest test for relevant financial instruments. <p>I evaluated the design and operating effectiveness of the bank's key controls and IT controls around credit management, ECL model and provision assessment.</p> <p>I tested key controls over completeness and accuracy of data inputs to loan loss provisioning.</p> <p>I assessed management's assumptions in relation to 'significant increase in credit risk' assessment as required by IFRS 9. I tested a sample of loans to test whether the Bank has appropriately considered and assessed increase in credit risk and that loans have been classified in the correct categories in accordance with the bank's methodology and IFRS 9.</p> <p>I reviewed the IFRS 7 disclosures for compliance with the amendments relating to IFRS 9.</p>

Other Information

Management is responsible for the other information. The other information comprises the Director's Report and the Declaration by the Head of Finance but does not include the financial statements and my audit report thereon which I obtained prior to the date of this auditor's report.

My opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon which I obtained prior to the date of this auditor's report.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or the knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed on the other information that I obtained prior to the date of this audit report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the entity's financial reporting process.

Responsibilities of the Controller and Auditor General for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, Section 10 (2) of the Public Audit Act, Cap 418 requires me to satisfy myself that, the accounts have been prepared in accordance with the appropriate accounting standards.

Further, Section 48(3) of the Public Procurement Act, 2011 (as amended in 2016) requires me to state in my annual audit report whether or not the audited entity has complied with the procedures prescribed in the Procurement Act and its Regulations.

1.2 REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Compliance with Banking and Financial Institutions Regulations

As required by the Banking and Financial Institutions (External Auditors) Regulations, 2014 of Tanzania, I report to you, based on my audit, that;

Conclusion

In my opinion, the capital adequacy ratios as presented in Note 39 to the financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2015 of Tanzania.

Compliance with the Public Procurement laws

Subject matter: Compliance audit on procurement of works, goods and services

I performed a compliance audit on procurement of works, goods and services in the Azania Bank Limited for the financial year ended 31 December 2022 as per the Public Procurement laws.

Conclusion

Based on the audit work performed, I state that, procurement of works, goods and services of Azania Bank Limited is generally in compliance with the requirements of the Public Procurement Act, 2011 and its underlying Regulations of 2013 (as amended in 2016).

Compliance with the Budget Act and other Budget Guidelines

Subject matter: Budget formulation and execution

I performed a compliance audit on budget formulation and execution in the Azania Bank Limited for the financial year 2022 as per the Budget Act and other Budget Guidelines.

Conclusion

Based on the audit work performed, I state that Budget formulation and execution of Azania Bank Limited is generally in compliance with the requirements of the Budget Act and other Budget Guidelines.


Charles E. Kichele
Controller and Auditor General
Dodoma, United Republic of Tanzania.
March 2023



AZANIA BANK LIMITED
CORPORATE INFORMATION

HEAD OFFICE

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

REGISTERED OFFICE

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

MAIN BANKER

Bank of Tanzania
16 Jakaya Kikwete Road 40184
P. O. Box 2302
Dodoma
Tanzania.

CORRESPONDENT BANKS

Standard Chartered Bank -New York
SCB New York -IBF
One Madison Avenue
3rd Floor
New York, NY 10010-3603, USA.
SWIFT : SBZAJJ

EBI SA Groupe Ecobank

Les Collines de L'Arche
Immeuble Concorde F
92057 Paris La Defense Cedex.

ODDO BHF AG

Bockenheimer Landstrasse 10
60323 Frankfurt/M
0049 69 718-0
info.frankfurt@oddo-bhf.co

COMPANY SECRETARY

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

AUDITOR

Controller and Auditor General,
National Audit Office,
Audit House,
4 Ukaguzi Road,
P.O. Box 950,
41101 Tambukareli,
Dodoma, Tanzania.
Tel: +255 (026) 2161200,
Fax: +255 (026) 2321245,
E-mail: ocag@nao.go.tz
Website: www.nao.go.tz.

AZANIA BANK LIMITED

2.0 THE REPORT BY THOSE CHARGED WITH GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2022

Those charged with governance of Azania Bank Governing Board have pleasure to present this report together with the audited financial statements for year ended 31st December 2022, which disclose the state of financial affairs of Azania Bank Limited (“the Bank”). This report has been presented in conformity with the Tanzania Financial Reporting Standard No. 1. These financial statements for the year ended 31st December 2022 were authorized for issue in accordance with a resolution of the Board of Directors on 24 February 2023.

2.1 INCORPORATION

The Bank is incorporated in Tanzania under the Tanzanian Companies Act, 2002 as a limited liability Company whose shares are not publicly traded. The Bank is licensed by Bank of Tanzania under the Banking and Financial Institutions Act, 2006.

2.2 VISION

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

2.3 MISSION

The mission of Azania Bank Limited is: “A customer centered bank of choice providing quality financial products and services using dedicated staff and appropriate technology while enhancing shareholders value”.

2.4 BRAND SLOGAN

The financial performance of the bank for 2022 provides a roadmap to realise the bank vision and mission. The achievement is geared by the themes; Technology Driven Efficiency and growth, Empowering Employees, Stakeholders Relationship Management, Stakeholders’ value creation of which are communicated through our slogan, “Banking Beyond Ordinary”. It is the bank’s culture that, all products and services offered to customers create a commemoration to the bank.

2.5 CORE VALUES

To ensure that the vision of the bank is achieved while enhancing shareholders value, employees of the bank are set to behave in accordance with the six bank’s core values.

- i. Professionalism
- ii. Integrity
- iii. Teamwork
- iv. Innovation
- v. Efficiency
- vi. Passion

AZANIA BANK LIMITED

2.6 RINCIPAL ACTIVITIES

The principal activity of Azania Bank Limited is the provision of banking and related services stipulated by the Banking and Financial Institutions Act, 2006. There has been no change in the principal activities of the Bank during the financial year ended 31 December 2022. The bank offers financial and related services to range of customers clustered from corporate to individuals/retail customers.

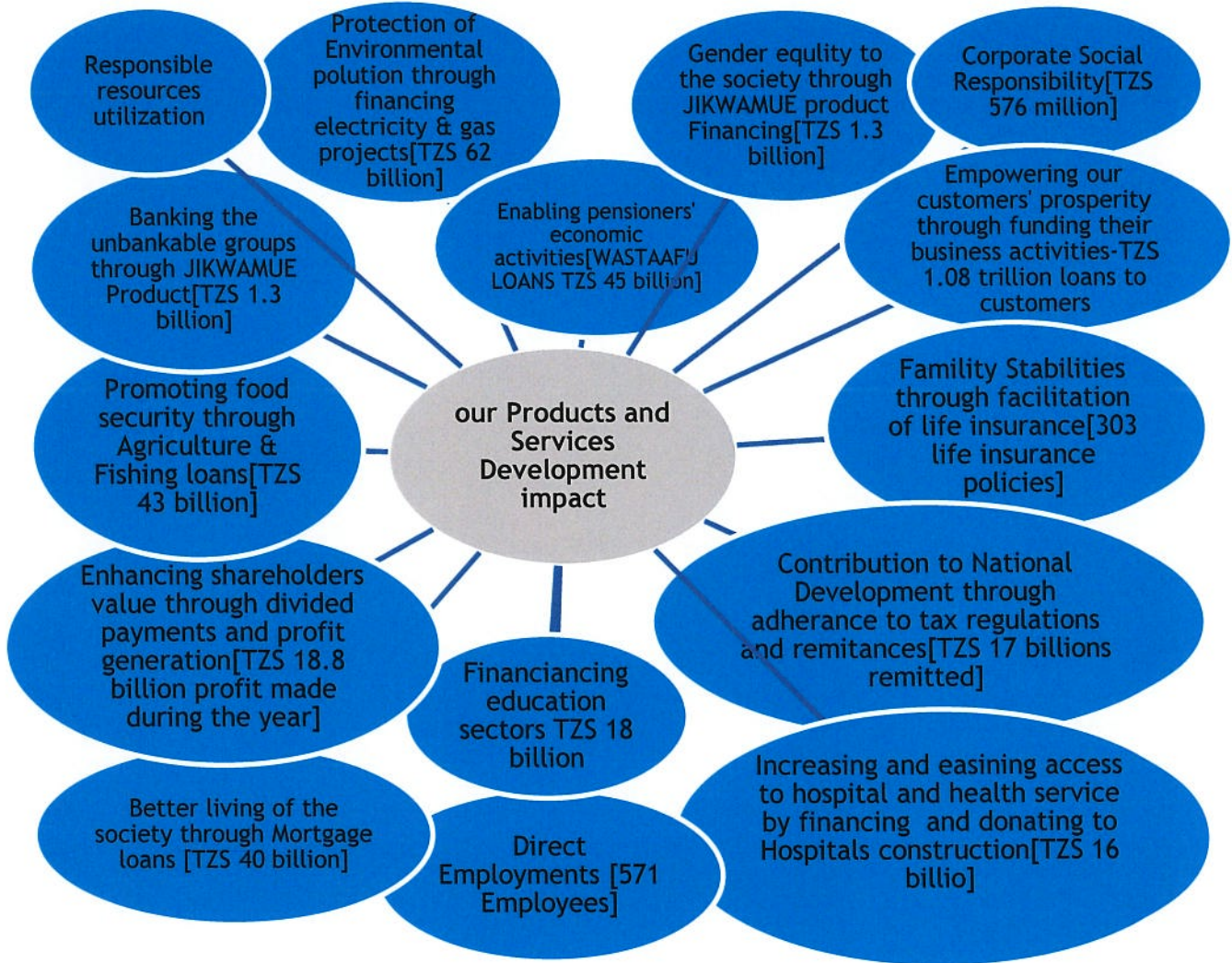
2.7 PRODUCTS WE OFFER

- i. Retail banking whereby the bank offers a wide range of products designed to provide solutions to the society. The products range from individual/personal to business savings, operational deposit accounts and loans products.
- ii. Corporate banking comprises range of tailored business products to meet institutional, and companies needs timely and affordably.
- iii. Business advisory and facilitation tailored on building the economy, through enabling businesses for the future. We are building the future with you through our strategic approach to offering advisory to businesses on the strategic direction to attain sustainability.
- iv. We are shaping the future economy of Tanzania together with you by offering your business a solid foundation.
- v. Treasury and capital market department is designed to extend the trust customers have invested in the bank by ensuring that we offer world-class treasury services to make it money's worth for investors/customers. Our broad spectrum of services ranges from trading currencies to investment products and services for your hard-earned money. This extends to funds management and custodian services.
- vi. Insurance Brokerage Services whereby the bank facilitated the customers to obtain their insurance covers from qualified and reputable insurance companies which we work closely to safeguards interests of our customers/clients.
- vii. Individuals, businesses, and Statutory payments offered in a convenient way executed in a way that provide satisfaction to our customers.
- viii. Credit facilities we offer to our clients are aligned to meet customer needs in the process of creating sustainable values.
- ix. Trade financing for contracts performance and on international trading through letters of credit.
- x. Microfinancing to groups and individuals through partnership with MNO. This is a contribution towards financial inclusion and improving the life of our clients.
- xi. Diaspora Products-Asili Smart Saving Account facilitates Tanzanian living abroad to save and invest in real estates in the country.
- xii. Bullion business which deals with Metal Gold Loan. Under this scheme, the Bank is involved in providing Banking services for mining companies, gold distribution among others.

2.8 OUTCOMES-OUR DEVELOPMENT IMPACT

The capital invested which is processed by well-designed products and delivered through multiple delivery channels provides shared returns to the bank shareholders, customers, clients, employees, and government economy through "Banking beyond ordinary" service delivery.

AZANIA BANK LIMITED



AZANIA BANK LIMITED

2.9 STRATEGIC OBJECTIVES

The year 2022 marked the end of 2018/2022 strategic plan that was built on three themes namely, customer centricity, operational excellence, and business profitability. Our aspiration for the 5th year implementation was to reach more customers using digital enablers and relationship management. The main strategies were as tabled below:

S/N	Objectives	Key Strategies
1	Increase market share.	Grow network expansion
		Maximize products usage through extension of services on digital platforms.
		Effective use of Corporate Social Investment (CSI) largely on millennial as potential clients
2	Grow Balance Sheet through deployment of quality assets and steady growth of Liabilities.	Consolidate corporate business
		Establish Business support services
		Grow retail segment through alternative channel services
		Enhance Bank's Capital from internal financing.
3	Enhance comprehensive and secured ICT platforms to achieve cost-effective and efficiency operations and improved delivery capability.	Deployment of Artificial Intelligence (AI)
		Effective use of big data for analytics and personalized customer services
		Improve bank's network systems and security
		Embrace partnerships and collaborations with Mobile Network Operators (MNO's) and Fintechs
4	Enhance control, governance, and risk management practices to adequately comply and remain competitive.	Automation of manual processes
		Enhance business continuity plan and Disaster recovery
		Improve Enterprise Risk Management to be able to early identify risks and grab the opportunities timely.
		Obtain ISO certification (ISO 31000)
5	Enhance Employees Productivity through investing in future skills.	Enhance best practice for corporate governance
		Improvement of performance Management System
		Improve human capital delivery through continuous learning relearning and development programs.
		Improve staff motivation and retention programs

The year ended with the bank having in place a 2023/2027 strategic plan which is driven by four strategic themes: Technology Driven Efficiency and growth, Empowering Employees, Stakeholders Relationship Management, Stakeholders' value creation. This five years plan will be achieved by implementing the below strategic objectives.

AZANIA BANK LIMITED

S/N	Objectives	Key Strategies
1	To increase customer base.	Grow network expansion
		Effective use of Corporate Social Investment (CSI) largely on millennial as potential clients
		Supporting the government agenda of financial inclusion by turning non-bankable population to bankable.
2	To increase market share.	Providing banking services beyond ordinary to stakeholders
		Providing integrated financial services to reduce customer mobilities
		Providing tailored products and services to different customer' segmentation
		Establish Business support services
		Grow retail segment through alternative channel services
		Expanding the relationship to recruit more stakeholders
3	Enhance comprehensive and secured ICT platforms to achieve cost-effective and efficiency operations and improved delivery capability.	Deployment of Artificial Intelligence (AI)
		Effective use of big data for analytics and personalized customer services.
		Customers' need driven system customization
		Retaining and enhancing internal capability
		Improve bank's network systems and security
		Embrace partnerships and collaborations with Mobile Network Operators (MNO's) and Fintechs
		Automation of manual processes
4	Human capital development and management.	Enhance business continuity plan and Disaster recovery
		Upskill, Retain, Recruit and Culture transformation.
		Introduction of technology hub for research and innovation
		Enhance best practice for corporate governance
5	To enhance Bank capital.	Management of market and operation risk to reduce capital charge
		Operating profitably
		Growth and quality of balance sheet.
		Supporting the Sustainable Development Goals (SDGs) for 2030 National Development Plan(NDP) 2022/2025
		Adherence to Environmental, Social and Governance requirements
		To go for Public Offering

2.10 CHALLENGES FACED DURING IMPLEMENTATION OF OUR STRATEGIES

During the implementation of the Bank's strategy, the Bank faced challenges. The spread of COVID-19 towards the end of 2019 caused implementation of stringent measures to the first world countries which affected our customers' and clients' business and hence the bank. Moreover, this pandemic forced the banking sector to realign technologies in relation to alternative channel services delivery. The Bank continued to manage these challenges to minimize their impact on prospects. Compared to 2021, the year 2022 macro-economic factors, both national and world economy, it shows, the economy were recovering from Covid-19 impact but following the Ukraine-Russia conflict which escalated European's sanctions against Russia impacted the businesses adversely due to rise of food and energy cost. Other challenges were as tabled below:

AZANIA BANK LIMITED

ISSUE	RISK	BANK'S RESPONSE
Competition from banks and non-financial intuitions.	Loss of business and forces to reduce revenues through reduced interest rates and tariffs	The Bank Concentrates in areas/segments that the bank has competitive advantages, Business relationships with shareholders, introduce more products and services to attract more customers, Leverage on digital products and services and continue with partnerships and collaborations with Fintechs.
Technology advancement and interruptions	Increased costs of technology which may impact returns.	Consider partnerships and collaborations with technological partners while leverage on internal software developers to customize products while optimizing costs.
Uncertainty in commodity prices	Complete loss of harvests due to reliance on weather hence increase in non-performing loan.	Cautiously invest/Finance in products which are price sensitive such as Energy commodities and some agricultural commodities while leveraging on available insurance to reduce risks.
Cybercrimes risks.	Cyber-attacks on customers may limit adoption of digital products. This as well increases costs hence reduced revenue.	The Bank continued to invest in Cyber Security systems and building system users awareness on Cyber Security.
Regulatory changes	Growing compliance costs	Maintaining good and proactive relationships with key regulators. Investing in automated compliance risk management.
High costs of Funding	Reduction of profit margins which may hinder achievement of shareholders' return.	The Bank continues to leverage on retail segment and improved services to increase savings and current accounts deposits
High return on Risk Free Investment creates liquidity pressure.	Liquidity stress	The government bond yield of 25 years and 20 years are at 12.50% (2021: 15.95% and 15.49%) and 12.30% respectively. The Bank increased its investments in Bond and establishment of Bond trading desk. At the same time the Bank continues to leverage on retail segment and improved services to increase savings and current accounts deposits.
Délays in Legal Proceedings	Delays in closure of court cases relating to borrowers has delayed loan repayments and increase in non-performing loans.	Engagement with policy makers and communities to advocate for appropriate regulatory reform.

AZANIA BANK LIMITED

ISSUE	RISK	BANK'S RESPONSE
Covid-19 impact on sectors and supply of foreign currency.	Reduction of business growth in terms of loans, deposits and transactions hence lower revenues.	Increase bank participation in the recovering sectors.
Russia-Ukraine conflict	Restriction on Dollar payments with Russians reduced business relationship and lowered trading income	Continued monitoring and adhering to national and international payment procedures. Management introduces other currency settlement in its portfolio.
Draught	Lack of enough rainfall affected agriculture sector hence increase of NPL	Continue supporting agricultural sector to upgrade to modernized farming.

2.11 OUR STRENGTH

The continued bank growth and expansion is mainly due to the following strengths.

- (i) Available dedicated, experienced, and competent workforce driving business on automation, digitalization and personalized customer service delivery identified through data analysis.
- (ii) Strong partnership with shareholders on business while driving industrialization agenda.
- (iii) Wider coverage and reliable services through Umoja Switch Consortium more than 250 ATMs, 24 branches network, 6 bureau de change, 9 service centres, 2 collection centres, 10 service desks, 798 agents for agent banking, mobile and internet banking.
- (iv) Good corporate brand achieved through effective and efficiency services delivery to customers.

2.12 STAKEHOLDERS

The sustainable performance of the bank relies on the utmost corporation with stakeholders on daily activities. The bank's relationship with its stakeholders is built under the provision of banking services beyond ordinary. These include shareholders, existing and prospective customers, regulatory authorities, service providers and business partners and employees.

2.12.1 Shareholders

Shareholders of the bank provide capital which is used by the bank to create values in the financials market in the country and enhance their values through dividend and retained earnings. The year ended with the shareholders' fund being enhanced due to retained earnings as well as injection of fresh capital by Minority shareholders. During the year, the relationship with shareholders increase that resulted to opening on 10 services desks in the shareholders premises. It is our determination to maximize the return to shareholders through available and shared resources.

AZANIA BANK LIMITED

2.12.2 Customers

The customer of the bank ranges from those who hold their accounts with the bank to those who have access to financial facilities and services. We provide banking products and services to our customers beyond ordinary that gives the wide range for the bank to become one stop financial centre. The bank continued to expand its delivery channels physically and technologically to ensure that all financial products and services to our customers are serviced conveniently and efficiently that adhering to Environmental, Social and governance to ensure sustainability of the business.

2.12.3 Regulatory authority

Azania bank operations are under the license and regulations issued by the Bank of Tanzania responsible for regulating the financial market in the country. Furthermore, other authorities like Tanzania Revenue Authority also have effects to the bank operations through tax matters. During the year, the bank maintained a good relationship with all regulatory bodies and adhered to country's laws and regulations.

2.12.4 Service providers and business partners

Service providers and suppliers of the bank are awarded through a competitive tendering process. Among other things, the bank continues to monitor the quality of services received. To ensure smooth business operations and good services to our customers, the bank contracts all major suppliers and service providers at the beginning of the year.

2.12.5 Employees

Recruitment of professional employees with higher integrity through competitive announcements process, avails the bank with highly qualified and innovative workforce with equal employment opportunities to all social groups. Motivation and employee retention is the key focus for the bank to remain competitive in the market. To ensure business continuity, the bank has in place succession plan to all managerial positions and to those charged with governance.

2.13 BUSINESS PERFORMANCE

2.13.1 Business Environment

While the global economy was recovering from COVID-19 pandemic effect, the situation was changed by the Russia Federation invasion in Ukraine which caused soaring of food and energy prices in the world. Inflation increased while economic growth decelerated.

Environmental and social effects were another impact during the year. Climatic change that resulted inadequate rainfall during the year, caused electricity rationing, limited pastures for live stocks farming and low produce in agriculture which negatively impacted most of businesses.

To manage the impact on the performance, smoothen operations and business continuity of the bank, the customer's monitoring process was enhanced to mitigate the risk of nonperforming loans. As a result, interest income increased in 2022 by 37% as compared to 2021.

2.13.2 How we Adopted Sustainable Development Goals (SDGs) and National Development Plan (NDP)

The United Nations report for "Transforming Our World: The 2030 Agenda for Sustainable Development" is a roadmap for organizations and governments to eradicating poverty in all its forms and dimensions. including extreme poverty. The 17 global agenda for 2030 were enacted as: No Poverty, Zero Hunger, Good Health and Well-being, Quality Education, Gender Equality, Clean Water and Sanitation, Affordable and Clean Energy, Decent Work and Economic Growth, Industry, Innovation and Infrastructure, Reduced Inequality, Sustainable Cities and Communities, Responsible Consumption and Production, Climate Action, Life Below Water, Life on Land, Peace and Justice Strong Institutions, Partnerships to achieve the Goal.

The country streamlined the global agenda to 2025/2026 National Development Plan of achieving the status of middle-income economy through improving the living conditions of Tanzanians; the existence of peace, security and unity; good governance and the rule of law; the existence of an educated and learning society; and building a strong and competitive economy.

To attain the sustainable financial performance and organization growth, we are determined to support the NDP and SDGs through several programmes and activities.

AZANIA BANK LIMITED

Adopted SDGs	Adopted NDP	Azania Bank Initiatives
Gender Equality	Participation of all social group by redressed racial and gender imbalances	50:50 male to female employment. currently bank's employee are 282 Male and 289 female
No Poverty	High quality livelihood. Absence of abject poverty	To turn the un-bankable group to bankable through financial inclusion like 'Jikwamue, VICOBA, & Jembe products (TZS 1.3 billion loans to groups)
Quality Education	A well-educated and learning society	Financing education sector up to 1.25% of the bank's core capital (TZS 18 billion loans to schools constructions)
Affordable and Clean Energy	Promote afforestation, renewable green energy technologies (biogas, Liquified Petroleum Gas [LPG], Solar Energy)	Financing electricity and gas projects and having pipeline of financing hydropower electricity generation to contribute to National Grid (TZS 62 billion loaned projects)
Decent Work and Economic Growth	Strong and competitive economy	Financing SMEs and converting informal sectors to formal to support financial inclusion (TZS 57 billion loans)
Climate Action	Climate Change Adaptation and Impacts Mitigation Measures.	Responsive resources utilization, protection of environmental from pollution through responsive project financing and undesirable materials are destroyed/disposed under controlled environment aiming to protect the natured environment
Health and Well-being	Access to quality primary health care for all	Financing hospitals and health centres to ensure lives and wellbeing of individuals by easing access to health services (TZS 16 billion loans)
Zero Hunger	Food self-sufficiency and food security	Financing and supporting agriculture and fishing sector product chain to the tune of 3.5% of bank's capital to increase availability and distribution of affordable food to the society. (TZS 43 billion loans)

2.13.3 Climate Change Financial Risk

Our sustainability and prosperity are highly affected by environmental, social and governance (ESG) risks. Banking activities are threatened by natural calamities, society's perspective and governing body. In order to ensure sustainable business growth, financial performance and going concern of the bank, the potential risks that may arise from climate change and their related impacts and their economic and financial consequences must be mitigated through all bank's instruments and resources. We have already started to equip the three lines of defense in the bank by increasing awareness/training, putting in place defined policies and procedures to ensure that, all business transactions and creation of assets and liabilities priorities the environmental, social and governance risks mitigation. It is our timeline that, by June 2023, the bank will be fully compliant with ESGs requirement.

2.13.4 Regulatory Compliance

The Bank of Tanzania (BOT) continued to monitor the financial market and banking industry. Following the technological advancement in the financial market, increased environmental, social and governance risks which poses financial and operational risks, BOT issued several circulars and guidelines that will help banks and financial institutions in the country to mitigate and minimize the risks. During the year the Bank of Tanzania issued circulars and guidelines as follows:

- i. Guidelines on Climate-Related Financial Risks Management, 2022 that shall apply to all banks and financial institutions. These Guidelines are intended to assist banks and financial institutions in incorporating sound governance and risk management frameworks for climate-related financial risks within their existing risk management frameworks. This will enable them to better understand, identify, assess, monitor and mitigate these risks. The Guidelines further outline the broad principles which banks and financial institutions may use to develop their climate-related financial disclosures which are in line with the Basel Committee on Banking Supervision issued Principles for Effective Management and Supervision of Climate-related Financial Risks, 2022.
- ii. The Recovery Planning Guidelines for Banks and Financial Institutions, 2022 in which set out key principles, requirements and supervisory prospects on the development and maintenance of recovery plans. As part of recovery planning, banks and financial institutions are to identify and plan for the execution of a suite of recovery options to restore long-term viability under a range of wide stress events.
- iii. The Contingency Planning Guidelines for Banks and Financial Institutions, 2022. These guidelines are to provide a framework to guide banks and financial institutions in developing and implementing contingency planning arrangements with a view to minimizing business disruptions ensuring continuity of critical functions, and instilling public confidence in a cost-effective manner, prior and during crises.
- iv. Stress Testing Guidelines for Banks and Financial Institutions, 2022 was issued with objective to guide banks and financial institutions in conducting stress tests, using stress test results, and preparing mitigation plans.

AZANIA BANK LIMITED

- v. The BOT issued a circular following the establishment of Tanzania Quick Response Code Standard (TANQR Code Standard 2022) whereby all Financial Services Providers (FSPs) are required to comply with the standards and shall be subject of examination and monitoring by the Bank of Tanzania. All Quick Response (QR) codes issued to merchants in the country prior to 12th August 2022 shall continue to be used for a period of one.

2.13.5 Competition

The technological level of mobile networks operators and convenience on financial transactions has increased competition in the financial services. Azania bank is using the available opportunities in this competitive environment to penetrate and enhance its services to customers and transforming services to more customer convenience. During the year, the bank continued to partner with Mobile Network Operators on customer services delivery. The bank started to issue short loans and advances to Tigo subscribers.

2.14 THE BANK CAPITAL

The bank is working to realize its vision and mission of becoming a one-stop financial centre through which the creation of values on services to shareholders, customers, regulators, employees, service providers and business partners will be realized. To achieve these, Azania bank deployed its capital efficiently and effectively in form of financial, human, intellectual, natural, manufactured, and social capital.

2.14.1 Financial Capital

Maintenance of adequate financials capital is the fundamental principle of the Governing Board of the bank to optimize operations. The financial capital of the bank both debt and equity increased optimally compared to the preceding year. The increase was due to enhanced relationship between those charged with governance for the bank and shareholders, customers, clients, and employees of the bank through optimization of available resources.

2.14.2 Human Capital

Those charged with Governance ensures that human capital is adequately available all the time and distributed to all services delivery to ensure at most customer experience. This includes skilled and innovative employees through motivated teamwork and effective means of service delivery. Human capital increased during the year to carter the need arose for short and long term. The short-term need was attained through internship program while long term was through contracted and permanent employment arrangement.

During the year the number of employees were 571 slightly below the previous year record of 574 employees. Out of the total employees, 51% (2021:49%) were female and 49% (2021:51%) were male whereby the bank achieved its target of 50:50 qualified male to female distribution.

2.14.3 Intellectual Capital

The bank maintained its reputable brand in the market through optimal distribution and utilization of financial and human capital. Financial services offered to the market meets the customer and clients' need at affordable price. This was attained due to the researched product design, innovative employees, and usage of convenient technology on service delivery. Good customer experience is the key factor to the bank's reputable brand.

2.14.4 Natural Capital

Sustainable performance and growth of the bank is also affected by the surrounding environment which need to be protected and utilized optimally for future generation. The bank continues to finance businesses/projects that have no or minimized negative spill-over on environment. The bank developed a culture of responsible resource usage while adhering to ESG principles. Undesirable materials are destroyed/disposed under controlled environment aiming to protect the natured environment. Apart from advantage of cost management, employees are encouraged to use water and electricity economically and responsibly to provide a room for wide distribution of these scarcity resources.

2.14.5 Manufactured Capital

The bank continued to expand its service delivering channels throughout the country. All bank's delivery channels are manufactured at a minimum cost while maintaining their qualities. Low-cost model branches and services delivery centres are used to realize the value creation through the available and mobilized financial and human resources. During the year the bank operated through 24 branches networks, 9 service centres, 33 ATMs owned by the banks, 2 collection centres, 10 service desks, 6 bureau de changes, mobile and internet banking.

An innovative team of inhouse software developers has been enhanced to provide quick and affordable service delivery solutions which are convenient to customers/clients and business partners. These include 798 agent banking, mobile and internet banking, human resources management system and other infrastructures.

2.14.6 Social Capital

The reputable brand of the bank is due to sustainable social relationship maintained between the governing board of the bank and shareholder, customers, clients, service providers and suppliers, employees, regulators, business partners and surrounding community. The bank continued to increase turnaround time service delivery to all stakeholders which is the back born for Azania bank to become One Stop Financial Centre.

2.15 BOARD OF DIRECTORS

2.15.1 Board composition

In the year ended 31st December 2022 Azania Bank Limited had a Board comprising of eleven (11) Non-Executive Directors and one Executive Director (1). The Chairman of the Board and two Non-Executive Directors are independent pursuant to the requirement of the Banking and Financial Institutions (Licensing) Regulations, 2008.

2.15.2 Appointments to the Board

Directors are subject to periodic re-appointment in accordance with the Bank's Articles of Association. On appointment, the Directors receive an induction covering the Bank's business and operations and an appreciation of the key risk areas. The Directors are advised of the legal, regulatory and other obligations of the Director of a Bank. The Directors also receive continuous training on key issues relating to the Bank, as to enable them to discharge their duties effectively.

2.15.3 Roles and responsibilities

The Board meets at least four times a year. The Board delegates the day-to-day management of the business to the Managing Director assisted by the executive management team. Executive management team facilitates the effective control of the bank's operational activities, acting as a medium of communication between different business units.

All directors and employees adhere to the principles of the code of conduct in all their dealings on behalf of the Bank. The code of conduct sets a standard in a manner that actions of directors and employees are in the best interest of the Bank and reflect the commitment to maintain highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

2.15.4 Board meetings and attendance

During the year ended 31st December 2022, the Board held four (4) scheduled meetings as required by regulations.

The Bank is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency, and accountability. The Board of Directors has four sub-committees which ensure a high standard of corporate governance throughout the Bank.

2.15.5 Succession planning

The Bank has in place a succession plan for the Board, which is updated regularly to ensure and maintain a balance of critical skills on the Board of Directors.

2.15.6 Board effectiveness evaluation

To assess the performance of the Board, its committees and individual Directors, the Board conducts a rigorous performance evaluation regularly. The process is led by the Chairman and supported by the Company Secretary. The last evaluation was conducted in September 2022 and the deficiencies depicted from the evaluation are being addressed and well tracked with the objective of improving the effectiveness of the Board.

AZANIA BANK LIMITED

2.15. BOARD OF DIRECTORS (CONTINUED)

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

S/n	Name	Position	Age (years)	Qualification/Discipline	Nationality	Date of appointment	Representation	Scheduled meetings (4)
1	Eng. Julius B. Ndyamukama	Chairman	66	Bsc. (Civil Engineering), MSc. (Highway Engineering)	Tanzanian	17th December 2019	Non-executive	4/4
2	Mr. Felix M. Maagi	Vice Chairman	52	B. Com, MBA, CPA(T)	Tanzanian	25th September 2017	Non-executive	4/4
3	Mr Arnold B. Kilewo	Member	84	LLB.	Tanzanian	11th April 2011	Non-executive	2/4
4	Mrs Assumpta M. Mallya	Member	54	BA-Economics, MBA.	Tanzanian	11th June 2019	Non-executive	4/4
5	Mr. Lusesheho Njeje	Member	44	B. Com, MBA-Finance and Manpower Planning, CPA (T), CPSP.	Tanzanian	8th April 2019	Non-executive	4/4
6	Mr. Rashid K. Mchatta	Member	52	BSc Information and Management System (IMS), MSc. (IMS)	Tanzanian	25th September 2017	Non-executive	4/4
7	Mr. Patrick John Ngwila	Member	41	BAF, Msc- Social Protection Financing	Tanzanian	11th June 2021	Non-executive	4/4
8	Ms. Vupe Ligate	Member	54	LLB, MA (Gender & Development)	Tanzanian	8th April 2019	Non-executive	4/4
9	Hashim M. Kihwelo	Member	73	BSc. Chemical Engineering, Msc. Chemical Engineering	Tanzanian	3rd January 2020	Non-executive	4/4
10	Happiness Jonathan Sima*	Member	48	ADA, MBA - Corporate Management, CPA(T)	Tanzania	8th November 2021	Non-executive	2/4
11	Mrs. Beatrice Mussa Lupi**	Member	47	ADCA, MBA - Corporate Management, CPA(T)	Tanzanian	22nd March 2022	Non -executive	2/4
12	Ms. Esther G. Mang'anya	Member	51	BA-Economics, MBA	Tanzanian	6th January, 2022	Executive	4/4

The Company Secretary as of 31st December 2022 was Mr Charles Mugila who is also performing legal services activities for the bank as Director of Legal Services.

* Ms. Happiness Sima was appointed by National Health Insurance Fund (NHIF) to be a Board member on 08 November 2021 and obtained clearance by the Bank of Tanzania on 15 March 2022 She attended the Board meeting from April 2022 onwards.

** Mrs. Beatrice Mussa Lupi was appointed by Public Service Social Security Fund (PSSSF) to be a Board member on 22 March 2022 and obtained clearance by the Bank of Tanzania on 20 June 2022 He attended the Board meeting from July 2022 onwards.

2.16 CORPORATE GOVERNANCE

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

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

During the year ended 31st December 2022, the Board of Directors performed the following activities;

- (i) Appointed the Managing Director of the Bank, Director of Credit department as well as Directors of Internal Audit. Also resigned then Director of Internal Audit Department to be Director of Finance and Planning Department.
- (ii) Approved the 2021 financial reports of the bank while ensuring that, were prepared accurately and in accordance with International Financial Reporting standards.
- (iii) Communicated to shareholders on the bank's performance for the year ended 31st December 2021.
- (iv) Evaluated the implementation and achievement as well as setbacks for the 2018/2022 strategic plan.
- (v) Approved 2023/2027 strategic plan of the Bank.
- (vi) Protected interest of the shareholders by preparing strategic objectives.
- (vii) Approved the corporate budget of the bank.
- (viii) Approved the annual remuneration and budget of the internal audit function.
- (ix) Monitored and evaluated internal control of the management of the Bank by ensuring that, assets of the bank are safeguarded.

2.16.1 Rights of Shareholders

The Bank recognizes and protects the rights of all Shareholders and treat them equitably. Over and above the basic voting rights accorded to Shareholders, the Shareholders are involved in approving major strategic and corporate decisions of the Bank which have a material impact on the equity or economic interests or share ownership rights of existing Shareholders. They are properly engaged through General meetings.

a) Rights of Shareholders

The Shareholders are encouraged time to time to exercise their rights including to keep themselves informed about their Bank for them to make decisions. Information about the Bank performance is informed through annual reports/accounts which are annually distributed to them.

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

b) Board Audit Committee

The main responsibilities of the Committee are to review financial information and monitor the effectiveness of management information and internal control systems. In addition, the Committee deliberates on the significant findings arising from internal and external audit and review findings by the Financial Sector Supervision Directorate of the Bank of Tanzania. There is no member from the committee who resigned during the year. The Committee meets at least four times a year.

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

Name	Position	Qualifications
Mr Felix M. Maagi	Chairman	B.Com, MBA, CPA(T)
Mr. Rashid K. Mchatta	Member	BSc Information and Management System (IMS), MSc. (IMS)
Mr Arnold B. Kilewo	Member	LLB
Mr. Hashim M. Kihwelo	Member	BSC. Chemical Engineering, MSc. Chemical Eng.
Ms. Beatrice M. Lupi	Member	ADCA, MBA - Corporate Management, CPA(T)

The committee met six times in a year whereby four meetings were ordinary, and two meetings were extra ordinary. During the year the Committee performed the following key activities;

- i. Setting and proposing to the Board of Directors the 2023/2027 strategic objectives and goals.
- ii. Reviewed and assessed the internal audit function's charter, its appropriateness of internal audit strategies and the annual internal audit plan, scope, cycle and budget, then recommended to the Board.
- iii. Reviewed and recommended to the board for its approval, the annual remuneration of the internal audit function.
- iv. Reviewed and recommended to the board for its approval,
- v. Prepared and recommended to the Board the 2022 financial statements according to the International Financial Reporting standards.
- vi. Monitored and discussed issues related to information communication and cyber securities.

c) Board Credit Committee

The Committee is responsible for the review of the bank’s overall lending policy, conducting independent loan reviews, review of lending limits and is responsible for the overall management of credit risk. The committee met four (4) times in a year, all members attended all meetings.

To achieve these, the Committee performed the following key activities;

- i. Reviewed and proved all credit accommodations that were within the Committee’s mandate.
- ii. Monitored specific industry trends, evaluated the appropriateness and recommended to the Board for approval new acceptability of banks sectoral credit limits.
- iii. Monitored the quality of the portfolio and provided appropriate measures to ensure good performance of the assets.
- iv. Reviewed and monitored the provisioning mechanism to ensure the bank is adequately provided to cover uncertainties.

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

Name	Position	Qualifications
Lushelo Njeje	Chairman	B. Com, MBA CPA(T) CPSP
Mrs Assumpta M. Mallya	Member	BA (Economics) MBA
Ms Vupe Ligate	Member	LLB, MA (Gender & Development)
Mr. Patrick Ngwila	Member	BAF, MSC (Social Protection Financing)

d) Board Risk Management and Compliance Committee

The Committee assists the Board in fulfilling its primary responsibilities by establishing and implementing the Risk Management framework of the Bank. The Risk Management framework focuses on risk management processes which involves risk identification, evaluation, measurement, monitoring and mitigation. The committee met four (4) times during the year to discuss risk and compliance reports. Below were the activities performed by the Committee during the year;

- i. Reviewed and endorsed to the Board for approval the annual risk management and compliance plan and evaluated its performance.
- ii. Reviewed and evaluated the report and performance of customer complaints and financial consumer protection matters.
- iii. Monitored and evaluated the risk position of the Banks in terms of capital adequacy, liquidity position, credit, compliance, operational, market as well as strategic risks.

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

Name	Position	Qualifications
Mrs. Assumpta M. Mallya	Chairperson	BA (Economics) MBA
Ms. Vupe Ligate	Member	LLB, MA Gender
Luseshelo Njeje	Chairman	B. Com, MBA, CPA (T), CPSP.
Ms. Happiness Sima	Member	ADA, MBA

e) Board Human Resources Committee

The Committee deals with all matters pertaining to employees' welfare including recruitment and remuneration. The committee met four (4) times during the year to discuss risk and compliance reports. The following were activities performed by the Committee;

- i. Reviewed and approved the Bank's succession plan for the Management and key positions.
- ii. Reviewed and evaluated the organization compliance with the Bank's codes of conducts.
- iii. Maintained adequate human capital to support business performance and growth.
- iv. Ensured that employees matter and discussed and keep employees motivated throughout the year.

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

Name	Position	Qualifications
Mr. Vupe U. Ligate	Chairperson	LLB, MA (Gender & Development)
Mr. Luseshelo Njeje	Member	B. Com, MBA, CPA (T), CPSP
Ms. Assumpta Mallya	Member	LLB, MA (Gender & Development)
Mr. Patrick Ngwila	Member	BAF, MSC (Social Protection Financing)

2.17 REMUNERATION OF BOARD OF DIRECTORS

The Directors fee together with any other payments to the Board members are usually approved by the Annual General Meeting. During the year under review, the Directors fees paid to Board members were TZS 135 million (2021: TZS 131 million). Other expenses incurred by the Board together with management compensation are disclosed on Note 40 - Related party disclosures.

2.18 DIRECTORS' INTEREST

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

2.19 MANAGEMENT OF THE BANK

The Board of Directors is entrusted with supervision of the bank and the day-to-day management is under the Managing Director who is assisted by Directors.

AZANIA BANK LIMITED

As of 31st December 2022, organizational structure of the Bank comprised the following departments:

Departments

- (i) Business Development
- (ii) Treasury and Capital Market
- (iii) Credit
- (iv) Finance and Planning
- (v) Legal services
- (vi) Operations
- (vii) Information and Communication Technology
- (viii) Human Resources
- (ix) Risk Management and compliance
- (x) Internal Audit

Managing Director Reports to the Board of Directors while all Directors report to the Managing Director except the Director of Internal Audit, who functionally reports to the Board Audit Committee and administratively to the Managing Director.

2.20 SHARE HOLDERS AND CAPITAL STRUCTURE

As of 31 December 2022, the following shareholders held shares in Azania Bank Limited:

Ordinary Shares

Name of shareholder	2022		2021	
	Number of shares held	% Shareholding	Number of shares held	% Shareholding
Public Service Social Security Fund (PSSSF)	95,193,608	51.31%	95,193,608	51.32%
National Social Security Fund (NSSF)	52,008,161	28.03%	52,008,161	28.04%
National Health Insurance Fund (NHIF)	33,324,545	17.96%	33,324,545	17.97%
Workers Compensation Fund (WCF)	3,309,246	1.79%	3,309,246	1.78%
East African Development Bank (EADB)	931,812	0.50%	931,812	0.50%
Minority shareholders (less than 1% each)	760,498	0.41%	725,898	0.39%
Total	185,527,870	100.00%	185,493,270	100.00%

During the year ended 31st December 2022, 34,600 new ordinary share capital was injected at a face value of TZS 1,000.00 per share. The injection was made by minority shareholders.

2.21 ACCOUNTING POLICIES

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

2.22 PERFORMANCE FOR THE YEAR

2.22.1 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The Bank's results are set out on page 40 of the financial statements. During the year under review, the Bank recorded a profit before tax of TZS 24,041 million (2021: TZS 3,155 million). The Bank's performance was attributed mainly by increase on interest income on loans and advances, increase of non-interest income as well control of operating costs.

The interest income for the year ended 31st December 2022 increased by 37% to TZS 137,979 million (2021: TZS 100,690 million). The increase was mainly attributable to increased interest revenue on loans and advances that rose to TZS 119,200 million (2021: TZS 87,115 million) as well interest from investment in government securities which increased to TZS 13,328 million (2021: TZS 9,492) both increases were due to increased performing assets. Interest expenses increased by 31% in 2022 to TZS 60,738 million (2021: TZS 46,607 million) attributed to increase on customer deposits balances.

Non-interest income during the year increased by 243% to TZS 36,876 million, (2021: TZS 10,755 million). The increase is mainly from foreign exchange income, fees, and commission income as well as other income. Fees and commission income increased by 80% to TZS 9,416 million (2021: TZS 5,226 million).

Foreign exchange income increased by 131% to TZS 8,511 million (2021: TZS 3,679 million). Other income also increased by 925% to TZS 18,950 million (2021: 1,850 million) increased recovery efforts. Operating expenses also increased by 5% to TZS 62,964 million (2021: TZS 59,911 million). The increase on operating expenses was mainly attributed by increased business activities which pushed up general administrative expenses by 32%.

2.22.2 FINANCIAL POSITION

As at 31st December 2022 total assets were TZS 1.423 trillion (2021: TZS 1.174 trillion) showing an increase of 21%. During the year, net loans and advances to banks increased to TZS 96,277 million from TZS 46,587 million recorded in 2021 being 107% above. Debt instruments at amortized cost increased to TZS 198,920 million from TZS 163,349 million recorded in the previous year showing 22% growth. Net loans and advances increased by 17% to TZS 959,617 million (2021: TZS 818,335 million). Property and equipment decreased by 6% to TZS 14,674 million (2021: TZS 15,648 million) while other assets decreased by 48% to TZS 6,746 million (2021: TZS 13,072 million) mainly due to collection of TZS 6,653 million.

AZANIA BANK LIMITED

Customer deposits increased by 44% to TZS 789,481 million (2021: TZS 548,020 million) mainly multiple strategies applied to capture banking products and services value chain to customers. Loans and advances from banks and long-term borrowing both increased by 2%.

The shareholders' fund increased by 8% to TZS 272,540 million (2021: TZS 253,528 million). Such growth of equity was attributed to profit made during the period. During the year, the bank recorded a profit after tax of TZS 18,883 million (2021: TZS 2,060 million) mainly due to an increase of interest income and control of operating expenses. Both core capital and total capital ratios as of 31st December 2022 stood at 16.91% (2021: 14.28%), the increase in capital adequacy is due to increase on profitability as well as quality of assets. The minimum regulatory requirement for core capital and total capital ratios is 10.0% and 12.0% respectively.

2.22.3 KEY PERFORMANCE INDICATORS

Indicator	Definition and Formula	2022	2021
Return on Equity	Net Profit/Average Total Equity	7.18%	0.82%
Return on Assets	Profit Before Tax/Average Total Assets	1.85%	0.27%
Non-interest income to Gross income	Non-Interest Income/(Interest + non-interest Income)	21.09%	9.65%
Interest Expense to Interest Income	Interest Expense/Interest Income	44.02%	46.29%
Operating expenses to Operating income	Operating Expenses/(Net interest income + non-interest income)	55.18%	92.40%
Non-interest expense to gross income	Non-interest expenses (including provisions)/ (Interest + non-interest income)	51.51%	55.35%
Non-performing loans to total advances	Non-Performing Loans / Gross Loans	18.25%	26.84%
Loans to total assets	Net Loans/Total Assets	67.15%	69.71%
Growth on Loans and Advances to customers	(Current -prev. year net loans)/prev. year Net Loans	16.78%	4.22%
Growth on customer deposits	(Current -previous year total customer deposits)/ previous year total customer deposits	44.06%	5.91%
Growth on total assets	(Current -prev. year total assets)/prev. year total Assets	21.21%	3.32%
Tier 1 Capital	Core Capital/Risk Weighted Assets (incl. Off B. sheet)	16.91%	14.28%
Tier 1+Tier 2 Capital	Total Core Capital/Risk Weighted Assets (incl. Off B. sheet)	16.91%	14.28%

2.22.4 CASHFLOW AND LIQUIDITY MANAGEMENT

During the year under review the investments of the Bank were financed by shareholder's capital as well as deposits from public. Customer deposits increased by TZS 241,461 million compared to TZS 30,600 million recorded in the previous year. The increase was due to the enhanced relationship with customers as well as with other stakeholders. Also, borrowing from banks which were used for investment in various business avenues increased by TZS 3,055 million (2021: TZS 7,879 million). The balance of revolving fund was maintained at 151,476 million (2021: TZS 151,376 million). The operations of the Bank were financed by proceeds collected from business investments.

The cash flow of the Bank was stable to continue supporting business operations and additional investments. Liquidity management of the Bank continues to be of high importance and more details on liquidity risk management are given in note 42.3.

2.23 PROPOSED DIVIDEND

We continue maximizing shareholders' returns through enhancement of retained earnings and payment of dividend. Due to our good business performance for the year as well as strong capital position of 16.91% , the Board of Directors proposed a dividend of TZS 4.08 billion for the financial year 2022 subject to approval by shareholders' Annual General Meeting as well as clearance by the Bank of Tanzania. It is the bank's policy that, dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders.

2.24 FUTURE DEVELOPMENT PLAN

The impressive financial performance for 2022 marked the end of implementation of 2018/2022 strategic plan while provided the good base for setting the next five-year strategic plan that will end 2027. Following the successful implementation of the expired strategic plan, the new plan was approved by the Board in November 2022, ready for implementation.

The new plan is driven by banking beyond ordinary to all bank's products and services to continue creating shared values between the bank and its stakeholders aiming to ensure sustainable business and financial performance. The bank will continue excelling customer experience services by increasing the number of branches, bank agents, service centres, collection centres and enhancing technological alternative channels so that the bank's products and services become more convenient to the customers to enable realisation of the vision.

During the year 2022 the bank extended VISA debit cards service to VISA merchant acquiring services with the plan to cover other card services. To remain relevant and competitive in the industry, we continue to enhance and expand the usage of the existing alternative channels products such as internet banking, mobile banking, and agent banking to complement the existing traditional banking. These products and services give the bank a competitive advantage in service deliveries. To achieve this, the bank will focus on the following:

- i. Network expansion to increase the market share of the Bank through digital and non-digital channels including deployment of Agency Banking, Mobile and Internet Banking and increase in service centres.
- ii. Maximize products usage to increase revenues from transactional Banking.
- iii. Adherence to climatic change financing by maximizing the shared value while protecting environment thus, by June 2023, the bank will be fully compliant with ESGs requirement.
- iv. Increase of quality assets and Liabilities through enhanced business support, quality assurance and continued business relationship management teams.

Enhance comprehensive and secured ICT platforms to achieve cost-effective and efficiency operations and improved delivery capability to improve service delivery through critical processes automation, deployment of artificial intelligence, and data analytics to deliver personalised services.

- v. Embracing partnership and collaboration with other market payers. All goes hand in hand with improved business continuity management and disaster recovery plans.
- vi. Continue to enhance control, governance, and risk management practices to adequately comply and remain competitive including attaining ISO certification, enhanced enterprise risk management, automation of compliance management and modernized performance management.
- vii. Investment in workforce to enhance skills in order to improve productivity.

2.25 RISK MANAGEMENT AND INTERNAL CONTROL

Risk management and internal control remain to be among the fundamental principles of the bank towards achievement of its long run, medium and short run strategic objective. Each employee involved in day-to-day business activities is responsible for ensuring that, the bank's interests are protected all the time while excelling shared value creation. The Risk Management Function of the bank is mandated to monitor the implementation of effective risk management while Internal Audit Function evaluate effectiveness of risk management processes.

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

- i. The effectiveness and efficiency of operations.
- ii. The safeguarding of the bank's assets.
- iii. Compliance with applicable laws and regulations.
- iv. The reliability of the accounting records.
- v. Business continuity under normal as well as adverse conditions; and
- vi. Responsible behaviours towards all stakeholders.

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

The Board assessed the internal control systems throughout the financial year ended 31 December 2022 and is of the opinion that they meet accepted criteria.

AZANIA BANK LIMITED

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

General Risks the Bank is facing and the overall mitigation strategies.

Risk	Definition	Mitigation strategies
Credit Risk	The possibility of a loss resulting from a customer's failure to repay a loan or meet contractual obligations	Our credit risk management strategies aim at achieving quality assets and managed concentration. Risk management is done throughout the credit circle from origination, repayments monitoring to recovery. The Bank has management credit committee and the Board credit committee to ensure proper governance in managing credit risk.
Liquidity Risk	Refers to an inability to meet its obligations (whether real or perceived) threatens financial position or existence.	Our strategies aim daily risk assessment to ensure maturing obligations are met on a daily basis and a forecast of future positions. This is done through Liquidity Management and Asset-Liability management (ALM) Committee (ALCO).
Market Risk	The risk of financial loss on earnings arising from adverse movement in market rates or prices such as interest rates, foreign exchange rates, commodity prices. Market volatility may create an opportunity when open positions are properly managed.	The Bank manages market risk through the Asset and Liability Management Committee and on daily basis by Treasury and Capital Market function. Risk and Compliance function independently monitors and reports on the risk-taking against risk tolerance levels.
Compliance Risk	This is a potential exposure to legal penalties, financial forfeiture, and material loss, resulting from failure to act in accordance with laws, rules, agreements and regulations, internal policies or prescribed best practices. Compliance risk is also known as integrity risk.	Compliance risk management strategies include putting in place compliance policies and procedures, dedicated compliance function and automated compliance management tools. New regulations or laws are interpreted by Legal function and disseminated to all to understand.
Operational Risk	This is a risk of a change in value caused by the fact that actual losses incurred resulting from inadequate or failed internal processes, or people, or systems, or from external events.	The Bank strategies to mitigate operational risks includes having proper policies and procedures, implementation of operational risk management tools including risk and controls self-assessment, operational risk registers, incidents logs. Management operational risk committee (ORCO) is responsible for assessment and monitoring of operational risks. All risk owners are responsible for identification of risks and putting measures to control its occurrence.
Strategic Risk	This is the risk that failed business decisions may pose to the Bank.	Finance and Planning function through its strategy unit performs a Strength, Weaknesses, Opportunities and Challenges

Risk	Definition	Mitigation strategies
	Decisions may be influenced with operating environment changes.	(SWOC) analysis to determine factors that would affect attainment of the Strategy. The assessment includes assessment of political, economic, social, technological, legal, and environmental (PASTLE) conditions when developing strategic plan. Implementation of strategy is monitored on quarterly and on annual basis to ensure performance is aligned with the strategy from the Management to the Board level.

2.26 SERIOUS JUDICIAL MATTER

In the opinion of the Directors, there are no serious prejudicial matters that can affect the Bank.

2.27 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 has reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future.

On 31st December 2022, the Bank's assets exceeded its liabilities by TZS 272,540 million (2021: TZS 253,528 million). Consequently, the Bank is solvent and able to meet its obligations in full.

2.28 EMPLOYEE WELFARE

2.28.1 Management and Employees' Relationship

There were continuous good relations between employees and management for the year ended 31st December 2022. There were no unresolved complaints received by the management from employees during the year.

2.28.2 Employment opportunities

The Bank is an equal opportunity employer. It gives equal access to employment and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion, and disability which does not impair ability to discharge duties.

2.28.3 Staff training

During the year ended 31st December 2022, the Bank spent TZS 396 million (2021: TZS 643 million) for staff training, a decrease of 38% mainly due to introduction of mass training, customize training and online virtual training which enabled cost minimization while equipping staff with relevant knowledge. Despite of the adoption of the low-cost model, the management continue believing that, operational efficiency and organizational growth are the results of well trained and skilled personnel, thus the 2023 annual budget has been increased to TZS 1,484 million being 4.8 times current expenditure.

2.28.4 Medical facilities

All members of staff and up to a maximum number of six beneficiaries (principal, spouse and dependants) for each employee have medical insurance guaranteed by the Bank. Currently these services are provided by the National Health Insurance Fund (NHIF).

2.28.5 Financial assistance to staff

Loans are available to all confirmed employees depending on the assessment and are issued in accordance with the Human Resources Policy. Loans provided to staff include mortgage finance, personal, car loans, and salary advances.

2.28.6 Employees benefit plan

The Bank pays contributions to publicly administered pension plans on mandatory basis which qualifies to be a defined contribution plan. The Bank obligations in respect of these contributions are limited to 15% of the employees' monthly basic salaries.

2.28.7 Workers' compensation fund

This is a social security scheme established by the Government responsible for compensating workers who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment. Under this arrangement, the bank contributes to the fund 0.5% of the monthly wage bill it has paid to its staff.

2.28.8 Gender parity

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

As at 31 December 2022 the Bank had the following distribution of employees by gender Male 282 and Female 289.

Gender	2022	2021
Male	282	290
Female	289	284
Total	571	574

2.29 RELATED PARTY TRANSACTIONS

All related party transactions and balances as of 31 December 2022 are disclosed in Note 40 to the financial statements.

2.30 POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. However, charitable donations amounting to TZS 576 million (2021: TZS 14 million) were made to various charitable organizations and institutions as part of the Bank's Corporate Social Responsibility activities.

2.31 CORPORATE SOCIAL RESPONSIBILITY

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

Bank's strategy focused on people and society; the Bank prioritize issues most important to the business and stakeholders, and the areas where the Bank can make the greatest impact. Thus, Azania Bank's Corporate Social Investment is always giving priority on the following areas:

- (i) Supporting Education Projects and Financial Literacy initiatives.
- (ii) Supporting Community Health Projects and related initiatives.
- (iii) Supporting Youth Empowerment Projects and related initiatives.
- (iv) Supporting Research Conducting Projects and related initiatives
- (v) Supporting Environmental Protection initiatives and related activities.
- (vi) Supporting Government initiatives to bring about society and national wellbeing.

During the year Azania Bank funded several projects which helped to develop a unique approach to support Government Initiatives and communities. These include

Financial Education and Empowerment Projects: Azania Bank continued to partner with Public Service Social Security Fund (PSSSF) to conduct seminars for Pre pensioners all over the country. The seminars were aimed to improve knowledge to the pensioners on how they can spend their pension funds wisely once they retire.

The Sabasaba International Trade Fair and other economic activities: Azania Bank supported Government economic initiatives to increase country visibility to the word and encouraging people to formalize their economic activities. The bank supported participated in Sabasaba International Trade Fair by TZS 200 million, Dubai Expo by TZS 71 million, The African Continental Free Trade Area discussion on Women and Youth contribution to economy by TZS 20 million, and Zanzibar Mapinduzi exhibition by TZS 2 million.

AZANIA BANK LIMITED

Supporting Education: Azania Bank donated construction material of TZS 15 million to College of Business Education (CBE) Mbeya for construction of hostels as well as Chanyauru Primary School for construction of classrooms.

Supports for the Youth: Azania Bank sponsored the National Economic Empowerment Council entrepreneurship exhibition TZS 2.5 million and Twende Pamoja for youth empowerment programs TZS 107 million.

Support for Mineral Sector: Azania Bank sponsored and participated in the Geita Minerals Exhibition which aimed at showing case the Technology and investments in the Minerals Sector in Tanzania by TZS 20 million. Also, the bank supported Agriculture forum conducted by Mwananch Communication by TZS 5 million.

Support for Agriculture Sector: Azania Bank sponsored and participated in Nanenane exhibition in Mbeya that aims to recognize the contribution of farmers in the country. TZS 60 million were contributed.

Support for Government Initiatives and Community Development Programs: Azania Bank contributed to government initiatives to increase 2022 census awareness to the community. Also, contributed TZS 10 million to support the Economic Diaspora meeting as well as TZS 5 million to facilitate purchase of computer at the ministry of Land and house Settlements.

Support for Financial Sector: The Bank sponsored and supported financial inclusion activities by TZS 8 million to finance Buta Day for VICOBA and Banking, Finance and Investment forum.

Support for Health and Environmental Protection: During the year, the bank supported health and environmental activities by TZS 3.7 million.

Other CSR participations included: Donation to RAS Tanga for sponsoring sport sector as well as Mara Expo to promote and increase awareness to the public on economic and tourism activities available in Mara region.

2.32 STATEMENT OF COMPLIANCE

The Report by those charged with governance has been prepared in compliance with the Tanzania Financial Reporting Standard No. 1 (The Report by those charged with governance).

AZANIA BANK LIMITED

Supporting Education: Azania Bank donated construction material of TZS 15 million to College of Business Education (CBE) Mbeya for construction of hostels as well as Chanyauru Primary School for construction of classrooms.

Supports for the Youth: Azania Bank sponsored the National Economic Empowerment Council entrepreneurship exhibition TZS 2.5 million and Twende Pamoja for youth empowerment programs TZS 107 million.

Support for Mineral Sector: Azania Bank sponsored and participated in the Geita Minerals Exhibition which aimed at showing case the Technology and investments in the Minerals Sector in Tanzania by TZS 20 million. Also, the bank supported Agriculture forum conducted by Mwananch Communication by TZS 5 million.

Support for Agriculture Sector: Azania Bank sponsored and participated in Nanenane exhibition in Mbeya that aims to recognize the contribution of farmers in the country. TZS 60 million were contributed.

Support for Government Initiatives and Community Development Programs: Azania Bank contributed to government initiatives to increase 2022 census awareness to the community. Also, contributed TZS 10 million to support the Economic Diaspora meeting as well as TZS 5 million to facilitate purchase of computer at the ministry of Land and house Settlements.

Support for Financial Sector: The Bank sponsored and supported financial inclusion activities by TZS 8 million to finance Buta Day for VICOBA and Banking, Finance and Investment forum.

Support for Health and Environmental Protection: During the year, the bank supported health and environmental activities by TZS 3.7 million.

Other CSR participations included: Donation to RAS Tanga for sponsoring sport sector as well as Mara Expo to promote and increase awareness to the public on economic and tourism activities available in Mara region.

2.32 STATEMENT OF COMPLIANCE

The Report by those charged with governance has been prepared in compliance with the Tanzania Financial Reporting Standard No. 1 (The Report by those charged with governance).

2.33 RESPONSIBILITY OF THE AUDITORS

Auditor is responsible to provide assurance of the correctness and consistency of each information contained in the report by those charged with governance with those provided in the financial statements.

2.34 AUDITOR


The Controller and Auditor-General (“CAG”) is the statutory auditor for the Azania Bank Limited Company pursuant to the provisions of Article 143 of the Constitution of the United Republic of Tanzania of 1977 (revised 2005), Sections 30 -33 of the Public Audit Act, Cap 418 (R.E 2021) and Section 20(6) of the Bank of Tanzania Act, 2006. Ernst and Young, Certified Public Accountants (Tanzania) were appointed by the CAG to audit the Bank’s financial statements jointly, pursuant to Section 33 of the Public Audit Act, Cap 418 (R.E 2021).

2.35 STATEMENT OF RESPONSIBILITY BY THOSE CHARGED WITH GOVERNANCE

It is the responsibility of those charged with governance to prepare financial statements of the entity which show a true and fair view in accordance with applicable standards, rules, regulations and legal provisions.

This responsibility covers the period from the beginning of the financial year to the date those charged with governance approve the audited financial statements and it covers all those charged with governance who acted in this capacity during any part of the period covered by financial statements.

BY ORDER OF THE BOARD



Eng. Julius B. Ndyamukama
Board Chairman



Ms. Esther G. Mang'anya
Managing Director



24th Feb. 2023



24th Feb. 2023

3.0 STATEMENT OF DIRECTOR'S RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

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

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

AZANIA BANK LIMITED

Approval of financial statements

The financial statements of Azania Bank Limited, as identified in the first paragraph, were approved by the Board of Directors on 24 day of Feb 2023 and signed on its behalf by:



Eng. Julius B. Ndyamukama
Board Chairman

24th Feb. 2023



Ms. Esther G. Mang'anya
Managing Director

24th Feb. 2023

AZANIA BANK LIMITED

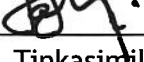
4.0 DECLARATION OF THE HEAD OF FINANCE FOR THE YEAR ENDED 31 DECEMBER 2022

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance/Accounting responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors/Governing Body/Management to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I **Jacqueline L. F. Tinkasimile** being the Director of Finance and Planning of Azania Bank Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31st December 2022, have been prepared in compliance with International Financial Reporting Standards and statutory requirements.

I thus confirm that the financial statements of Azania Bank Limited comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

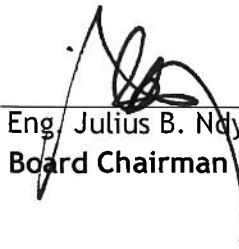
Signed by: 
Jacqueline L.F. Tinkasimile
Position: **Director of Finance and Planning**
NBAA Membership No.: ACPA 2091
Date: 24th Feb. 2023

AZANIA BANK LIMITED

5.1. STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	NOTES	2022 TZS'000	2021 TZS'000
Assets			
Cash and balances with the Bank of Tanzania	19	77,856,650	37,811,184
Loans and advances to banks	20	96,276,996	46,587,191
Debt instruments at amortised cost	21	198,920,032	163,348,943
Loans and advances to customers	22	955,617,229	818,334,919
Equity Instruments at fair value through Other Comprehensive Income	23	12,428,997	12,295,262
Other assets	28	6,746,172	13,071,980
Property and equipment and right-of-use assets	24	14,674,333	15,647,818
Current tax asset	26	2,195,106	2,238,862
Deferred tax asset	27	56,202,373	60,663,265
Intangible assets	25	2,215,083	4,117,477
Total assets		1,423,132,971	1,174,116,901
Liabilities			
Loans and advances from banks	29	186,187,967	183,133,223
Deposits from customers	30	789,481,377	548,020,221
Revolving Credit Lines	31	152,810,833	151,375,823
Payables and Accruals	32	22,112,836	38,058,676
Total liabilities		1,150,593,013	920,587,943
Ordinary share capital	34	185,493,271	185,493,271
Advance towards share capital		34,600	-
Retained Earnings		58,359,922	30,110,417
Fair Value Reserve through OCI	23	832,299	738,684
Regulatory reserve	37	27,819,866	37,186,586
Total equity		272,539,958	253,528,958
Total liabilities and equity		1,423,132,971	1,174,116,901

The financial statements on pages 42 to 127 were approved for issue by the Board of Directors on 24th Feb 2023 and signed on its behalf by:


 Eng. Julius B. Ndyamukama
 Board Chairman

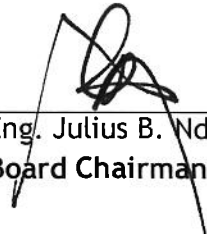

 Ms. Esther G. Mang'anya
 Managing Director

AZANIA BANK LIMITED

5.1. STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	NOTES	2022 TZS'000	2021 TZS'000
Assets			
Cash and balances with the Bank of Tanzania	19	77,856,650	37,811,184
Loans and advances to banks	20	96,276,996	46,587,191
Debt instruments at amortised cost	21	198,920,032	163,348,943
Loans and advances to customers	22	955,617,229	818,334,919
Equity Instruments at fair value through Other Comprehensive Income	23	12,428,997	12,295,262
Other assets	28	6,746,172	13,071,980
Property and equipment and right-of-use assets	24	14,674,333	15,647,818
Current tax asset	26	2,195,106	2,238,862
Deferred tax asset	27	56,202,373	60,663,265
Intangible assets	25	2,215,083	4,117,477
Total assets		1,423,132,971	1,174,116,901
Liabilities			
Loans and advances from banks	29	186,187,967	183,133,223
Deposits from customers	30	789,481,377	548,020,221
Revolving Credit Lines	31	152,810,833	151,375,823
Payables and Accruals	32	22,112,836	38,058,676
Total liabilities		1,150,593,013	920,587,943
Ordinary share capital	34	185,493,271	185,493,271
Advance towards share capital		34,600	-
Retained Earnings		58,359,922	30,110,417
Fair Value Reserve through OCI	23	832,299	738,684
Regulatory reserve	37	27,819,866	37,186,586
Total equity		272,539,958	253,528,958
Total liabilities and equity		1,423,132,971	1,174,116,901

The financial statements on pages 42 to 127 were approved for issue by the Board of Directors on 24th Feb. 2023 and signed on its behalf by:


 Eng. Julius B. Ndyamukama
 Board Chairman


 Ms. Esther G. Mang'anya
 Managing Director

AZANIA BANK LIMITED

5.2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	2022 TZS'000	2021 TZS'000
Interest and similar income	7	137,978,788	100,690,191
Interest and similar expense	8	(60,737,897)	(46,606,944)
Net interest income		77,240,891	54,083,247
Expected credit loss allowance	9	(27,111,291)	(1,771,818)
Net interest after impairment charge		50,129,600	52,311,429
Fees and commissions income	10	9,415,516	5,226,293
Foreign exchange income	11	8,510,945	3,678,906
Other income	12	18,949,645	1,849,906
Total non-interest income		36,876,106	10,755,105
Personnel expenses	13	(36,090,666)	(36,037,169)
Premises maintenance costs	14	(2,998,014)	(2,302,466)
Equipment maintenance costs	15	(2,868,773)	(3,142,890)
Depreciation and amortization	16	(6,450,763)	(7,419,574)
General and administrative expenses	17	(14,556,240)	(11,009,200)
		(62,964,456)	(59,911,299)
Profit before income tax		24,041,250	3,155,235
Income tax expense/charge	18	(5,158,465)	(1,094,774)
Profit for the year		18,882,785	2,060,461
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain of equity instruments measured at fair value through OCI with the amount	23	133,735	100,826
Impact tax to the gain of fair value through OCI		(40,121)	(30,248)
Total comprehensive income for the year, net of tax		18,976,399	2,131,039

AZANIA BANK LIMITED

5.3. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Ordinary share capital	Advance towards share capital	Accumulated Profit or (loss)	Fair value reserve through OCI	Regulatory reserve	Total
Opening balance as at 1 January 2022	185,493,271	-	30,110,417	738,684	37,186,586	253,528,958
Additions of capital	-	34,600	-	-	-	34,600
Profit during the year	-	-	18,882,785	-	-	18,882,785
Transfers	-	-	9,366,720	93,615	(9,366,720)	93,615
As at 31 December 2022	185,493,271	34,600	58,359,922	832,299	27,819,866	272,539,958
Opening balance as at 1 January 2021	185,432,471	60,800	29,155,473	575,355	36,081,069	251,305,168
Additions of capital	-	-	-	-	-	-
Profit during the year	-	-	2,060,461	-	-	2,060,461
Transfer	60,800	(60,800)	(1,105,517)	163,329	1,105,517	163,329
As at 31 December 2021	185,493,271	-	30,110,417	738,684	37,186,586	253,528,958

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

5.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	2022 TZS'000	2021 TZS'000
Operating activities			
Profit before income tax		24,041,250	3,155,235
Adjustments for non-cash items:			
Impairment allowance on financial assets	9	27,111,291	1,771,816
Amortization of intangible assets	16	1,967,282	1,981,906
Depreciation of property and equipment	16	2,508,616	2,865,685
Depreciation of Right of Use of Asset	16	1,974,865	2,571,983
Loans fair value benefits	17	1,219,264	945,370
Other Non-Cash items	13	384,150	440,443
Write back of provisions on liabilities/other assets	12	(10,606,200)	(908,084)
Interest on lease liabilities	32	(658,803)	(757,804)
Modification on lease liability	32	(177,385)	(283,152)
Fixed assets written off	17	51,721	94,038
Net loss from investing activities	38	(124,654)	(214,243)
Net loss from financing activities	38	(67,122)	(107,569)
Loss/(Gain) on disposal of fixed assets	12	2,750	(17,798)
Cash flows from operating activities before changes in working capital items		47,627,025	11,537,826
(Increase)/Decrease in Loans and advances to banks maturing after 3 months	20	(3,430,227)	9,963,884
Increase in loans and advances to customers	22	(136,147,460)	(34,115,770)
Increase in debt instruments at amortised cost maturing after 3 months	21	(49,196,745)	(41,703,855)
(Increase) / Decrease in Statutory Minimum Reserve	19	(25,036,795)	30,478,359
Increase in other assets	28	(10,264,019)	(7,621,760)
Increase in deposits from customers and Banks	29&30	244,515,900	38,478,967
Decrease in other liabilities	32	(16,126,962)	(2,781,024)
Tax paid	26	(777,177)	(2,172,261)
Net cash flows from/ (used in) from operating activities		51,163,540	2,064,366
Investing activities			
Purchase of property and equipment	24	(2,763,852)	(573,450)
Proceeds of sale of property plant and equipment		8,969	-
Purchase of intangible assets	25	(64,888)	(36,344)
Net cash flows (used in) Investing activities		(2,819,771)	(609,794)
Financing activities			
Proceeds from revolving credit lines	31	1,486,347	2,168,896
Proceeds from new equity	34	34,600	-
Repayment of principal portion of lease liabilities	32	(2,548,694)	(3,212,315)
Net cash flows (used in)/ from financing activities		(1,027,747)	(1,043,419)

Controller and Auditor General

AR/PA/ABL/2022

AZANIA BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

Net increase/(decrease) in cash and cash equivalents	47,316,022	411,153
Cash and cash equivalent at the beginning of the year	124,033,170	123,300,205
Movement in cash and cash equivalents during the year:		
Net cash flows generated from operating activities	51,163,540	2,064,366
Net cash flows used in investing activities	(2,819,771)	(609,794)
Net cash flows generated from investing activities	(1,027,747)	(1,043,419)
Net foreign exchange difference	191,776	321,812
Cash and cash equivalent at the end of the year	38 171,540,968	124,033,170
Additional information on operational cash flows		
Dividend received	12 62,078	79,043

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

5.5. GENERAL INFORMATION

Azania Bank Limited (“the Bank”) is a limited liability company incorporated in Tanzania under the Companies Act, 2002 and is domiciled in the United Republic of Tanzania. It is licensed to operate as a bank under the Banking and Financial Institutions Act, 2006 and is regulated by the Bank of Tanzania. The registered office of the bank is at:

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

5.6. BASIS OF PREPARATION

5.6.1. Statement of Compliance.

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and accordance with the requirements of the Companies Act, 2002. Details of the Bank’s accounting policies are included in Note 6

5.6.2. Basis of measurement.

The financial statements have been prepared on the historical cost basis except for financial assets at fair values through other comprehensive income (FVOCI which are measured at fair value).

5.6.3. Presentation of financial statements

The presentation of financial position is broadly in order of liquidity. Information regarding recoverability or settlement after reporting period is disclosed in the notes. Financial assets and financial liabilities are generally reported gross in the statement of financial position except when IFRS netting criteria are met.

5.7. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Tanzania Shillings (TZS), which is the Company’s functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

5.8. SIGNIFICANT ACCOUNTING JUDGMENTS, ASSUMPTIONS AND ESTIMATION

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

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

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

5.8.1. Fair value of financial instruments

The Bank estimates the fair value of financial instruments where no active market exists or where quoted prices are not otherwise available by using valuation techniques. In these cases, the Bank estimates the fair value of financial instruments using unobservable data and by applying appropriate assumptions. The fair value of financial instruments has been disclosed in Note 41 to the financial statements.

5.8.2. Incorporation of forward-looking information

The evolving economic environment is a key determinant of the ability of a Bank's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions banks hold against potential future credit risk losses should depend not just on the health of the economy today but should also take account of changes to the economic environment in the future. To capture the effect of changes to the economic environment in the future, the computation of probability of default (PD), loss given default (LGD) and so expected credit loss incorporates forward-looking information; assumptions on the path of economic variables and asset prices that are likely to have an effect on the repayment ability of the Bank's clients. Such variables include Inflation, GDP Growth, oil prices fluctuation, average electricity generation, natural gas, population, total household spending, total food sales, total public debt, Government spending in priority sector, unemployment rate, exchange rate movement. Refer to Note 6.7 and Note 42 to the financial statements.

5.8.3. Cure rate

Cure rate is a percentage of credit exposure accounts which were in default category, but as at assessment date have moved to a better category. Cure rate shall be factored in at the LGD level when assessing recovery rate. The rate reduces the percentage of loss given default and is computed at the overall credit portfolio level. Consideration of movement of accounts is done annually. Qualitative criteria applied when checking whether the account has cured or not are those in line with Bank of Tanzania guideline on IFRS 9 Implementation. Defaulted accounts which are assessed whether they have cured shall exclude accounts which have restructured, or which have been charged off during the period. Refer to Note 6.7 and Note 42 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

5.8.4. Business model assessment

The business model reflects how the Bank manages its assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the asset or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Refer to Note 6.7 and Note 42 to the financial statements.

5.8.5. Significant increase of credit risk

A significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors (as per note 42.1), the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ. Refer to Note 6.7 and Note 42 to the financial statements.

5.8.6. Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Refer to Note 6.7 and Note 42 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

5.8.7. Incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that would have to be paid to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank “would have to pay”, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the credit spread, debt-service ratio, inflation to reflect the terms and conditions of the lease). Refer to Note 6.5 to the financial statements.

5.8.8. Determining the lease term of contracts with renewal and termination options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank’s lease contracts include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease contracts. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Bank includes the renewal period as part of the lease term for the leases recognized. The Bank typically exercises its option to renew leases because there will be a significant negative effect on operations if a replacement asset is not readily available. The renewal periods for leases are not included as part of the lease term if they are not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised. Refer to Note 6.5 and Note 32 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

5.8.9. Deferred tax assets

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

5.8.10. Property, Equipment and intangible Assets

Property and equipment as well as intangible assets are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates.

5.9. NEW STANDARDS, AMENDMENTS, AND INTERPRETATIONS

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- Reference to the Conceptual Framework - Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16
- Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37
- AIP IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter
- AIP IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities
- AIP IAS 41 Agriculture - Taxation in fair value measurements

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

5.10. STANDARDS AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

5.10.1 Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12.

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and

Decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. Effective for annual periods beginning on or after 1 January 2022. The bank is assessing the impact of these amendments.

5.10.2 Lease Liability in a Sale and Leaseback - Amendments to IFRS 16

In September 2022, the Board issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8.

A seller-lessee applies the amendment to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted, and that fact must be disclosed. These amendments had no impact on the financial statements of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

5.10.3 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

A specific adaptation for contracts with direct participation features (the variable fee approach)

A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Bank.

5.10.4 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

5.10.5 Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Bank.

5.10.6 Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently assessing the impact of the amendments to determine the impact they will have on the

Banks's accounting policy disclosures.

6 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

6.1. Recognition of interest income and expenses

6.1.1. Effective interest rate method

For the Bank, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and interest-bearing financial assets measured at FVOCI in accordance with IFRS 9. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by considering any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

6.1.2. Interest and similar income and expenses

The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets and financial liabilities at amortised cost respectively. When a financial asset becomes credit-impaired (as set out in Note 42) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures (as outlined in Note 6.7 and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

6.2. Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when syndication has been completed and the bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

6.3. Dividend income

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

6.4. Foreign currency translation

Foreign currency transactions are translated into Tanzanian Shillings using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of profit or loss.

6.5. Leases

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

6.5.1. Bank as a lessee

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

6.5.2. Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. Refer to Note 24 for further details.

The right-of-use assets are presented within Note 24 Property, equipment and right-of-use assets and are Subject to impairment in line with the Bank's policy as described in Note 6.7.7 Impairment of non-financial Assets.

6.5.3. Lease liabilities

At the commencement date of the lease, the bank recognizes lease liabilities at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the company and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in lease term, a change in the lease payments (e.g., change to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

6.6. Employee benefits

6.6.1. Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the bank has a present legal or constructive obligation to pay this amount because of past service provided by the employee and the obligation can be estimated reliably.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

6.6.2. Defined Pension contributions plans

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

6.6.3. Workers Compensation Fund

This is a social security scheme established for compensating workers who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment. The Bank is required to contribute to the fund 0.6% (effective 01st July 2021 prior to this was 1.0%) of the monthly wage bill. The Bank remits the contributions on month-to-month basis and costs recognised in respective months.

6.6.4. Management gratuity

This is applied for staff with contracts for a specific period of time for managerial carder. It is specifically applied to Functional Directors and Managing Director. Upon completion of the contract, they will be entitled to a gratuity of 15% of Basic salary paid during the contract tenure. Contract for specific or special task.

6.7. Financial instruments

6.7.1. Initial recognition & measurement

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers are initially recognized on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank. The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss.

The Bank classifies the financial instruments into classes that reflect the nature of information and consider the characteristics of those financial instruments. The classification made can be seen in the table below:

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

Category (As defined by IFRS 9)		Class (as determined by the Bank)	
Financial assets	Amortized cost	Loans and advances to banks	
		Loans and advances to customers	Loans to individuals Loans to corporate entities Loans to SMEs Loans to Microfinance
		Investment in Debt securities	Government securities
	Fair value through profit or loss (FVPL)	Equity investment	
	Fair value through other comprehensive income (FVOCI)	Equity instruments designated at FVOCI	
Other treasury bonds held to collect contractual cash flows and for sale			
Financial liabilities	Financial liabilities at amortised cost	Loans and advances from Banks	
		Borrowings	
		Deposits from customers	Retail customers Corporate customers

6.7.2. Financial assets

The Bank classifies its financial assets in the following categories: At amortized cost, Fair value through profit or loss (FVPL) and Fair value through other comprehensive income (FVOCI).

6.7.2.1. Classification and subsequent measurement of financial assets depends on;

- i. The Bank's business model for managing the asset; and
- ii. The cash flow characteristics of the asset.

Based on these factors, the Bank classifies its financial assets into one of the following three measurement categories.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

6.7.2.1.1. Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Other income' in the period in which it arises.

6.7.2.1.2. Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest and are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Other Income'.

6.7.2.1.3. Business model assessment

As presented in Note 6.7.2, the Bank's business model determines how the Bank manages assets to generate cash flows.

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

6.7.3. Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all investments in equity instruments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Bank's right to receive payments is established.

6.7.4. Financial guarantees, letters of credit and undrawn loan commitments

The bank issues financial guarantees, letters of credit and loan commitments. The bank does not recognize the financial guarantee within its financial statements. However, since it is under the scope of IFRS 9, the ECL amount is recognized in the statement of financial position within provision and the movement of such provision is recognized in the statement of profit or loss. The premium received is recognized in the statement of profit or loss in Net fees and commission income on a straight-line basis over the life of the guarantees.

6.7.5. Derecognition due to substantial modification of terms and conditions

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition.

The Bank has transferred the financial asset if, and only if, either:

- i) The Bank has transferred its contractual rights to receive cash flows from the financial asset or;
- ii) It retains the rights to the cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party.

6.7.5.1. Financial assets

A transfer only qualifies for de-recognition if either:

- i) The Bank has transferred substantially all the risks and rewards of the asset Or
- ii) The Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

6.7.5.2. Financial liabilities

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

6.7.6. Impairment of financial assets

The Bank recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVPL:

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

- Loans and advances to banks.
- Loans and advances to customers.
- Debt investment securities.
- Corporate bonds.
- Letter of credit issues and guarantees.

No impairment loss is recognized on equity investments.

The 12 months' expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both lifetimes expected credit losses and 12 months' expected credit losses are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- i) **Stage 1:** When loans are first recognized, the Bank recognizes an allowance based on 12 months expected credit losses. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
- ii) **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the lifetime expected credit losses. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- iii) **Stage 3:** Loans considered credit impaired. The bank records an allowance for the lifetime expected credit losses.

6.7.6.1. The calculation of Expected Credit Losses

The Bank calculates expected credit losses based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective interest rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the expected credit losses calculations are outlined below, and the key elements are, as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

i) **Probability of Default (PD):** The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognized and is still in the portfolio.

ii) **The Exposure at Default (EAD):** is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

iii) **Loss Given Default (LGD):** is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the exposure at default.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the Expected Credit Losses method are summarized below:

- i. **Stage 1:** The 12-month expected credit loss is calculated as the portion of life-time expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12-month expected credit loss allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast exposure at default (EAD) and multiplied by the expected loss given default (LGD) and discounted by an approximation to the original effective interest rate (EIR). This calculation is made for each of the four scenarios, as explained previously.
- ii. **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the life-time expected credit losses. The mechanics are similar to those explained above, including the use of multiple scenarios, but Probability of default (PD) and Loss given default (LGD) are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original effective interest rate (EIR).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

- iii. **Stage 3:** For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the Probability of default (PD) set at 100%.
- iv. **Financial guarantee contract:** The bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement and the expected credit loss provision. For this purpose, the bank estimates the expected credit losses based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfall is discounted at the risk adjusted interest rate relevant to the exposure. The calculation is made using the probability weighting of the four scenarios. The expected credit losses related to the financial guarantee contracts are recognized in statement of profit or loss. Refer to Note 43 for further details.

The calculation of expected credit losses, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail loans products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

The mechanics of the Expected Credit Losses method are summarized below:

i. Forward looking information

In the expected credit losses models, the Bank relies on a broad range of forward-looking information as economic inputs such as GDP growth and unemployment rates.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

ii. Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of expected credit losses. It is generally assessed, at a minimum, at inception and re-assessed on at least every three years. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as recognized property valuers.

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

iii. Collateral repossessed

The Bank's policy is to sell the repossessed collateral and the proceeds obtained used to recover the loan outstanding.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded in the statement of financial position.

iv. Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by several factors, changes in which can result in different levels of allowances. The Bank's expected credit losses calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the expected credit losses models that are considered accounting judgements and estimates include:

- i. The Bank's internal credit grading model, which assigns Probability of default to the individual grades.
- ii. The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime expected credit losses basis and the qualitative assessment.
- iii. The segmentation of financial assets when their expected credit losses are assessed on a collective basis.
- iv. Development of Expected credit loss model, including the various formulas and the choice of inputs Determination of associations between macroeconomic scenarios and, economic inputs, such as inflation levels and collateral values, 91 days Treasury Bill rate, change in exchange rate and the effect on PDs, EADs and LGDs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

6.7.6.2. Definition of default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due.

Under IFRS 9, the Bank will consider a financial asset as 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- (i) Significant financial difficulty of the borrower or issuer.
- (ii) A breach of contract such as a default or past due event.
- (iii) The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider.
- (iv) The disappearance of an active market for a security because of financial difficulties; or
- (v) The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date.

The Bank writes off non-performing financial assets that have been past due for more than four (4) consecutive quarters. The Bank may write-off financial assets in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The assessment is done to specific borrower.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

6.7.7. Impairment of non-financial assets

At the end of each reporting period, the Bank reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

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

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

The impairment losses are recognized in the statement of profit or loss in expenses unless it is stated otherwise. The Bank did not record any impairment related to non-financial assets during the year.

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Significant accounting judgements estimates, and assumptions Note 4
- Property, and equipment and right-of-use asset Note 24
- Intangible assets Note 25

6.7.8. Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with the Bank of Tanzania, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition that are subject to insignificant risk of change in fair value and are used by the Bank in management of its short-term commitments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

6.7.9. Property and equipment

6.7.9.1. Recognition and measurement

Items of property and equipment are measured at cost, less accumulated depreciation, and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The Bank derecognized the carrying amount of an item of property and equipment on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other income in profit or loss.

6.7.9.2. Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Bank. Recurrent repairs and maintenance are expensed in the period incurred.

6.7.9.3. Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. The depreciation methods, useful lives and residual lives are reviewed, and adjusted if appropriate, at each reporting date. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives for the current and comparative periods are as stated:

	2022	2021
Leasehold improvements	10	10
Motor vehicles	5	5
Office furniture and fittings	6.67	6.67
Office equipment	5	5
Computer equipment	5	5
Right-of-use assets	5-10	5-10

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Refer to Note 6.7.7 for the accounting policy. The property and equipment carrying amounts have been disclosed in Note 24.

6.7.10. Work in Progress

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

6.7.11. Intangible assets

These are development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the bank. Development costs are recognized as intangible assets when the following criteria are met:

- i. It is technically feasible to complete the software product so that it will be available for use.
- ii. Management intends to complete the software product and use or sell it.
- iii. There is an ability to use or sell the software product.
- iv. It can be demonstrated how the software product will generate probable future economic benefits.
- v. Adequate technical, financial, and other resources to complete the development and to use or sell the software product are available; and
- vi. The expenditure attributable to the software product during its development can be reliably measured.

After initial recognition, The Bank measures its intangible assets at cost less any accumulated amortization and any accumulated impairment losses.

Amortization methods, useful lives and residual values are reviewed and adjusted if appropriate, at each reporting date.

- . Directly incurred costs are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

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

Costs associated with maintaining software programs are recognized as an expense when incurred.

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

Computer software development costs recognized as assets are amortized over their estimated useful lives, which does not exceed five years.

Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. These costs are amortized based on the expected useful lives.

Software has a maximum expected useful life of 5 years.

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

The Bank derecognized intangible asset on either disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The Bank recognize this in profit or loss when the asset is derecognized.

6.7.11. Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

6.7.12. Taxes

The income tax expense or credit for the period is the tax payable or receivable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

6.7.13.1. Current income tax

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Current income tax relating to items recognized in OCI or directly in equity is recognized in OCI or equity, respectively, and not in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

6.7.13.2. Deferred income tax

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

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

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantially enacted at the end of the reporting period. Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss.

Deferred tax items are recognized in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

6.7.13.2. Value Added Tax (VAT)

The Bank pays VAT on all its taxable purchases during operation (input tax). The bank also collects VAT on the fees and commissions charged on the financial services according to the prevailing laws and remits to TRA (output tax).

Revenues, expenses, and assets are recognized net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the TRA, in which case the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to tax authorities is included as part of receivables or payables in the statement of financial position.

6.7.13. Dividend on ordinary share capital and preference share capital

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

6.7.14. Ordinary Share capital

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

6.7.15. Regulatory reserve and General provision reserve

The reserve comprises amounts set aside to cover provision for loan losses required to comply with the requirements of Bank of Tanzania prudential guidelines. This reserve is not available for distribution. The General provision reserve is available for the purpose of determination of regulatory total capital of the Bank and not available for distribution.

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022	2021
	TZS'000	TZS'000
7 INTEREST INCOME		
Loans to banks	3,237,547	2,715,596
Investment in Government securities	13,327,989	9,492,378
Loans and advances to customers	119,200,241	87,114,734
Upfront interest	2,213,011	1,367,483
	137,978,788	100,690,191

All interest income is recognized using effective interest rate

8 INTEREST EXPENSE		
Deposits from banks	8,004,081	8,338,640
Deposits from customers	44,622,728	30,005,116
Revolving credit lines	7,452,285	7,505,384
	60,079,094	45,849,140
Other interest and similar expense:		
Interest Expense on lease liabilities	658,803	757,804
	658,803	757,804
	60,737,897	46,606,944

All interest expenses are recognized using effective interest rate

	2022	2021
	TZS'000	TZS'000
9 EXPECTED CREDIT LOSS ALLOWANCE		
Impairment allowance:		
ECL - Loans and advances to customers (note 22)	28,745,124	6,977,669
ECL - Letters of Credit and Guarantee (note 22)	(2,006,864)	(4,412,296)
ECL - Bank of Tanzania (note 19)	(134,794)	(588,546)
ECL - Loans and advances to Banks (note 20)	977,150	(123,206)
ECL-Other Assets (note 28)	(333,948)	(43,287)
ECL - Government Securities (note 21)	(135,377)	(38,517)
	27,111,291	1,771,818

The increase in ECL allowance compared to the previous year is mainly due to the growth of risk assets, deterioration of performance of some few accounts and write-offs of qualifying loans during the year.

10 FEES AND COMMISSIONS INCOME		
Minimum balance	59,304	61,333
Security perfection	154,741	80,160
Ledger fees and customer sundries	974,859	636,952
Telegraphic transfers	722,499	495,665
Guarantees indemnities	7,758	17,948
Cheque books	65,079	57,727

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022	2021
	TZS'000	TZS'000
Letters of credit	1,400,055	1,207,301
Western union & Money Gram	53,883	95,926
Salary processing	39,770	30,082
Unpaid cheques	21,033	20,689
Statement fees	33,551	23,762
M-Pesa/TIGO Pesa/Halopesa	546,601	363,111
Insurance income	1,031,569	586,631
Cash withdrawal commission	1,266,421	820,893
Delivery Channels	1,105,362	436,484
Agent Banking Commissions	5,474	-
Bond Trading Gain Or Loss Account	193,832	-
Sundry income*	1,733,725	291,629
	9,415,516	5,226,293

Sundry income is made of commission on MNO business activities TZS 559 million and Commission on Tobacco guarantee TZS 208 million.

11 FOREIGN EXCHANGE INCOME

Foreign Exchange Commission*	8,510,945	3,678,906
	8,510,945	3,678,906

*Foreign exchange income arises from ordinary foreign exchange activities.

12 OTHER INCOME

Recoveries from bad debts	8,284,117	844,981
Write back of provisions on liabilities/other assets*	10,606,200	908,084
Dividend Income	62,078	79,043
(Loss)/Gains on disposal of fixed assets	(2,750)	17,798
	18,949,645	1,849,906

*This relate to tax liabilities that was provided during acquisition of former bank M. After tax audit and settlement, the Bank obtained tax clearance thus the excess provision amount of TZS 10 billion was written back.

13 PERSONNEL EXPENSES

Salaries and wages	22,987,516	23,129,336
Retirement benefit contribution	3,400,544	3,439,307
Skills Development levy	1,135,741	1,164,591
Workers' compensation Fund	160,919	228,306
Staff medical insurance	1,797,695	1,599,552
Leave travel	2,745,890	2,717,618
Management Gratuity	384,150	440,443
Staff training	396,037	642,871
Uniforms	284,500	-

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022	2021
	TZS'000	TZS'000
Staff allowances	2,311,107	2,304,279
Other staff cost	486,567	370,866
	<u>36,090,666</u>	<u>36,037,169</u>
14 PREMISES AND MAINTENANCE COSTS		
Office rent	568,896	141,985
Water, Fuel, Electricity, Telephone	1,769,949	1,566,237
Office cleaning	473,958	475,118
Office parking	93,254	101,554
Repair and maintenance	91,957	17,572
	<u>2,998,014</u>	<u>2,302,466</u>
Office rent arises from short term contracts and premise maintenance contract charges which are out of scope of IFRS 16		
15 EQUIPMENT MAINTENANCE COSTS		
Generators	139,711	102,742
Motor vehicles	149,357	156,078
Maintenance cost of Computer equipment and Intangibles	1,935,285	2,086,570
Office, equipment, and furniture maintenance	644,420	797,500
	<u>2,868,773</u>	<u>3,142,890</u>
16 DEPRECIATION AND AMORTISATION		
Depreciation of property and equipment	2,508,616	2,865,685
Amortization of intangible assets	1,967,282	1,981,906
Depreciation charge on right of use of assets	1,974,865	2,571,983
	<u>6,450,763</u>	<u>7,419,574</u>
17 GENERAL AND ADMINISTRATIVE EXPENSES		
Bustisha Expense	474,447	-
Auditors 'remuneration	246,234	203,153
Consumables	173,255	157,955
Burial support	46,590	61,500
Subscription	102,362	97,253
Insurance costs	794,558	738,731
Deposit Insurance Fund	792,921	800,637
Directors' fees	161,272	130,917
Stationery and Printing	554,581	417,496
Advertising costs	1,612,471	727,457
Security costs	1,534,696	1,521,930

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022	2021
	TZS'000	TZS'000
Loans fair value benefits*	1,219,264	945,370
Swift expenses	37,955	86,715
Communication and postage	1,139,890	984,457
Travel costs	1,458,289	1,099,819
ATM expenses	39,316	59,526
Visa expense	381,546	220,985
Tax consultancy fee	49,083	28,534
Legal and other professional fees	218,760	337,114
Business engagements	612,629	63,162
Bank charges	232,007	189,425
Banking license	133,224	59,547
VAT Expense Cost	417,490	480,804
City service levy	192,306	126,027
Write offs	51,721	94,038
Board Meeting Expense	343,721	357,905
Staff cost committee meetings	211,375	170,963
Guarantee Expense	123,402	29,822
Other costs**	1,200,875	817,958
	14,556,240	11,009,200

*Loan fair value benefit is recognized to account for benefit enjoyed by staff for extension of staff loans at the rates which are below market rates.

** Other costs include agent commission expense TZS 232.7 million (2021: TZS 158.8 million), commission expenses on partnered services TZS 589.9 million (2021: TZS 294.2 million and other miscellaneous expenses. The tax on Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2021	2020
	TZS'000	TZS'000
18 TAXATION		
Income tax charge		
Current year tax expenses	820,933	-
Deferred income tax (credit)/ charge for the year	4,337,532	1,094,774
Total tax credit (charge for the year)	5,158,465	1,094,774
Reconciliation of tax expense to tax based on accounting profit:		
Profit before tax	24,041,250	3,155,237
Tax calculated at a tax rate of 30%	7,212,375	946,571
Tax effect of:		
Disallowed expenses	963,905	2,729,962
Income not taxable	(3,017,815)	(2,581,759)
	5,158,465	1,094,774
19 CASH AND BALANCE WITH BANK OF TANZANIA		
Cash in hand	40,125,246	29,649,546
Balances with Bank of Tanzania		

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

- Statutory Minimum Reserve (SMR)	25,036,795	-
- Current account	12,694,609	8,296,432
-ECL-Bank of Tanzania	-	(134,794)
	77,856,650	37,811,184

The Bank is required to maintain a minimum cash reserve on deposits with Bank of Tanzania (Statutory Minimum Reserve-SMR). The SMR deposit is not available to finance the bank's day-to-day operations, thus excluded from cash and cash equivalents for the purpose of the cash flow statement.

The table below shows the credit quality maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 42 and policies about how ECL allowances calculation are set out in Note 6.7

Internal rating grade 2022	Stage1	Stage2	Stage3	Total
Performing:				
Current category	77,856,650	-	-	77,856,650
Total	77,856,650	-	-	77,856,650

An analysis of changes in the gross carrying amount is as follows;

Descriptions	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	37,945,978	-	-	37,945,978
New Assets originated or purchased	39,910,672	-	-	39,910,672
At 31 December 2022	77,856,650	-	-	77,856,650

Internal rating grade 2021	Stage1	Stage2	Stage3	Total
Performing:				
Current category	37,945,978	-	-	37,945,978
Total	37,945,978	-	-	37,945,978

An analysis of changes in the gross carrying amount is as follows;

Descriptions	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	76,057,978	-	-	76,057,978
Assets derecognized or repaid (excluding write offs)	(38,112,000)	-	-	(38,112,000)
At 31 December 2021	37,945,978	-	-	37,945,978

The table below shows the analysis of changes in ECL allowance amount of the Cash and Bank balances with Bank of Tanzania as at 31st December 2022:

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

19 CASH AND BALANCE WITH BANK OF TANZANIA (Continued)

Descriptions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	134,794	-	-	134,794
New assets originated or purchased	(134,794)	-	-	(134,794)
At 31 December 2022	-	-	-	-

During the year, the bank reassessed the recoverability of assets held against the Bank of Tanzania and was ascertained to be 100% recoverable and hence release of the previous provided amount.

The table below shows the analysis of changes in ECL allowance amount of the Cash and Bank balances with Bank of Tanzania as at 31st December 2021:

Descriptions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	723,340	-	-	723,340
New assets originated or purchased	-	-	-	-
Assets derecognized or repaid	(588,546)	-	-	(588,546)
At 31 December 2021	134,794	-	-	134,794

20 Loans and advances to banks

	2022	2021
Items in course of collection	6,371,994	3,839,708
Nostro balances	6,383,271	5,566,739
Placements with banks	84,677,284	37,709,710
Accrued interest	815,452	464,892
ECL-Loans and advances to banks	(1,971,005)	(993,858)
	96,276,996	46,587,191
Maturities within 3 months	92,846,769	46,587,191
Maturities after 3 months	3,430,227	-
	96,276,996	46,587,191

Some loans and advances to banks are not secured and earn interest on normal market interest rates. As at 31 December 2022, loans and advances to banks earned an average of 5.8% for local currency and 4.4% for USD loans and advances to (2021: 8.2% and 3.4%)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 42 and policies about how ECL allowances calculation are set out in Note 6.7:

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

20 LOANS AND ADVANCES TO BANKS (Continued)

Credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification as of 31st December 2022.

Internal rating grade	Stage1	Stage2	Stage3	Total
Performing:	-	-	-	-
Current category	97,742,453	-	-	97,742,453
Especially mentioned category	-	-	-	-
Non-performing:	-	-	-	-
Substandard category	-	-	-	-
Doubtful category	-	-	-	-
Loss category	-	-	505,548	505,548
Gross Carrying Amount as at 31st December 2022	97,742,453	-	505,548	98,248,001

An analysis of changes in the gross carrying amount is as follows.

Descriptions	Stage1	Stage2	Stage3	Total
Gross carrying amount as at 1 January 2022	47,075,503	-	505,548	47,581,051
New assets originated or purchased	97,742,453	-	-	97,742,453
Assets derecognized or repaid (excluding write offs)	(47,075,503)	-	-	(47,075,503)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
At 31 December 2022	97,742,453	-	505,548	98,248,001

Credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification as of 31st December 2021.

Internal rating grade	Stage1	Stage2	Stage3	Total
Performing:	-	-	-	-
Current category	47,075,503	-	-	47,075,503
Especially mentioned category	-	-	-	-
Non-performing:	-	-	-	-
Substandard category	-	-	-	-
Doubtful category	-	-	-	-
Loss category	-	-	505,548	505,548
Gross Carrying Amount as at 31st December 2021	47,075,503	-	505,548	47,581,051

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

20 LOANS AND ADVANCES TO BANKS (Continued)

An analysis of changes in the gross carrying amount is as follows.

Descriptions	Stage1	Stage2	Stage3	Total
Gross carrying amount as at 1 January 2021	65,014,659	-	-	65,014,659
New assets originated or purchased	-	-	-	-
Assets derecognized or repaid (excluding write offs)	17,939,156	-	-	17,939,156
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	505,548	505,548
At 31 December 2021	<u>47,075,503</u>	-	<u>505,548</u>	<u>47,581,051</u>

The table below shows the analysis of changes in ECL allowance amount of the Loans and Advances to banks as at 31 December 2022

Descriptions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	488,309	-	505,548	993,857
New assets originated or purchased	1,465,457	-	-	1,465,457
ECL (releases) during the year.	(488,309)	-	-	(488,309)
At 31 December 2022	<u>1,465,457</u>	-	<u>505,548</u>	<u>1,971,005</u>

The ECL balance increased even though the gross carrying amount decreased due to reclassified provision of TZS 506 million. The table below shows the analysis of changes in ECL allowance amount of the Loans and Advances to banks as at 31 December 2021

Descriptions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2021	611,515	-	-	611,515
New assets originated or purchased	-	-	-	-
ECL (releases) during the year.	(123,206)	-	-	(123,206)
ECL re-classified	-	-	505,548	505,548
At 31 December 2021	<u>488,309</u>	-	<u>505,548</u>	<u>993,857</u>

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

21 DEBT INSTRUMENTS AT AMORTISED COST

	2022	2021
Treasury bills	77,359,360	102,931,830
Deferred Income of a Treasury Bills	(1,936,320)	(2,785,667)
Treasury Bonds	116,398,800	58,423,400
Corporate Bond	4,200,000	4,200,000
Unearned discount	(564,096)	(1,228,271)
Interest receivable	3,568,390	2,049,130
ECL-Government Securities	(106,102)	(241,479)
	198,920,032	163,348,943

Maturities profile

Treasury bills and bonds maturing within 3 months	25,874,344	39,500,000
Treasury bills and bonds maturing after 3 months	173,045,688	123,848,943
	198,920,032	163,348,943

ECL-Government Securities		
Balance as at 1st January	241,479	279,996
Addition within the year	(135,377)	(38,517)
Balance as at 31st December	106,102	241,479

The Bank is holding a 5-year Corporate Bond since June 2018 with Tanzania Mortgage Refinancing Company with a coupon rate of 11.56% per annum and in 2019 the Bank contracted a TZS 1 billion corporate bond at 13.31% from TMRC.

*-'Deferred income of a treasury bills is the difference between the cost of a treasury bill and its face value. It is accounted on the balance sheet and credited to income gradually over the life of the bill.

**Unearned discount is the difference between the cost of a bond and its face value. It is accounted in the balance sheet and then credited to income gradually over the life of the bond.

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 42 and policies about how ECL allowances calculation is set out in Note 6.7

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

21. DEBT INSTRUMENTS AT AMORTISED COST (CONTINUED)

	Stage1 TZS'000	Stage2 TZS'000	Stage3 TZS'000	Total TZS'000
Internal rating grade 31st December 2022				
Performing:				
Current category	199,026,134	-	-	199,026,134
Total	199,026,134	-	-	199,026,134

An analysis of changes in the gross carrying amount as follows.

Descriptions	Stage1 TZS'000	Stage2 TZS'000	Stage3 TZS'000	Total TZS'000
Gross amount as at 1 January 2021	163,590,422	-	-	163,590,422
New assets originated or purchased	74,935,712	-	-	74,935,712
Assets derecognized or repaid (excluding write offs)	(39,500,000)	-	-	(39,500,000)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
At 31 December 2022	199,026,134	-	-	199,026,134

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification for 2021.

	Stage1 TZS'000	Stage2 TZS'000	Stage3 TZS'000	Total TZS'000
Internal rating grade				
Performing:				
Current category	163,590,422	-	-	163,590,422
Total	163,590,422	-	-	163,590,422

An analysis of changes in the gross carrying amount as follows.

Descriptions	Stage 1 TZS'000	Stage 2 TZS'000	Stage 3 TZS'000	Total TZS'000
Gross amount as at 1 January 2021	105,706,409	-	-	105,706,409
New assets originated or purchased	57,884,013	-	-	57,884,013
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
At 31 December 2021	163,590,422	-	-	163,590,422

	2022 TZS'000	2021 TZS'000
22 LOANS AND ADVANCES TO CUSTOMERS		

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022	2021
Individual loans		
-Overdrafts	18,446,277	13,857,734
-Personal loans	65,279,249	37,447,645
-MFI Loans	1,235,758	672,381
-Consumer loans	107,054,533	131,352,253
-Mortgage	25,350,972	27,166,810
Project Finance	8,498,545	5,642,419
	225,865,334	216,139,242
Corporate / SMEs		
-Overdrafts	174,845,756	212,481,785
-Term loans	578,203,271	439,508,804
	753,049,027	651,990,589
Staff loans	40,212,321	37,233,774
Interest receivable	63,485,401	60,901,113
	103,697,722	98,134,887
Gross loans and advances	1,082,612,083	966,264,718
Interest in suspense	(52,562,210)	(47,631,504)
Allowances for impairment on loans and advances	(74,432,644)	(100,298,295)
Net loans and advances	955,617,229	818,334,918
Changes in provisions for impairment of loans and advances during the year is as follows:		
Opening balance as at January	(100,298,295)	(121,386,663)
Loans and advances impairment charge during the year- Note 9	(28,745,124)	(6,977,669)
Letters of credit & Guarantee impairment charge during the year-Note 9	2,006,864	4,412,296
Charged off accounts	52,603,911	23,653,741
As at 31 December	(74,432,644)	(100,298,295)
Composition of the ECL		
Loans and advances to customers	73,793,030	97,651,817
Off balance sheet items	639,614	2,646,478
	74,432,644	100,298,295

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 42 and policies about how ECL allowances calculation are set out in Note .7. These include principal amounts only. Exclude interest receivable, interest in suspense and fair value.

	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing:				
Current category	736,587,941	-	-	736,587,941
Especially mentioned category	-	106,452,416	-	106,452,416
Non-performing:				
Substandard category	-	-	69,555,976	69,555,976
Doubtful category	-	-	107,561,256	107,561,256
Loss category	-	-	62,454,494	62,454,494
Total	736,587,941	106,452,416	239,571,726	1,082,612,083
Descriptions				
Gross carrying amount as at 1 January 2022	651,014,324	55,696,632	259,553,762	966,264,718
New assets originated or purchased	190,471,950	34,886,403	1,157,331	226,515,684
Assets derecognized or repaid (excluding write offs)	(51,851,422)	(1,628,474)	(4,084,512)	(57,564,408)
Transfers to Stage 1	14,094,201	(11,649,096)	(2,445,105)	-
Transfers to Stage 2	(57,243,954)	61,655,285	(4,411,331)	-
Transfers to Stage 3	(9,897,158)	(32,508,334)	42,405,492	-
Amounts written off	-	-	(52,603,911)	(52,603,911)
At 31 December 2022	736,587,941	107,856,400	239,571,726	1,082,612,083

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Internal rating grade	Stage 1	Stage 2	Stage 3	Total
Performing:				
Current category	651,014,324	-	-	651,014,324
Especially mentioned category	-	55,696,632	-	55,696,632
Non-performing:				
Substandard category	-	-	50,838,326	50,838,326
Doubtful category	-	-	110,090,960	110,090,960
Loss category	-	-	98,624,476	98,624,476
Total	651,014,324	55,696,632	259,553,762	966,264,718
Descriptions	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	608,445,624	54,214,221	291,788,733	954,448,578
New assets originated or purchased	93,175,654	-	-	93,175,654
Assets derecognized or repaid (excluding write offs)	(50,429,069)	(4,396,230)	(2,880,474)	(57,705,773)
Transfers to Stage 1	13,244,857	(9,245,277)	(3,999,580)	-
Transfers to Stage 2	(5,710,716)	18,514,809	(12,804,093)	-
Transfers to Stage 3	(7,712,026)	(3,390,891)	11,102,917	-
Amounts written off	-	-	(23,653,741)	(23,653,741)
At 31 December 2021	651,014,324	55,696,632	259,553,762	966,264,718

Controller and Auditor General

AR/PA/ABL/2022

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

The table below shows the analysis of changes in ECL allowance amount of the loans and advance to customers recorded in the statement of profit or loss and other comprehensive income during the year. These exclude ECL for off balance sheet items.

Descriptions:	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at amount as at 1 January 2022	8,905,256	371,240	88,375,321	97,651,817
New assets originated or purchased	29,544,296	9,848	212,247	29,766,391
Assets derecognized or repaid (excluding write offs)	(372,481)	(41,933)	(606,853)	(1,021,267)
Transfer to stage 1	36,857	(11,644)	(25,213)	-
Transfer to stage 2	(107,916)	470,865	(362,949)	-
Transfer to stage 3	(30,903,059)	(346,155)	31,249,214	-
Amounts written off	-	-	(52,603,911)	(52,603,911)
At 31 December 2022	7,102,953	452,221	66,237,856	73,793,030
ECL from Letter of credit and guarantee	639,614	-	-	639,614
At 31 December 2022	7,742,567	452,221	66,237,856	74,432,644

Descriptions:	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at amount as at 1 January 2021	20,159,658	20,249,569	80,977,434	121,386,661
New assets originated or purchased	7,275,458	-	-	7,275,458
Assets derecognized or repaid (excluding write offs)	(1,043,754)	(2,643,186)	(3,669,619)	(7,356,559)
Transfer to stage 1	1,796,432	(568,727)	(1,227,706)	-
Transfer to stage 2	(18,968,832)	23,203,673	(4,234,841)	-
Transfer to stage 3	(313,706)	(39,870,089)	40,183,795	-
Amounts written off	-	-	(23,653,742)	(23,653,742)
At 31 December 2021	8,905,256	371,240	88,375,321	97,651,817
ECL from Letter of credit and guarantee	2,646,478	-	-	2,646,478
At 31 December 2021	11,551,734	371,240	88,375,321	100,298,295

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

23 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Descriptions	TMRC Investment	Inv. in First Housing Finance	Umoja Switch	Total
Opening - Investment Cost as at 31st January 2021	2,500,000	8,720,000	20,000	11,240,000
Addition	-	-	-	-
Financial assets at cost as at 31st December 2021	2,500,000	8,720,000	20,000	11,240,000
Change in Fair Value as at 31st January 2021	1,503,880	(635,405)	85,961	954,436
Change in fair value in the Period	51,120	18,435	31,271	100,826
Financial assets at FVOCI as at 31st December 2021	4,055,000	8,103,030	137,232	12,295,262
Fair Value Reserve Through OCI (70%) of the Fair Value Balance	1,088,500	(431,879)	82,062	738,683
Opening - Investment Cost as at 31st January 2022	2,500,000	8,720,000	20,000	11,240,000
Addition	-	-	-	-
Financial assets at cost as at 31st March 2022	2,500,000	8,720,000	20,000	11,240,000
Change in Fair Value as at 31st January 2022	1,555,000	(616,970)	117,232	1,055,262
Change in fair value in the Period	-	109,408	24,327	133,735
Financial assets at FVOCI as at 31 st December 2022	4,055,000	8,212,438	161,559	2,428,997
Fair Value Reserve Through OCI (70%) of the Fair Value Balance	1,088,500	(355,293)	99,091	832,299

Tanzania Mortgage Refinance Company (TMRC) is a specialized financial institution that provides long term funding to financial institutions for the purposes of mortgage lending. TMRC has the objective of supporting mortgage lending to institutions by refinancing the primary mortgage lenders' (PMLs) mortgage portfolio. Azania Bank Limited, one of the founding members, subscribed and injected TZS 2,000 million as ordinary shares at TZS 1,000 per share.

**The First Housing Finance (T) Limited is a Company that was formed solely with intention of issuing residential Mortgage loans in Tanzania. Following the acquisition of Bank M, Azania Bank acquired 40% of the shares of the First Housing Finance (T) Limited. Other shareholders of the company are Armut Limited, HDFC Investments Limited, International Finance Corporation (IFC), Washington and Sanjay Suchak.

***The Bank also has ownership right in Umoja Switch of 9%.

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

24

	Leasehold improvement TZS'000	Motor Vehicles TZS'000	Office furniture & equipment TZS'000	Office Computers TZS'000	Right of use of Asset TZS'000	Capital work in progress TZS'000	Total TZS'000
Cost							
As at 1 January 2022	11,065,140	2,803,690	7,582,826	2,344,465	13,097,315	136,281	37,029,717
Additions	416,340	-	625,025	258,028	1,025,871	1,464,459	3,789,723
Transfer	-	-	26,920	22,336	-	(49,256)	-
Modification of leases	-	-	-	-	(1,327,572)	-	(1,327,572)
Disposals	-	-	(91,033)	(45,798)	-	(61,725)	(198,556)
As at 31 December 2022	11,481,480	2,803,690	8,143,738	2,579,031	12,795,614	1,489,759	39,293,312
Accumulated depreciation							
As at 1 January 2022	(5,708,289)	(1,973,707)	(5,488,189)	(1,795,509)	(6,416,205)	-	(21,381,899)
Charge for the year	(1,179,916)	(343,190)	(753,006)	(232,504)	(1,974,865)	-	(4,483,481)
Modification of leases	-	-	-	-	1,119,922	-	1,119,922
Disposals	-	-	80,682	45,797	-	-	126,479
As at 31 December 2022	(6,888,205)	(2,316,897)	(6,160,513)	(1,982,216)	(7,271,148)	-	(24,618,979)
Net book value as at 31 December 2022	4,593,275	486,793	1,983,225	596,815	5,524,466	1,489,759	14,674,333

*-Purchase of property and equipment presented in the Statement of Cash flows of TZS 2,763.85 million excludes the right-of-use asset amount of TZS 1,025,871 million as presented above.

-TZS 49.26 million was transferred from work in progress account where TZS 26.92 million was accounted to Office furniture & equipment and TZS 22.34 million was accounted to Leasehold improvement.

Controller and Auditor General

AR/PA/ABL/2022

89

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

24 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Leasehold improvement	Motor Vehicles	Office furniture & equipment	Office Computers	Right of use of Asset	Capital work in progress	Total
	TZS'000	TZS'000	TZS'000	TZS'000		TZS'000	TZS'000
Cost							
As at 1 January 2021	10,985,809	2,953,690	6,943,500	2,164,315	13,006,418	609,446	36,663,178
Additions	54,173	-	227,557	155,439	1,511,128	136,281	2,084,578
Transfer	25,159	-	445,310	30,562	(1,420,231)	(501,031)	-
Modification of leases		(150,000)	(33,541)	(5,851)		(108,415)	(1,420,231)
Disposals							(297,807)
As at 31 December 2021	11,065,140	2,803,690	7,582,826	2,344,465	13,097,315	136,281	37,029,717
Accumulated depreciation							
As at 1 January 2021	(4,523,629)	(1,680,845)	(4,555,515)	(1,526,261)	(4,933,308)	-	(17,219,558)
Adjustment							
Charge for the year	(1,184,660)	(442,862)	(963,314)	(274,850)	(2,571,983)	-	(5,437,669)
Modification of leases	-	-	-	-	1,089,086	-	1,089,086
Disposals	-	150,000	30,640	5,602		-	186,242
As at 31 December 2021	(5,708,289)	(1,973,707)	(5,488,189)	(1,795,509)	(6,414,667)	-	(21,381,899)
Net book value as at 31 December 2021	5,356,852	829,983	2,094,637	548,956	6,682,648	136,281	15,647,818

*-Purchase of property and equipment presented in the Statement of Cash flows of TZS 573.45 million excludes the right-of-use asset amount of TZS 1,511.13 million as presented above.
-TZS 501.03 million was transferred from work in progress account where TZS 445.31 million was accounted to Office furniture & equipment, TZS 30.56 million to office computers and TZS 25.16 million was accounted to Leasehold improvement.

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

25	INTANGIBLE ASSETS		
	Cost	2022	2021
	As at 1st January	12,960,462	12,924,118
	Addition	64,888	36,344
	As at 31st December	13,025,350	12,960,462
	Accumulated amortization		
	As at 1st January	8,842,985	6,861,079
	Charge for the year	1,967,282	1,981,906
	As at 31st December	10,810,267	8,842,985
	Net book value as at 31 December	<u>2,215,083</u>	<u>4,117,477</u>

Intangible assets comprise of core banking system current in use and other peripheral systems used for day-to-day Bank operations.

		2022	2021
		TZS'000	TZS'000
26	INCOME TAX LIABILITY /(RECOVERABLE)		
	As at 1 January	(2,238,862)	(66,601)
	'Current year	820,933	-
	'Payments during the year	(777,177)	(2,172,261)
		<u>(2,195,106)</u>	<u>(2,238,862)</u>

During the year, the bank paid TZS 777.18 million out of TZS 820.93 million corporate tax incurred in 2022.

27. DEFERRED TAX

Deferred tax is calculated using the enacted tax rate of 30% except for capital gains, for which enacted rate of 5% is used (2021: 30% and 5%), respectively.

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

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

27. DEFERRED TAX (Continued)

Year ended 31st December 2022	As at 1st January 2022	(Credited)/charg ed to profit or loss	As at 31 st December 2022
	TZS'000	TZS'000	TZS'000
Deferred income tax asset			
Property, plant and equipment	1,315,665	24,755	1,423,660
General provisions	(4,289,081)	2,333,398	(1,955,683)
ECL-Other Assets	(160,121)	100,184	(59,937)
Provision for loan losses	(30,089,489)	7,759,696	(22,329,793)
ECL-Government Securities	(72,444)	40,613	(31,831)
ECL- Loans and advances to banks	(114,919)	(318,935)	(433,854)
Interest in Suspense	(14,289,451)	(1,479,212)	(15,768,663)
ECL-Bank Of Tanzania	(40,438)	40,438	-
Management gratuity	(105,100)	(63,681)	(168,781)
ECL-Banks Balances	(31,574)	25,791	(5,783)
Rent IFRS 16	(656,458)	121,386 -	(535,072)
Tax loss carried forward	(11,583,856)	(4,246,901)	(15,830,757)
	(60,117,266)	4,337,532	(55,696,494)
Other comprehensive income			
Available for sale Investment	(545,999)	40,121	(505,879)
Total From OCI	(545,999)	40,121	(505,879)
Net deferred tax liability/(asset)	(60,663,265)	4,377,653	(56,202,373)

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

27. DEFERRED TAX (Continued)

	As at 1st January 2021	(Credited)/charg ed to profit or loss	As at 31st December 2021
Year ended 31st December 2021			
Deferred income tax asset			
Property, plant and equipment	369,374	946,291	1,315,665
General provisions	(4,065,051)	(224,031)	(4,289,081)
ECL-Other Assets	(173,108)	12,986	(160,121)
ECL-Loans and Advances	(36,415,999)	6,326,511	(30,089,489)
ECL-Government Securities	(83,999)	11,555	(72,444)
ECL-loans and advances to banks	(140,540)	28,753	(111,787)
Interest in Suspense	(14,369,218)	79,767	(14,289,451)
ECL-Items in Course of Collection	(3,132)	(0)	(3,132)
ECL-Bank Of Tanzania	(217,002)	176,564	(40,438)
Management gratuity	(198,280)	93,180	(105,100)
ECL-Banks Balances	(39,782)	8,208	(31,574)
Rent IFRS 16	-	(656,458)	(656,458)
Tax loss carried forward	(5,875,304)	(5,708,552)	(11,583,856)
	(61,212,040)	1,094,774	(60,117,266)
Other comprehensive income			
Available for sale Investment	(576,247)	30,248	(545,999)
Total From OCI	(576,247)	30,248	(545,999)
Net deferred tax liability/ (asset)	(61,788,287)	1,125,022	(60,663,265)

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022 TZS'000	2021 TZS'000
28 OTHER ASSETS		
Sundry receivable*	5,722,944	11,999,297
Prepaid expenses	1,497,651	2,071,507
Collection account	19,512	14,118
Interbranch Accounts	(177,867)	(107,436)
ECL-Other Assets	(199,791)	(533,739)
Provision for other assets**	(116,277)	(371,767)
	6,746,172	13,071,980
Movement of provisions		
Opening balance	(533,739)	(577,025)
Charge during the year	333,948	43,286
	(199,791)	(533,739)
<p>*-Sundry receivable is made of claims the Bank is expecting to receive proceeds in the course of business as well deposits, the bank puts forward as it enters into an agreement with service providers.</p> <p>** - The provision for other assets relates to provision for actual cash losses which are normally recovered from insurance, but the Bank is not certain at the reporting date, whether will be paid. The settlement normally takes time.</p>		
29 LOANS AND ADVANCES FROM BANKS	2022 TZS'000	2021 TZS'000
Deposits from Banks	184,975,447	182,420,688
Accrued interest	1,212,520	712,535
	186,187,967	183,133,223
30 DEPOSITS FROM CUSTOMER		
Current accounts	312,162,949	146,365,749
Savings accounts	101,841,617	90,909,346
Term deposits	370,998,676	306,975,032
Other deposits	4,478,135	3,770,094
	789,481,377	548,020,221
31 REVOLVING CREDIT LINES		
Tanzania Mortgage Refinancing Company (TMRC)	15,700,000	15,700,000
National Social Security Fund	42,130,451	42,001,767
Public Service Social Security Fund	41,331,970	41,179,931
National Health Insurance Fund	15,064,674	15,000,338
Worker Compensation Fund	15,062,338	14,998,026
Bank of Tanzania	22,186,605	21,109,630
Accrued interest	1,334,795	1,386,132
	152,810,833	151,375,823

During the year, the bank contracted TZS 1,077 million from Bank of Tanzania for the purpose of enhancing its liquidity.

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

31 REVOLVING CREDIT LINES(CONTINUED)

	2022	2021
Movement of Revolving Credits Lines		
As of 1st January,	149,989,691	147,820,795
Addition during the year (Proceeds)	1,486,347	2,168,896
Accrued interest	1,334,795	1,386,132
As at 31 December	152,810,833	151,375,823

32 PAYABLES AND ACCRUALS

Accrued expenses	5,842,498	11,988,897
Staff bonus and gratuity	2,326,354	2,114,085
Other liabilities*	8,592,252	17,562,557
Lease Liability	5,351,732	6,393,137
	22,112,836	38,058,676

*- Other liabilities comprises of unclaimed funds, withholding taxes, other fees due and Value Added Tax (VAT)

LEASE LIABILITIES MOVEMENT

As at 1st January	6,393,137	7,619,672
Addition	1,025,871	1,511,128
Accrued Interest	658,803	757,804
Modification	(177,385)	(283,152)
Payment	(2,548,694)	(3,212,315)
As at 31st December	5,351,732	6,393,137

33 AUTHORISED SHARE CAPITAL
500,000,000 ordinary shares @ 1,000

TZS'000	TZS'000
500,000,000	500,000,000
500,000,000	500,000,000

34 ISSUED SHARE CAPITAL
185,432 ordinary shares @ 1,000

185,493,271	185,493,271
185,493,271	185,493,271

Movement of shares during the year were as follows:

As at 1st January

185,493,271	185,493,271
-------------	-------------

As at 31st December

185,493,271	185,493,271
--------------------	--------------------

35 Advance towards share capital

Advance Towards Equity

34,600	-
--------	---

As at 31st December

34,600	-
---------------	----------

AZANIA BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022****37 REGULATORY RESERVE**

As at 1 January	37,186,586	36,081,069
Appropriation from /(to) retained earnings	(9,366,720)	1,105,517
As at 31 December	27,819,866	37,186,586

Regulatory reserve represents an Amount set aside to cover additional provisions for loan losses required to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution and not part of the bank's core capital.

	2022	2021
	TZS'000	TZS'000
38. CASH AND CASH EQUIVALENT		
Cash balances	39,933,470	29,327,734
Foreign Exchange gains or losses on Investments*	124,654	214,243
Foreign Exchange gains or losses on financing*	67,122	107,569
Balances with Bank of Tanzania	12,694,609	8,296,432
Balances with other banks (maturities of 3 months or less)	92,846,769	46,587,191
Debt instruments maturing less than 3 months	25,874,344	39,500,000
	171,540,968	124,033,169

* Foreign Exchange gains or losses is due translational of currencies in cash and cash equivalents from investing and financing activities.

39. CAPITAL MANAGEMENT

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

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

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

The BOT requires each bank or banking group to:

- a) Hold the minimum level of the regulatory capital of TZS 15,000 million
- b) In accordance with the revised 2014 regulations, the Bank of Tanzania requires a bank to maintain at all times:
 - A Core Capital of not less than 10% (plus 2.5% capital conservation buffer) of total risk weighted assets, plus risk weighted off-balance sheet items; and
 - A Total Capital of not less than 12% (plus 2.5% capital conservation buffer) of its total risk weighted assets, plus risk weighted off-balance sheet items.

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

39. CAPITAL MANAGEMENT (Continued)

The Bank's regulatory capital is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings, other than reserves established to cushion the anticipated loss resulting from non-performing loans. Prepaid expenses and deferred charges are deducted in arriving at Tier 1 capital: and
- Tier 2 capital: qualifying subordinated loan capital and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

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

The table below summarises the composition of regulatory capital and the ratios of the bank for the year ended 31st December 2022. During the year under review, the Bank complied with the capital adequacy ratio, and the single borrower's limit.

	2022	2021
	TZS'000	TZS'000
CAPITAL ADEQUACY		
Ordinary share capital	185,493,271	185,493,271
Advance towards capital	34,600	-
Accumulated profit or loss	58,359,922	30,110,419
	243,887,793	215,603,690
Less		
Prepayments	1,497,651	2,071,507
Deferred charges	56,202,373	60,663,265
Total core capital	186,187,769	152,868,918
Tier 2 capital	-	-
Total capital	186,187,769	152,868,918
Total risk weighted assets	1,101,296,834	1,070,264,328
Core capital ratio	16.91%	14.28%
Total capital ratio	16.91%	14.28%

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

40. RELATED PARTY TRANSACTIONS AND DISCLOSURE

The shareholders of the Bank are disclosed in the directors' report. A few banking transactions such as loans and deposits are entered into with related parties in the normal course of business. The volumes of related party transactions and outstanding balances at the year-end are as follows:

	2022	2021
	TZS'000	TZS'000
Deposits from shareholders:		
National Social Security Fund (NSSF)	62,854,554	54,319,524
Public Service Social Security Fund	93,308,676	27,039,012
National Health Insurance Fund	12,500,000	8,500,000
Workers Compensation Fund	-	1,000,000
	168,663,229	90,858,536
Revolving - Borrowings:		
National Social Security Fund (NSSF)	42,130,452	42,001,767
Public Service Social Security Fund	41,331,970	41,179,931
Workers Compensation Fund	15,062,338	14,998,026
National Health Insurance Fund	15,064,674	15,000,338
	113,589,434	113,180,062
Loans:		
As at 1 January	697,775	631,943
New loans issued during the year	61,000	364,944
Repayments during the year	(270,996)	(299,112)
As at December	487,779	697,775
Benefits:		
Short term employee salaries	2,558,752	2,690,129
Other short term employment benefits	1,151,521	720,918
Directors' fees	135,272	130,917
	3,845,544	3,541,964

Key management personnel are having authority and responsibility for planning, directing, and controlling the activities of the Bank, directly or indirectly including any director of the Bank. All related party transactions were at arm's length and in a normal course of business, and on terms and conditions like those applicable to other customers except for staff loans whose interest rate was 5%. The exception is on Education loans which are interest free.

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

41. Fair value of financial assets and liabilities

Valuation methodology

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

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

Fair value hierarchy

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

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

The tables below show the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments not measured at fair value. The carrying amounts of other financial assets and financial liabilities not measured at fair value are a reasonable approximation of fair values because of the short-term nature of the financial assets and financial liabilities or they re-priced in the short run.

Financial assets	2022	2021	Hierarchy	Valuation technique and key inputs
Equity instruments	12,428,997	12,244,142	Level 3	Price-to-book value of equity multiples
Debt instruments	199,026,134	163,590,422	Level 2	Discounted cashflow;
Loans and advances to customers	974,007,910	920,697,559	Level 3	Market interest rate for similar instruments
	1,185,463,041	1,096,532,123		
Financial liabilities				
Deposits from customers	789,481,377	550,869,926	Level 2	Discounted cashflow;
Revolving credit lines	152,810,833	151,310,294	Level 3	Market interest rate for similar instruments
	942,292,210	702,180,220		

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

42. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk, market, and operational risks. The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework. The Board is ultimately responsible for all risks taken by the Bank. Furthermore, the Board puts in place written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important risks include.

- Credit risk,
- Market risk
- Liquidity risk and
- Operational risk.

These risks are explained in the following paragraphs.

42.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements, and acceptances.

Credit risk is the single largest risk for the Bank's business; the directors therefore carefully manage the exposure to credit risk. Having a clear understanding of the credit risk the Bank manages at management level by having subcommittee responsible to manage loan portfolio of the Bank. Furthermore, the Board of Directors has a specific committee for overseeing all credit process.

42.1.1 Credit risk measurement

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflect two components (i) the 'probability of default' by the client or counterparty on its contractual obligations and (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'. These credit risk measurements, which reflect expected loss (the 'expected credit loss model'), are embedded in the daily operational management and are in line with IFRS 9.

The Bank uses reasonable and supportable forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. External and internal information is used to generate a 'base case' (Best case, medium and worst case) scenario of future forecast of relevant economic variables such as GDP growth rate, lending rates, exchange rates and unemployment rates along with a representative range of other possible forecast scenarios.

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The key drivers of credit risks and credit losses for each portfolio of financial instruments were identified and documented and using a statistical analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses.

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.1 Credit risk measurement (Continued)

Bank's rating	Staging	Description of the grade
1	Stage 1	Current
2	Stage 2	Especially Mentioned
3	Stage 3	Sub-standard
4	Stage 3	Doubtful
5	Stage 3	Loss

The Bank has its internal credit rating tools tailored in accordance with the Bank of Tanzania (BOT) guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the credit risk assessment for each stage and impact of the Bank's financial statements.

	Stage 1 (performing loans)	Stage 2 (non-performing loans)	Stage 3 (non-performing loans)
Credit risk	Financial instruments with low credit risk at the reporting date or which have not had SICR	Financial instruments which have had a significant increase in credit risk since initial recognition but do not have objective evidence of a credit loss event.	Financial assets that have objective evidence of impairment at the reporting date
Recognition of expected credit losses	12 Month expected credit losses are recognized.	Lifetime expected credit losses are recognized.	Lifetime expected credit losses are recognized.
Recognition of interest	Interest revenue is calculated on the gross carrying amount of the asset.	Interest revenue is calculated on the gross carrying amount of the asset.	Interest revenue is calculated based on the amortized cost net of the loss provision, (net carrying amount).

42.1.1.1 Significant increase in credit risk

The Bank considers a debt instrument asset, loan commitments and financial guarantee contracts to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.1 Credit risk measurement (Continued)

42.1.1.1 Loans and advances to customers

i) Quantitative criteria

Based on quantitative review for the purpose of the expected credit losses calculations, loans and advances, loan commitments and financial guarantees shall be classified as follows;

- 0 - 30 days to be classified as Stage 1; Loans and advances, loan commitments and financial guarantees which are performing according to contracted terms and conditions with low credit risk at the reporting date with 12-month expected credit losses being recognised.
- 31 - 90 days to be classified as Stage 2; Loans and advances, loan commitments and financial guarantees which have had significant increase in credit risk since initial recognition but do not have objective evidence of credit loss event with lifetime expected credit losses being recognised.
- 91 days or more to be classified as Stage 3; Loans and advances, loan commitments and financial guarantees which have objective evidence of impairment at the reporting date with lifetime expected credit losses being recognized (credit-impaired assets).

ii) Qualitative criteria

For Personal Loans if the borrower meets one or more of the following criteria:

- Short-term forbearance or restructuring.
- Adverse changes of external data from credit references agencies.

For Corporate and SME portfolios, if the borrower is on the Watch list and/or the instrument meets one or more of the following criteria:

- (a) Significant adverse changes in business, financial and/or economic conditions in which the borrower operates.
- (b) Actual or expected forbearance or restructuring.
- (c) Actual or expected significant adverse change in operating results of the borrower.
- (d) Significant change in collateral value which is expected to increase risk of default.
- (e) Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans.
- (f) Significant adverse changes in political, regulatory, and technological environment of the borrowers or in its business activities.

42.1.1.2 Balances due from other banks

Below are qualitative factors considered as indicators of significant increase in credit risk;

- Significant counterparty management restructuring due to the continuous bad performance of the company.
- Significant adverse change in the regulatory, economic or technology of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.
- Significant reductions in financial support from a parent company that resulted to significant adverse change of operating results of the counterparty.

The Bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, groups, and industries. The Bank structure the levels of credit risk they undertake 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.

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

42.1 Credit risk (Continued)

42.1.1 Credit risk measurement (Continued)

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 weekly analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits, where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank deploys 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.

In order to minimize the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings on behalf of a customer authorizing a third party to draw drafts on a Bank up to a stipulated amount under specific terms and conditions - are collateralized 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 authorization 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 are potentially exposed to loss in amounts 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 monitor the term to maturity of credit commitments because longer-term commitments generally have more credit risk than shorter-term commitments.

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified and in particular, to individual counter parties and groups, and to industries. Limits on the level of credit risk by product and industry sector are approved quarterly by the Board of Directors.

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

42.1.3 Impairment and provisioning policies

The Expected Credit Loss allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss. The Bank's policies for determining if there has been a significant increase in credit risk are set out Note 6.7.

The impairment allowance recognised in the statement of financial position at year-end is driven from each of the five internal rating grades. However, the impairment allowance is composed largely of the performing class, which is current.

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

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.3 Impairment and provisioning policies (Continued)

The table below shows the percentage of the bank's loans and advances and the associated impairment allowance for each of the bank's internal rating categories.

Bank's rating	2022		2021	
	Credit risk exposure	Impairment allowance for each class	Credit risk exposure	Impairment allowance for each class
1. Current	68.04%	0.84%	67.37%	0.92%
2. Special monitoring	9.83%	0.35%	5.76%	0.04%
3. Sub-standard	6.42%	41.48%	5.26%	0.83%
4. Doubtful	9.94%	19.06%	11.39%	4.16%
5. Loss	5.77%	29.59%	10.21%	4.16%
	100.00%	6.88%	100.00%	10.11%

The directors are confident to have the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities in the foreseeable future. Basing on the available credit risk grading criteria, actual results as at 31st December 2022 were as follows:

- 77.87% of the loans and advances portfolio was categorized in the top two grades of the internal rating system (2021: 73.14%); and
- 68.04% of the loans and advances to customers are performing which are neither past due nor impaired (2021: 67.37%).

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.3 Impairment and provisioning policies (Continued)

The tables below summarize the financial assets grading and the respective provision.

	2022					2021				
	Loan and Advances to Customers	Loan and Advances to Banks	Debt instruments at amortized costs	Other financial Assets	Off-balance sheet*	Loan and Advances to Customers	Loan and Advances to Banks	Debt instruments at amortized costs	Other financial Assets	Off-balance sheet
Neither past due nor impaired	736,587,941	97,742,453	199,026,134	5,722,944	81,734,273	651,014,324	47,075,503	163,590,422	11,999,297	89,545,664
Past due but not impaired	106,452,416	-	-	-	-	55,696,632	-	-	-	-
Impaired	239,571,726	505,548	-	-	-	259,553,762	505,548	-	-	-
Gross amounts	1,082,612,083	98,248,001	199,026,134	5,722,944	81,734,273	966,264,718	47,581,051	163,590,422	163,590,422	89,545,664
Less: allowance for impairment**	(73,793,030)	(1,971,005)	(106,102)	(199,791)	(639,614)	(97,651,818)	(993,857)	(241,479)	(533,739)	(2,646,478)
Less: Interest in suspense	(52,562,210)	-	-	-	-	(47,631,504)	-	-	-	-
Net amounts	956,256,843	96,276,996	198,920,032	5,523,153	81,094,659	820,981,396	46,587,194	163,348,943	163,056,683	86,899,186

*Off balance sheet amounts above comprises of letter of credit and guarantee contracts. Analysis of gross amount has been presented in Note 43.

**Impairment for loans and advances to customers has been split for presentation purpose with ECL for off-balance sheet items as these are included within expected credit loss amounts presented in Note 22.

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.3 Impairment and provisioning policies (Continued)

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

2022	Individual (retail) customers			Corporate entities		Total loans and advances to customers	Total loans and advances to Banks
	Overdraft	Term loans	Overdraft	Term loan			
Internal grading: Standard (current)	20,615,110	310,400,234	109,030,657	296,541,940	736,587,941	97,742,453	
Especially mentioned	174,211	4,130,323	638,118	101,509,764	106,452,416	-	
Total	20,789,321	314,530,557	109,668,775	398,051,704	843,040,357	97,777,513	
2021	Individual (retail) customers			Corporate entities		Total loans and advances to customers	Total loans and advances to Banks
	Overdraft	Term loans	Overdraft	Term loan			
Internal grading: Standard (current)	14,739,273	143,846,283	101,181,062	391,247,705	651,014,323	47,075,503	
Especially mentioned	706,854	2,001,627	29,675,064	23,313,087	55,696,632	-	
Total	15,446,127	145,847,910	130,856,126	414,560,792	706,710,955	47,075,503	

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.3 Impairment and provisioning policies (Continued)

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary.
Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	2022	Individual /retails		Corporate entities		Total
		Overdrafts TZS'000	Term loans TZS'000	Overdrafts TZS'000	Term loans TZS'000	
Past due up to 30 days		6,505,615	42,488,244	66,616,344	79,232,420	194,842,623
Past due 30 - 60 days		544,941	23,069,719	43,222,623	35,206,573	102,043,856
Past due 60 - 90 days		366,247	19,169,940	2,370,184	66,817,425	88,723,796
Total		7,416,803	84,727,903	112,209,151	181,256,418	385,610,275

	2021	Individual /retails		Corporate entities		Total
		Overdrafts TZS'000	Term loans TZS'000	Overdrafts TZS'000	Term loans TZS'000	
Past due up to 30 days		15,518,057	58,476,949	56,120,606	12,959,790	143,075,402
Past due 30 - 60 days		794,004	6,914,748	1,168,250	11,478,411	20,355,413
Past due 60 - 90 days		377,628	4,451,463	503,757	35,497,378	40,830,226
Total		16,689,689	69,843,160	57,792,613	59,935,579	204,261,041

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.4 Concentration of risks of financial assets with credit risk exposure (Continued)

(a) Geographical sectors (Continued)

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as categorized by geographical region as of 31 December 2021. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counter parties.

	Tanzania TZS '000	Europe TZS '000	America TZS '000	Others TZS '000	Total TZS '000
Cash and balances with the Bank of Tanzania	77,856,650				77,856,650
Loans and advances to banks	81,104,990	4,652,512	12,255,849	234,650	98,248,001
Debt instruments at amortized cost	199,026,134	-	-	-	199,026,134
Loans and advances to customers:					
Loans to individuals: - Overdrafts	26,770,239	-	-	-	26,770,239
Loans to individuals: - Term loans	234,306,242	-	-	-	234,306,242
Loans to corporate entities - Overdraft	166,515,255	-	-	-	166,515,255
Loans to corporate entities - Term loans	655,020,347	-	-	-	655,020,347
Other assets	5,608,003	-	-	-	5,608,003
Letter of Credit and Bank Guarantee	81,734,273	-	-	-	81,734,273
As at 31 December 2022	1,527,942,133	4,652,512	12,255,849	234,650	1,545,085,144
Cash and balances with the Bank of Tanzania	37,811,184				37,811,184
Loans and advances to banks	36,307,593	686,601	9,376,552	216,448	46,587,194
Debt instruments at aromatized cost	163,348,943	-	-	-	163,348,943
Loans and advances to customers:					
Loans to individuals - Overdrafts	18,042,018	-	-	-	18,042,018
Loans to individuals- Term loans	203,570,073	-	-	-	203,570,073
Loans to corporate entities- Overdraft	214,091,654	-	-	-	214,091,654
Loans to corporate entities- Term loans	519,904,658	-	-	-	519,904,658
Other assets	11,000,471	-	-	-	11,000,471
Letter of Credit and Bank Guarantee	89,545,663	-	-	-	89,545,663
As at 31 December 2021	1,293,622,257	686,601	9,376,552	216,448	1,303,901,858

AZANIA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.4 Concentration of risks of financial assets with credit risk exposure (Continued)

(a) Geographical sectors

The following table breaks down the Bank's ECL amount for credit exposure as categorized by geographical region as of 31 December.

	Tanzania TZS'000	Europe TZS'000	America TZS'000	Others TZS'000	Total TZS'000
Cash and balances with the Bank of Tanzania	-	-	-	-	-
Loans and advances to banks	1,627,090	93,336	245,871	4,707	1,971,005
Debt instruments at amortised cost	106,102	-	-	-	106,102
Loans and advances to customers:					
Loans to individuals: - Overdrafts	833,841	-	-	-	833,841
Loans to individuals: - Term loans	11,547,919	-	-	-	11,547,919
Loans to corporate entities - Overdraft	18,475,886	-	-	-	18,475,886
Loans to corporate entities - Term loans	42,935,383	-	-	-	42,935,383
Other assets	199,791	-	-	-	199,791
Letter of Credit and Bank Guarantee	639,614	-	-	-	639,614
As at 31 December 2022	76,365,626	93,336	245,871	4,707	76,709,541
Cash and balances with the Bank of Tanzania	134,794	-	-	-	134,794
Loans and advances to banks	774,560	14,417	200,263	4,618	993,858
Debt instruments at amortised cost	241,479	-	-	-	241,479
Loans and advances to customers:					
Loans to individuals - Overdrafts	911,322	-	-	-	911,322
Loans to individuals- Term loans	14,631,145	-	-	-	14,631,145
Loans to corporate entities- Overdraft	34,448,717	-	-	-	34,448,717
Loans to corporate entities- Term loans	47,660,633	-	-	-	47,660,633
Other assets	533,739	-	-	-	533,739
Letter of Credit and Bank Guarantee	2,646,478	-	-	-	2,646,478
As at 31 December 2021	101,982,867	14,417	200,263	4,618	102,202,165

AZANIA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.4 Concentration of risks of financial assets with credit risk exposure(Continued)

(a) Industry sectors

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as categorised by industry sectors as of 31 December 2022.

	Financial institutions TZS'000	Manufacturing TZS'000	Trading and commercial TZS'000	Transport and communication TZS'000	Government TZS'000	Individuals TZS'000	Others TZS'000	Total TZS'000
Cash and balances with the Bank of Tanzania	77,856,650	-	-	-	-	-	-	77,856,650
Loans and advances to banks	98,248,001	-	-	-	-	-	-	98,248,001
Debt instruments at amortized cost	4,200,000	-	-	-	194,826,134	-	-	199,026,134
Loans to Individuals -Overdrafts	-	1,669,982	16,422,031	82,610	-	3,999,154	4,596,462	26,770,239
Loans to Individuals -Term loans	-	294,961	31,520,153	154,453	-	85,535,807	116,800,868	234,306,242
Loans to Corporate entities - Overdrafts	-	19,896,751	63,447,292	8,488,967	-	-	74,682,245	166,515,255
Loans to Corporate entities -Term loans	-	118,289,011	239,466,921	19,105,782	-	-	278,158,633	655,020,347
Other assets	-	-	-	-	-	-	5,608,003	5,608,003
Letter of Credit and Bank Guarantee	-	758,593	3,899,676	393,364	-	-	76,682,640	81,734,273
As at 31 December 2022	180,304,651	140,909,298	354,756,073	28,225,176	194,826,134	89,534,961	556,528,851	1,545,085,144

AZANIA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.4 Concentration of risks of financial assets with credit risk exposure (Continued)

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by industry sectors as of 31 December 2021.

Description	Financial institutions	Manufacturing	Trading and commercial	Transport and communication	Government	Individuals	Others	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cash and balances with the Bank of Tanzania	37,811,184	-	-	-	-	-	-	37,811,184
loans and advances to banks	46,587,194	-	-	-	-	-	-	46,587,194
Debt instruments at amortized cost	4,200,000	-	-	-	159,148,943	-	-	163,348,943
Loans to Individuals -Overdrafts	-	322,368	9,676,858	319,091	-	2,255,486	5,468,215	18,042,018
Loans to Individuals -Term loans	-	451,200	53,461,121	353,757	-	48,752,076	100,551,919	203,570,073
Loans to Corporate entities -Overdrafts	-	55,479,101	60,594,037	8,966,324	-	-	89,052,192	214,091,654
Loans to Corporate entities -Term loans	-	76,927,123	186,330,116	10,381,252	-	-	246,266,167	519,904,658
Other assets	-	-	-	-	-	-	11,000,471	11,000,471
Letter of Credit and Bank Guarantee	-	5,813,932	1,605,355	921,533	-	-	81,204,843	89,545,663
As at 31 December 2021	88,598,378	138,993,724	311,667,487	20,941,957	159,148,943	51,007,562	533,543,807	1,303,901,858

AZANIA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.4 Concentration of risks of financial assets with credit risk exposure(Continued)

(b) Industry sectors

(c) The following table breaks down the Bank's ECL for the exposure as categorized by industry sectors as of 31 December.

	Financial institutions	Manufacturing	Trading and commercial	Transport and communication	Government	Individuals	Others	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Loans and advances to banks	1,971,005	-	-	-	-	-	-	1,971,005
Debt instruments at amortised cost	106,102	-	-	-	-	-	-	106,102
Loans to Individuals -Overdrafts	-	43	608,808	37,790	-	172,910	14,290	833,841
Loans to Individuals -Term loans	-	1,064	1,137,782	6,801	-	6,252,125	4,150,147	11,547,919
Loans to Corporate entities -Overdrafts	-	765,721	10,223,106	469,656	-	-	7,017,403	18,475,886
Loans to Corporate entities -Term loans	-	7,785,404	16,686,498	3,025,278	-	-	15,438,203	42,935,383
Other assets	-	-	-	-	-	-	199,791	199,791
Letter of Credit and Bank Guarantee	-	3,502	18,829	6,764	-	-	610,519	639,614
As at 31 December 2022	2,077,107	8,555,734	28,675,023	3,546,289	-	6,425,035	27,430,353	76,709,541
Cash and balances with the Bank of Tanzania	134,794	-	-	-	-	-	-	134,794
loans and advances to banks	993,858	-	-	-	-	-	-	993,858
Debt instruments at amortized cost	241,479	-	-	-	-	-	-	241,479
Loans to Individuals -Overdrafts	-	5,033	352,077	-	-	245,583	308,629	911,322
Loans to Individuals -Term loans	-	324	2,268,651	1,048	-	7,532,220	4,828,902	14,631,145
Loans to Corporate entities -Overdrafts	-	2,286,536	10,090,233	83,142	-	-	21,988,806	34,448,717
Loans to Corporate entities -Term loans	-	5,044,776	20,557,367	1,078,923	-	-	20,979,567	47,660,633
Other assets	-	-	-	-	-	-	533,739	533,739
Letter of Credit and Bank Guarantee	-	3,719	63,703	-	-	-	2,579,056	2,646,478
As at 31 December 2021	1,370,131	7,340,388	33,332,031	1,163,113	-	7,777,803	51,218,699	102,202,165

AZANIA BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk

Market risk is the risk where the changes in market prices - e.g., interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) - will affect the Bank's income or the value of its holdings of financial instruments. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates. The objective of the bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the bank's solvency while optimising the return on risk. The Bank separates exposures to market risk into either trading or non-trading portfolios. The market risks arising from trading and non-trading activities are monitored regularly in the bank's treasury and capital market department. The Bank has Assets and Liabilities Management Committees that is entrusted with mandate to manage market risk with at least quarterly reports being submitted to the Board of Directors for deliberation and guidance.

42.2.1 Foreign exchange risk

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

AZANIA BANK LIMITED

**FOR THE YEAR ENDED 31 DECEMBER 2022
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (Continued)

42.2.1 Foreign exchange risk (Continued)

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2022. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

At 31 December 2022	USD	GBP	EURO	Others	Total
Assets					
Cash and balances with Bank of Tanzania	16,267,368	28,461	1,919,588	42,272	18,257,688
Loans advances to banks	12,224,402	597,392	4,055,120	-	16,876,914
Debt instruments at amortized cost	-	-	-	-	-
Loans and advances to customers	316,510,923	-	-	-	316,510,923
Other assets	3,642,749	31	-	-	3,642,780
Total assets	348,645,442	625,884	5,974,708	42,272	355,288,306
Liabilities					
Loans and Advances from banks	92,493,606	-	4,940,551	-	97,434,157
Deposits from customers	143,775,847	615,065	4,483,488	12	148,874,412
Revolving credit lines	38,589,434	-	-	-	38,961,834
Other liabilities	6,489,142	-	-	-	6,489,142
Total liabilities	281,348,029	615,065	9,424,039	12	291,387,145
Net balance sheet position	67,297,413	10,819	(3,449,331)	42,260	63,901,161

AZANIA BANK LIMITED

**FOR THE YEAR ENDED 31 DECEMBER 2022
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (Continued)

42.2.1 Foreign exchange risk (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2021. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

At 31 December 2021	USD	GBP	EURO	Others	Total
Assets					
Cash and balances with Bank of Tanzania	8,579,502	368,691	3,856,421	37,334	12,841,948
loans advances to banks	9,297,605	309,995	376,606	-	9,984,206
Debt instruments at amortized cost	-	-	-	-	-
Loans and advances to customers	341,301,224	-	876,331	-	342,177,555
Other assets	2,126,781	34	-	-	2,126,815
Total assets	361,305,112	678,720	5,109,358	37,334	367,130,524
Liabilities					
Loans and Advances from banks	83,312,362	-	1,309,876	-	84,622,238
Deposits from customers	89,553,903	638,721	1,996,960	1	92,189,585
Revolving credit lines	38,180,062	-	-	-	38,180,062
Other liabilities	6,853,466	-	-	-	6,853,466
Total liabilities	217,899,793	638,721	3,306,836	1	221,845,351
Net balance sheet position	143,405,319	39,999	1,802,522	37,333	145,285,173

AZANIA BANK LIMITED

**FOR THE YEAR ENDED 31 DECEMBER 2022
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (Continued)

42.2.1 Foreign exchange risk (Continued)

42.2.1 Sensitivity analysis

As at 31 December 2022, the bank had significant exposures on United States dollars and Euro as below;.

DESCRIPTION	2022 TZS '000		2021 TZS '000	
	USD	EUR	USD	EUR
Exchange rate at 31 December	2.33	2.79	2.31	2.79
Assets	348,645,442	625,884	361,305,112	10,506,407
Liabilities	281,348,029	615,065	217,899,793	3,301,276
Net balance sheet position	67,297,413	10,819	143,405,319	7,205,131
Rate depreciated by 10%	2.33	2.79	2.31	2.79
Profit / (Loss)-TZS	6,729,741	1,082	14,340,532	720,513
Rate appreciated by 10%	(0.23)	(0.28)	(0.23)	(0.28)
Profit/(Loss)-TZS	(6,729,741)	(1,082)	(14,340,532)	(720,513)

If Tanzanian Shillings had weakened/strengthened by 10% against United States dollar with all variables held constant, the pre-tax profit would have been higher/lower by TZS 6,730 million (2021: TZS 14,340 million).

If Tanzanian Shillings had weakened/strengthened by 10% against EURO, with all variables held constant, the pre-tax profit would have been lower/higher by TZS 1.08 million (2021: TZS 721 million).

42.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by bank.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not bear any interest rate risk on off Statement of Financial Position items.

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (Continued)

42.2.2 Interest rate risk (Continued)

At 31 December 2022	Up to 1 month TZS'000	1 -6 months TZS'000	6- 12 months TZS'000	1 -5 years TZS'000	re than 5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
Assets							
Cash and balances with Bank of Tanzania	-	-	-	-	-	77,856,650	77,856,650
Loans and advances to banks	75,065,288	8,408,432	-	-	-	12,803,276	96,276,996
Debt instruments at amortised cost	9,499,584	46,374,760	34,000,000	15,700,000	90,447,496	2,898,192	198,920,032
Loans and advances to customers	134,330,083	153,916,997	65,832,461	296,098,373	233,945,725	71,493,590	955,617,229
Equity Instruments at fair value through Other Comprehensive Income	-	-	-	-	-	12,428,997	12,428,997
Other assets	-	-	-	-	-	82,033,067	82,033,067
Total assets	218,894,955	208,700,189	99,832,461	311,798,373	324,393,221	259,513,772	1,423,132,971
Liabilities							
Loans and Advances from banks	184,975,447	-	-	-	-	1,212,520	186,187,967
Deposits from customers	134,278,089	160,725,339	146,507,891	17,998,380	-	329,971,678	789,481,377
Revolving credit lines	41,959,056	93,816,982	6,500,000	9,200,000	-	1,334,795	152,810,833
Convertible loan stock	-	-	-	-	-	-	-
Accounts payable and accruals	-	-	-	-	-	22,112,836	22,112,836
Total liabilities	361,212,592	254,542,321	153,007,891	27,198,380	-	354,631,829	1,150,593,013
Interest repricing gap	(142,317,637)	(45,842,132)	(53,175,430)	284,599,993	324,393,221	(95,118,057)	272,539,958

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (Continued)

42.2.2 Interest rate risk (continued)

	Up to 1 month TZS'000	1 -6 months TZS'000	6- 12 months TZS'000	1 -5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
At 31 December 2021						
Assets						
Cash and balances with Bank of Tanzania	-	-	-	-	37,811,184	37,811,184
Loans and advances to banks	28,162,832	9,518,286	-	-	8,906,076	46,587,194
Debt instruments at amortised cost	7,567,956	40,492,960	59,653,203	53,585,694	2,049,130	163,348,943
Loans and advances to customers	128,080,666	193,245,385	84,192,649	293,392,341	119,423,878	818,334,919
Equity Instruments at fair value through Other					12,295,262	12,295,262
Comprehensive income						
Other assets	-	-	-	-	95,739,400	95,739,400
Total assets	163,811,453	243,256,632	143,845,852	346,978,035	276,224,930	1,174,116,902
Liabilities						
Loans and Advances from banks	70,955,930	111,464,758	-	-	-	183,133,223
Deposits from customers	258,244,073	140,236,574	128,594,522	5,103,747	15,841,305	548,020,221
Revolving credit lines	-	14,500,000	135,489,691	-	1,386,132	151,375,823
Accounts payable and accruals	-	-	-	-	38,058,676	38,058,676
Total liabilities	329,200,004	266,201,332	264,084,213	5,103,747	55,998,648	920,587,943
Interest repricing gap	(165,388,550)	(22,944,700)	(120,238,361)	341,874,289	220,226,282	253,534,364

AZANIA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (continued)

42.2.2 Interest rate risk (continued)

- **Interest rate sensitivity**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, if the interest rates prevailing during the year shifted by 2% the bank's profitability would be reduced/improved by TZS 3,763 million (2021: TZS 3,781 million) due to increase/decrease in annual interest expenses.

	2022	2021
	TZS'000	TZS'000
Assets re-pricing after 6 months	427,595,144	407,068,085
Liabilities re-pricing after 6 months	615,754,913	596,113,870
Interest rate Gap	<u>(188,159,769)</u>	<u>(189,045,786)</u>
Impact of interest rate rise by additional 2%	<u>(3,763,195)</u>	<u>(3,780,916)</u>
Impact on core Capital	<u>(2,634,237)</u>	<u>(2,646,641)</u>

42.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

42.3.1 Liquidity risk management process

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

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

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Liquidity risk (Continued)

Monitoring and reporting normally 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.

The Bank also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

42.3.2 Funding approach

Sources of liquidity are regularly reviewed by a separate Bank Treasury team to maintain a wide diversification by currency, geography, fund provider, product, and term.

The table below summarises the assets and liabilities according to when they are expected to be recovered.

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Liquidity risk (Continued)

42.3.2 Funding approach (Continued)

At 31 December 2022	1-3 months TZS'000	3-6 months TZS'000	6- 12 months TZS'000	1-5 years TZS'000	More than 5 years TZS'000	Total TZS'000
Assets						
Cash and balances with Bank of Tanzania	52,819,855	-	-	25,036,795	-	77,856,650
Loans and advances to banks	92,846,769	1,785,227	1,645,000	-	-	96,276,996
Loans and advances to customers	196,834,116	65,353,401	103,960,412	297,776,088	291,693,212	955,617,229
Debt instruments at amortised cost	25,874,344	47,060,413	34,502,692	15,932,125	75,550,458	198,920,032
Equity instruments at fair value through Other Comprehensive Income					12,428,997	12,428,997
Other assets	5,722,944	-	-	-	76,310,123	82,033,067
LCs, Guarantee	81,094,659	-	-	-	-	81,094,659
Total financial assets	455,192,687	114,199,041	140,108,104	338,745,008	455,982,790	1,504,227,630
Liabilities						
Loans and Advances from banks	186,187,967	-	-	-	-	186,187,967
Deposits from customers	527,314,129	97,660,977	146,507,891	17,998,380	-	789,481,377
Revolving credit lines	60,817,056	76,293,777	6,500,000	9,200,000	-	152,810,833
Other liabilities	16,761,104	-	-	-	-	16,761,104
Total financial liabilities	791,080,256	173,954,754	153,007,891	27,198,380	-	1,145,241,281
Net liquidity gap	(335,887,569)	(59,755,713)	(12,899,787)	311,546,628	455,982,790	358,986,349

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Liquidity risk (Continued)

At 31 December 2021	1-3 months TZS'000	3-6 months TZS'000	6- 12 months TZS'000	1-5 years TZS'000	More than 5 years TZS'000	Total TZS'000
Assets						
Cash and balances with Bank of Tanzania	37,811,184	-	-	-	-	37,811,184
Loans and advances to banks	28,162,832	9,518,286	-	-	8,906,076	46,587,194
Loans and advances to customers	128,080,666	193,245,385	84,192,649	293,392,341	119,423,878	818,334,919
Debt instruments at amortised cost	7,567,956	40,492,960	59,653,203	55,395,129	-	163,109,248
Equity Instruments at fair value through Other	-	-	-	-	12,244,142	12,244,142
Comprehensive Income	11,999,297	-	-	-	83,740,105	95,739,402
Other assets	81,962,199	-	-	4,936,987	-	86,899,185
LCs, Guarantee	295,584,134	243,256,632	143,845,852	353,724,457	224,314,201	1,260,725,275
Total financial assets						
Loans and Advances from banks	70,955,930	112,177,293	-	-	-	183,133,223
Deposits from customers	258,244,073	140,236,574	128,594,522	5,103,747	15,841,305	548,020,221
Revolving credit lines	-	14,500,000	134,613,032	-	2,197,262	151,310,294
Other liabilities	31,665,539	-	-	-	-	31,665,539
Total financial liabilities	360,865,542	266,913,867	263,207,554	5,103,747	18,038,567	914,129,277
Net liquidity gap	(65,281,408)	(23,657,236)	(119,361,702)	348,620,710	206,275,634	346,595,998

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

43. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of the customers, the bank enters various irrevocable commitments and contingent liabilities. This comprises of financial guarantees, letters of credit (LCs) and commitments to lend. These obligations are not recognized on the statement of financial position; they contain the credit risk and, therefore form part of the overall risk of the bank.

Letters of credit and guarantee (including standby letters of credit) commit the bank to make payments on behalf of customers in the event of specific act and generally related to the import or export of goods. Guarantees and letters of credit carry a similar credit risk to loans and advances. The nominal values of such commitments are listed below:

43.1. Loan commitment guarantees and other facilities

At 31 December 2022, the Bank had the contractual amount of the off Statement of Financial Position financial instruments that commit it to extend credit to customers, guarantees and letters of credit as follows:

	No later than 1 year TZS 000	1-5 years TZS 000	Over 5 years TZS 000	Total TZS 000
As at 31 December 2022				
Loan commitments	47,555,742	-	-	47,555,742
Letters of credit and guarantees	34,178,531	-	-	34,178,531
ECL for guarantees and Letter of Credit	(639,614)	-	-	(639,614)
Total	81,094,659	-	-	81,094,659
	No later than 1 year TZS 000	1-5 years TZS 000	Over 5 years TZS 000	Total TZS 000
As at 31 December 2021				
Loan commitments	77,232,019	4,936,987	-	82,169,006
Letters of credit and guarantees	7,376,658	-	-	7,376,658
ECL for guarantees and Letter of Credit	(2,646,478)	-	-	(2,646,478)
Total	81,962,199	4,936,987	-	86,899,185

i) Undrawn commitments

The table below shows the credit quality and maximum exposure to credit risk based on the bank's internal credit rating system and year end stage classification of undrawn commitments.

Descriptions (TZS'000)	Stage 1	Stage 2	Stage 3	Total
Performing:				
Current category	44,777,296	-	-	44,777,296
Especially mentioned		110,701		110,701
At 31 December 2022	44,777,296	110,701	-	44,887,997
	Stage 1	Stage 2	Stage 3	Total
Performing:				
Current category	15,897,490	-	-	15,897,490
At 31 December 2021	15,897,490	-	-	15,897,490

AZANIA BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022****43. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****ii) Undrawn commitments (Continued)**

The table below shows the analysis of changes in gross amount of undrawn commitments during the year:

Descriptions (TZS'000)	Stage1	Stage2	Stage3	Total
Gross carrying amount as at 1 January 2022	15,897,490	-	-	15,897,490
New assets originated or purchased	42,479,993	110,701	-	42,590,694
Exposures derecognized/ matured	(13,600,187)	-	-	(13,600,187)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
At 31 December 2022	44,777,296	110,701	-	44,887,997
Descriptions (TZS'000)	Stage1	Stage2	Stage3	Total
Gross carrying amount as at 1 January 2021	28,475,581	323,543	-	28,799,124
New assets originated or purchased	11,767,617	-	-	11,767,617
Exposures derecognized/ matured	(24,574,091)	(95,160)	-	(24,669,251)
Transfer to stage 1	228,383	(228,383)	-	-
Transfer to stage 2	-	-	-	-
At 31 December 2021	15,897,490	-	-	15,897,490

ECL allowance for undrawn commitments has been included within ECL for loans and advances to customers due to challenges of separating them.

43.2. Contingencies**Legal claims**

As of 31 December 2022, the Bank was a defendant in several lawsuits. The plaintiffs are claiming damages and interest thereon for the alleged loss caused by the Bank due to breach of the contracts and loss of businesses. The Directors are of the opinion that no significant liabilities will arise from these claims.

43.3. Capital commitments

The capital commitments relate to ongoing activities being contracted and approved. As of 31st December 2022, were nil.

AZANIA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

44. COMPARATIVES

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

45. SUBSEQUENT EVENTS

There were no other events after the reporting period which require adjustment to or disclosure in the financial statements.