BOA BANK - **TANZANIA**

2007 ANNUAL REPORT

BOA BANK TANZANIA

GROUPE BANK OF AFRICA

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BOA BANK - TANZANIA

BOA BANK - TANZANIA is the most recent member of the Group as it started operating under the BANK OF AFRICA brand at the end of 2007. Set up after the BOA Group's acquisition of a subsidiary of BANQUE BELGOLAISE, BOA BANK - TANZANIA is the third bank in a regional sub-group comprising BOA-KENYA and BOA-UGANDA.

The photography for this year's BANK OF AFRICA Group annual reports has taken the theme of nature, and illustrates the immense wealth of Africa's flora, fauna and landscapes, fashioned by the continent's extraordinary climatic, geological and biological diversity. It attempts, in these few images, to capture the wonderful variety of the land — a land which, when cultivated by men, gives the best of itself, in a thousand different ways depending on the region.

Group Banks and Subsidiaries in 2007

10 COMMERCIAL BANKS AND THEIR BRANCHES

BOA-BENIN	9	◆ Cotonou	8	▲	Azové, Abomey-Calavi, Bohicon, Dassa-Zoumé, Djougou, Parakou, Porto-Novo, Ouando (Porto-Novo).
BOA-BURKINA FASO	5	◆ Ouagadougou	4	▲	Bobo-Dioulasso, Fada, Koupéla, Pouytenga.
BOA-COTE D'IVOIRE	8	◆ Abidjan	1	▲	San Pedro.
BOA-KENYA	4	◆ Nairobi	1	▲	Mombasa.
BOA-MADAGASCAR	13	◆ Antananarivo	41	▲	Spread over the whole country.
BOA-MALI	6	◆ Bamako	4	▲	Kayes, Koulikoro, Koutiala, Sikasso.
			2	▲	Morila (Sikasso), Sadiola (Kayes).
			1	●	Paris.
BOA-NIGER	4	◆ Niamey	4	▲	Agadez, Dosso, Maradi, Tillaberi.
BOA-SENEGAL	6	◆ Dakar	1	▲	Touba.
BOA BANK-TANZANIA	4	◆ Dar es Salaam			
BOA-UGANDA	5	◆ Kampala	2	▲	Jinja, Arua.
GIE GROUPE BANK OF AFRICA		● Paris			

1 HOUSING FINANCE BANK

BANQUE DE L'HABITAT DU BENIN	1	◆ Cotonou			

3 LEASE FINANCE COMPANIES

EQUIPBAIL-BENIN		● Cotonou			
EQUIPBAIL-MADAGASCAR		● Antananarivo			
EQUIPBAIL-MALI		● Bamako			

1 FIRM OF STOCKBROKERS

ACTIBOURSE		● Cotonou	1	●	Abidjan: liaison office

2 INVESTMENT COMPANIES

AGORA		● Abidjan			
ATTICA		● Cotonou			

1 INFORMATION TECHNOLOGY SUBSIDIARY

AISSA		● Cotonou			

◆ Branches ▲ Regional branches ▲ Local branch ● Head office ● Representative office

Group strong points

Quality of customer service

Dynamism and

Financial solidity and cohesion

Expertise in financial engineering

A STRONG NETWORK

- Over 2,000 people, at your service.
- More than 130 dedicated operating and production sites in 11 countries, excluding affiliated partners.
- Major holding in several life insurance companies.
- A strategic banking partner, BMCE, Morocco's second-ranking private bank.
- Corporate partners, including:

PROPARCO, INTERNATIONAL FINANCE CORPORATION (IFC - WORLD BANK GROUP), WEST AFRICAN DEVELOPMENT BANK (BOAD), NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO), AUREOS EAST AFRICA FUND LLC, AND BELGIUM INVESTMENT COMPANY FOR DEVELOPING COUNTRIES (BIO).

CONTINUOUS GROWTH FOR 25 YEARS

- Over 500,000 bank accounts.
- A fleet of Automated Teller Machines and Electronic Payment Terminals.

A WIDE AND VARIED OFFER

- Full range of banking and financial services.
- Attractive range of life insurance policies.
- Strong regional network.

UNIQUE EXPERIENCE IN AFRICA

- 25 years' experience in Africa.

availability of staff

of the network

Diversity, with a wide range of financing solutions

GROUP TOTAL TURNOVER IN 2007

± 200 million €

Main products of BOA BANK - TANZANIA

BOA ENGLISH SPEAKING NETWORK		BOA BANK - TANZANIA	
Accounts	Current Account	(Local & Foreign Currency)	●
	Remunerated Current Account		●
Investment Products	Call Deposits Account		●
	Chama Account		
	Children Savings Account		
	Family Savings Account	"Dira"	●
	Ero Savings Account		
	Gold Plus Account		
	Investment Plan Account	"Prime Investment Plan"	●
	Ordinary Savings Account		●
	Premium Plus Fixed Deposit		
	Schools Fees Account		
	Senior Citizen Fixed Deposit		
	SESAME Savings Account		
	Student Investment Teams		●
	Term Deposit		●
Electronic Banking	BOA On Line		
	B-Web		●
	SESAME ATM Card	(Umoja Switch Network)	●
Loans	2 in 1 loan		
	Bridging Overdraft		●
	Instant Cash		
	Personal Loans		●
	Salary Advance	"Prime Card"	●
	Schools Fees Loan		
	Super Kikapu		
BOA Company Services	BOA-TANZANIA also offers a wide range of products and services to Corporates, SMEs, Organizations, Institutions, Professionals and Individuals.		●
Transfers and Changes	Foreign Exchange		●
	Moneygram		
	Travellers Cheques		●
	Western Union		
Complementary Products & Services	Banker's Cheques		●

Annual Report 2007

Kilimandjaro snow. © M & C Denis-Huaut

Comments from the Managing Director

Helichrysum brownei. Mt Kilimandjaro "Upper Moorland Zone". © M & C Denis-Huaut

Tanzania's 2007 economic performance has shown good improvement, supported by prudent macroeconomic policies and far reaching structural reforms. The economy is estimated to have grown by 6.7% in 2006 and it is estimated that for 2007 the growth rate exceeded 7.0%. Inflation rate has remained above the country's medium term target of 6%, mainly due to high inflation expectations triggered by the rising domestic oil prices reflecting the world market prices and increase in global food prices. In monitoring financial market development, the Central Bank took steps to foster competitive bidding in Treasury bill auctions. It reduced the frequency of Treasury bills and bonds auctioning. Besides influencing competitive bidding in the Treasury bills market, and thus reducing interest rates on Treasury bills and bonds, the move is also expected to steer trading of securities in the secondary market. The economy has also experienced the Tanzanian shilling consistently losing value against the dollar, though the latter was depreciating rapidly. However, during the last quarter of 2007 the value of shilling started regaining its value with its exchange rate appreciating from an average of TZS 1,277.43 per US dollar in July 2007 to an average of TZS 1,165.15 in December 2007.

BOA BANK-TANZANIA (BOA-TANZANIA) enjoyed a relatively good year of sustained growth in 2007. Powered by highly motivated staff and strong dynamics, profits grew by 42%.

The primary factor that contributed to the 30% expansion of our balance sheet over the year was the increase in customer deposits by 45%. Also, our flexibility in designing and structuring products and deals led us to source safe business engagements with good margins. The progress achieved should provide the good foundation required for future expansion of the branch network from 4 to 10 by 2009 and eventually increase our market share from 1.2% achieved in 2007 to a point of significance in the near future.

We took a number of steps to lay down a strong foundation for sustainable future growth including coming up with innovative tailor-made packages such as Equipment loan and the Prime Salary Card.

As we all know, 2007 was the year this bank formally joined the BANK OF AFRICA family in a move that saw the shares of Belgolaise validly transferred to the three parties namely; BANK OF AFRICA, AUREOS Fund and the Belgian Investment Company for developing Countries (BIO). Re-branding activities started in the third quarter of 2007 and our esteemed customers and the public have been convinced beyond any doubt that the transformation was structured with their interest in mind. Now BOA-TANZANIA has become a household name in Tanzania, receiving almost the same attention as other big banks. Big billboards, located strategically, in busiest corners of Dar es Salaam city marks the strong presence of BANK OF AFRICA in Tanzania.

Kobby ANDAH

Managing Director

Key facts 2007

FEBRUARY

• Official opening Ceremony of our 3rd branch in Dar es Salaam (Airport Branch).

MARCH

• Participation in the Groupe BANK OF AFRICA's meeting 2006 for the Directors of the network in Casablanca, Morocco.

APRIL

• SME Spark Product's soft launch.

MAY

• Participation in the Groupe BANK OF AFRICA's meeting 2007 for the management of the network in Bamako, Mali.

JUNE

• Transfer of advance share capital to share capital for 2.247.863 TZS.
• Eurafrican Bank was acquired by Groupe BANK OF AFRICA through BANK OF AFRICA – KENYA by 33%. The bank later changed its name to BOA BANK – TANZANIA.
• New Sinza Branch started operating.

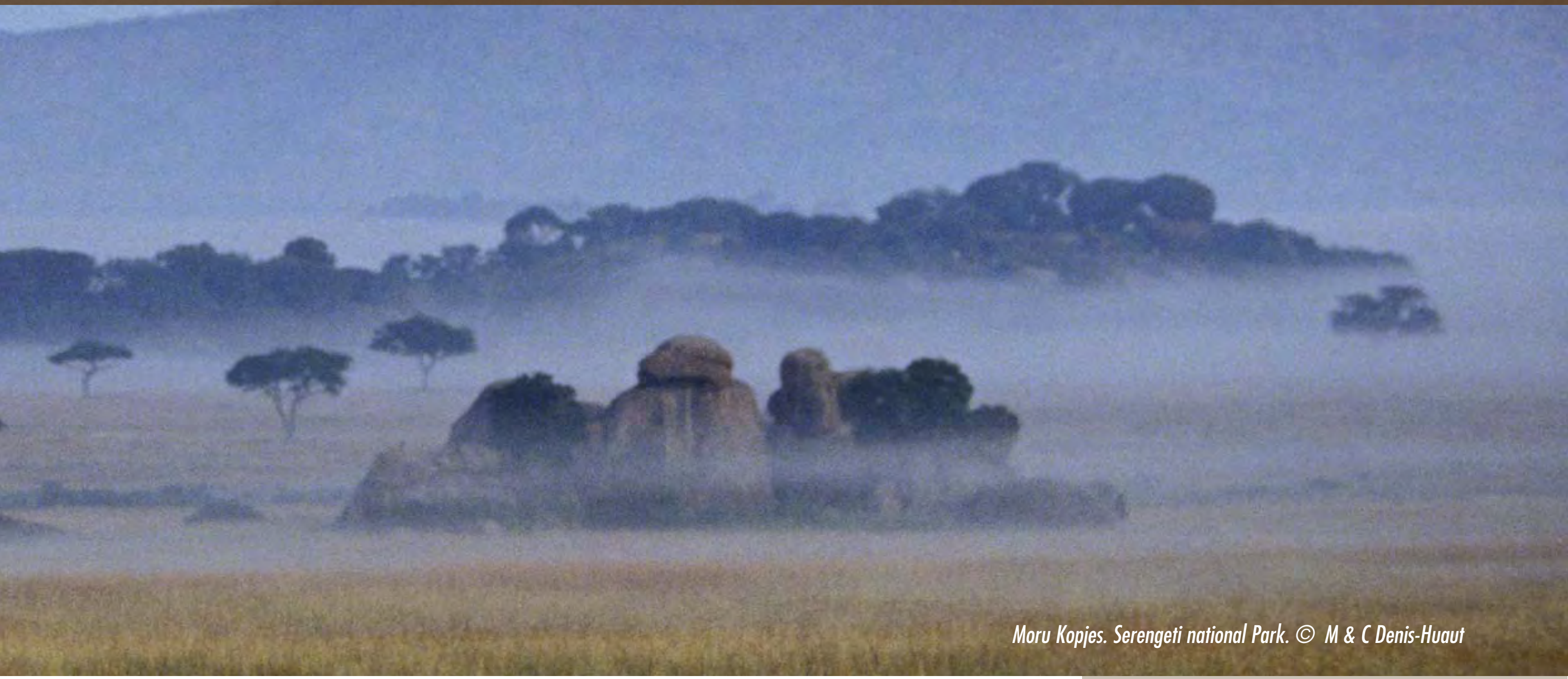
SEPTEMBER

• Change of Managing Director.

OCTOBER

• 15th October 2007 was official launch of BOA BANK – TANZANIA Limited.

Key figures 2007


Moru Kopjes. Serengeti national Park. © M & C Denis-Huaut

Activity

Deposits *	73,065,196
Loans *	24,102,253

Income

Operating income *	6,212,217
Operating expense *	4,789,597
Profit before tax *	1,438,661

Structure

Total assets *	89,485,646
Number of employees	90

* in TZS'000

(EUR 1 = 1 669,3822 TZS)

Board of Directors

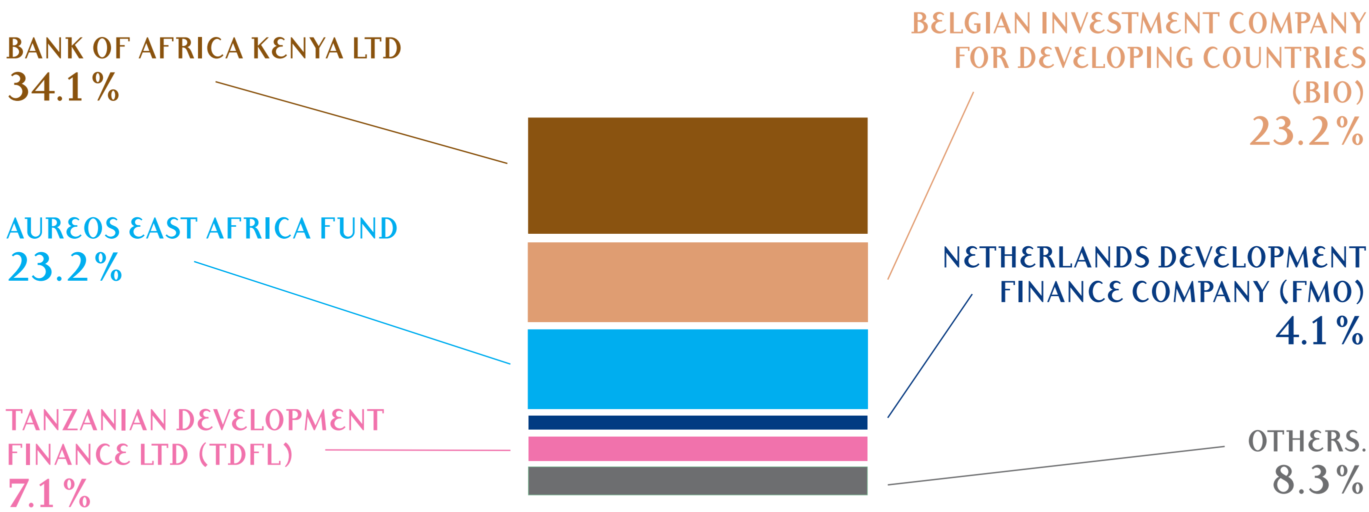
The directors who held office during the year and to the date of this report were:

- Fulgence KAZAURA, Chairman
- Emmanuel Ole NAIKO
- Vincent de BROUWER
- Paul DERREUMAUX
- Richard CARTER
- Carole MAMAN
- Shakir MERALI
- Kobena ANDAH, Managing Director

Capital

The bank has 61,912 authorised ordinary shares with a cumulative nominal value of TZS10 billion, of which 50,909 have been issued for total proceeds of TZS 8,726,024,000.
The following is the bank's shareholding structure as at 31st December 2007.

Shareholding Position based on number of shares (%).



Auditors

PricewaterhouseCoopers

The Bank's Corporate Social Responsibility activities

In 2007, BOA BANK-TANZANIA continued to invest in the communities in which we serve through our charitable engagements.

The areas in which the bank participated in Corporate Social Responsibility (CSR) were as follow:

Corporate Social Responsibility

• The bank supported the education sector in Tanzania.

The bank donated USD 26,000 for classroom construction in the Dar es Salaam region.

• The bank used USD 22,000 for social services including Women Empowerment Programmes (WEP), Environmental Cleaning and water services.

• The bank was involved in tree planting in Dar es Salaam Region for the purpose of environmental protection. More than 10,000 trees were planted in the outskirts of the Dar es Salaam city.

• The bank carried out Environmental Impact Assessment (EIA) before granting credit to its customers.

In 2007 the bank used USD 52,000 for Corporate Social Responsibility.

BOA Bank's Head of Commercial Banking and Mr. Said Kambi and Mr. Emmanuel Ole Naiko, BOA BANK - TANZANIA Board Director, who were guests of honor, being welcomed by the administration of the Mugabe Secondary School during the event that marked Bank's donation of TZS 31 million for the construction of the school's administration block. To the left of Mr. Ole Naiko the Ilala District Commissioner, Mr. Fabian Massawe, and the school Head Mistress.

Mr. Said Kambi handing a dummy cheque to Mr. Ole Naiko to be handed over to the school.

The Guest of honor, Mr. Ole Naiko laying down the 'foundation stone' for the construction of the school building.

The BOA Director Mr. Ole Naiko and Mr. Said Head of Commercial Banking registers in the school's Visitors Register Book.

Workers executing their tasks at the construction site.

Report and Financial Statements

Agama Lizard. © M & C Denis-Huaut

Directors' report

1 The directors present their report and audited financial statements for the year ended 31 December 2007, which disclose the state of affairs of BOA BANK - TANZANIA Limited (the Bank).

2 ACTIVITIES

The Bank is engaged in taking deposits on demand, providing short-term and medium term credit facilities and other banking services and is licensed under the Banking and Financial Institutions Act, 2006.

3 RESULTS AND BUSINESS DEVELOPMENTS

The following achievements were recorded in the year:

- The Bank recorded a profit after tax of Shs 962 million (2006: Shs 680 million);
- Customer deposits increased to Shs 73,065 million (2006: Shs 50,302 million); and
- Total assets increased to Shs 89,486 million (2006: Shs 68,165 million).

The audited financial statements for the year are set out on pages 18 to 49.

4 DIRECTORS

The directors of the Bank at the date of this report and who have served in office since 1 January 2007, unless otherwise stated, are:

Name	Nationality	Comments
Fulgence KAZAURA	Tanzanian	Chairman
Paul DERREMAUX	French	Appointed on 28 June 2007
Vincent DE BROUWER	Belgian	Director
Emmanuel OLE NAIKO	Tanzanian	Director
Richard CARTER	British	Appointed on 28 June 2007
Jean-François BEYER	Belgian	Resigned on 28 June 2007
Guido BOYSEN	Dutch	Resigned on 28 June 2007
Shakir MERALI	Kenyan	Appointed on 28 June 2007
Carole MAMAN	French	Appointed on 28 June 2007
Juma KISAAME	Ugandan	Managing Director, resigned on 30 September 2007
John MCGUFFOG	British	Resigned on 28 June 2007
Kobena ANDAH	British	Managing Director, appointed on 1 October 2007

None of the directors holds shares in the Bank.

5 DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2007 (2006: Nil).

6 AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors of the Bank for the year 2008 will be put to the Annual General Meeting.

By order of the Board

Fulgence KAZAURA
Chairman

31st March, 2008

Report and Financial Statements

BOA BANK - TANZANIA Head office opening.

Statement of Directors' Responsibilities

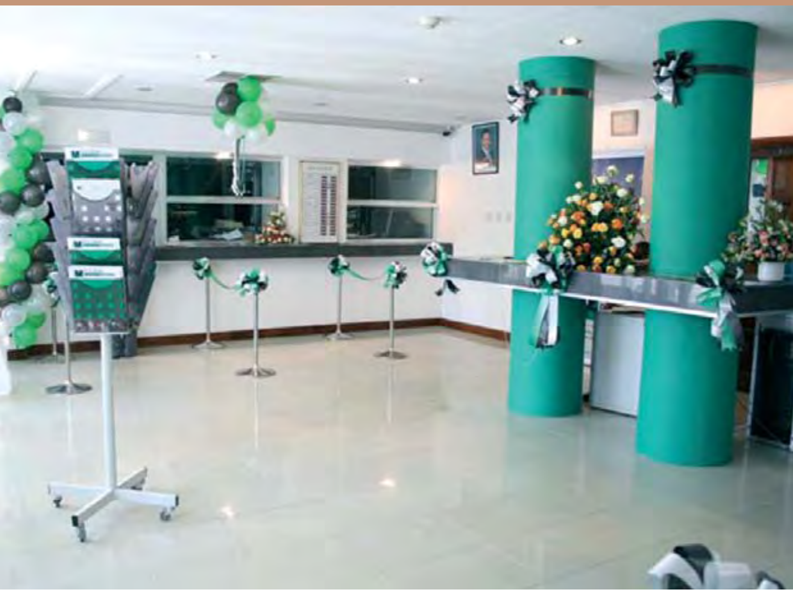
The Tanzania Companies Act 2002 requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Bank as at the end of the financial period and of its profit or loss. It also requires the directors to ensure that the Bank keeps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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Tanzania Companies Act 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit. 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 adequate systems of internal financial control.

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.

Fulgence KAZAURA
Chairman

31st March, 2008



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Report of the independent auditor

to the Members of BOA BANK - TANZANIA Ltd

Report on the financial statements

We have audited the accompanying financial statements of BOA BANK - TANZANIA Limited, which comprise the balance sheet as at 31 December 2007, and profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As described in the Directors' report, the Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Tanzanian Companies Act 2002. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Tanzanian Companies Act 2002.

Report on Other Legal and Regulatory Requirements

This report, including the opinion, has been prepared for, and only for, the Company's members as a body in accordance with the Tanzanian Companies Act 2002 and for no other purposes.

As required by the Tanzanian Companies Act 2002, we are also required to report to you if, in our opinion, the report of the directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

Certified Public Accountants

DAR ES SALAAM

PricewaterhouseCoopers

Signed by **Leonard C MUSUSA**

31st March, 2008

Financial Statements

Elephant. Ngorongoro Crater. © M & C Denis-Huaut

PROFIT AND LOSS ACCOUNT

	YEAR ENDED 31 DECEMBER 2007	YEAR ENDED 31 DECEMBER 2006
	SHS'000	SHS'000
INTEREST AND SIMILAR INCOME	7,707,555	5,383,110
INTEREST EXPENSE AND SIMILAR CHARGES	(3,904,383)	(2,339,439)
NET INTEREST INCOME	**3,803,172**	**3,043,671**
NON INTEREST INCOME		
FEES, COMMISSION AND OTHER INCOME	1,642,024	1,299,330
FOREIGN CURRENCY DEALINGS AND TRANSLATION GAINS	767,021	648,044
OPERATING INCOME	**6,212,217**	**4,991,045**
RECOVERY OF BAD DEBT PREVIOUSLY WRITTEN OFF	35,626	20,271
IMPAIRMENT CHARGE ON LOANS AND ADVANCES	(19,585)	(420,584)
OPERATING EXPENSES	(4,789,597)	(3,473,424)
PROFIT BEFORE INCOME TAX	**1,438,661**	**1,117,308**
INCOME TAX EXPENSE	(477,011)	(437,731)
PROFIT FOR THE YEAR	**961,650**	**679,577**

BALANCE SHEET

	AT 31 DECEMBER 2007	AT 31 DECEMBER 2006
	SHS'000	SHS'000
ASSETS		
CASH AND BALANCES WITH BANK OF TANZANIA	11,238,938	5,445,907
LOANS AND ADVANCES TO BANKS	28,130,754	23,628,722
INVESTMENT SECURITIES HELD TO MATURITY	24,146,780	19,922,837
LOANS AND ADVANCES TO CUSTOMERS	24,102,253	17,474,843
OTHER ASSETS	454,247	194,098
PREMISES AND EQUIPMENT	975,985	584,473
INCOME TAX RECOVERABLE	55,986	55,424
DEFERRED INCOME TAX	380,703	858,276
TOTAL ASSETS	**89,485,646**	**68,164,580**
LIABILITIES		
DEPOSITS FROM OTHER BANKS	7,364,486	10,854,898
CUSTOMER DEPOSITS	73,065,196	50,302,434
OTHER LIABILITIES	1,976,431	889,365
TOTAL LIABILITIES	**82,406,113**	**62,046,697**
EQUITY		
SHARE CAPITAL	8,726,025	6,478,154
ADVANCE TOWARDS SHARE CAPITAL	-	2,332,912
SHARE PREMIUM	85,041	-
ACCUMULATED LOSSES	(1,767,469)	(2,842,199)
REGULATORY RESERVE	35,936	149,016
TOTAL EQUITY	**7,079,533**	**6,117,883**
TOTAL LIABILITIES AND EQUITY	**89,485,646**	**68,164,580**

The financial statements were approved by the board of directors and signed on its behalf by:

Fulgence KAZAURA – Chairman

31st March 2008

STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL SHS'000	ADVANCE TOWARDS ADVANCE CAPITAL SHS'000	SHARE PREMIUM SHS'000	ACCUMULATED LOSS SHS'000	REGULATORY RESERVE SHS'000	TOTAL SHS'000
YEAR ENDED 31 DECEMBER 2006						
AT START OF THE YEAR	6,478,154	2,332,912	-	(3,652,701)	279,941	5,438,306
NET PROFIT FOR THE YEAR			-	679,577	-	679,577
TRANSFER FROM REGULATORY RESERVE			-	130,925	(130,925)	-
BALANCE AS AT 31 DECEMBER 2006	**6,478,154**	**2,332,912**	**-**	**(2,842,199)**	**149,016**	**6,117,883**
YEAR ENDED 31 DECEMBER 2007						
AT START OF THE YEAR	6,478,154	2,332,912	-	(2,842,199)	149,016	6,117,883
CONVERSION OF ADVANCE SHARE CAPITAL						
TO SHARE CAPITAL	2,247,871	(2,332,912)	85,041	-	-	-
PROFIT FOR THE YEAR	-	-	-	961,650	-	961,650
TRANSFER FROM REGULATORY RESERVE				113,080	(113,080)	-
BALANCE AT 31 DECEMBER 2007	**8,726,025**	**-**	**85,041**	**(1,767,469)**	**35,936**	**7,079,533**

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

The Bank of Tanzania approved a provision for loan losses of Shs 530 million in accordance with Bank of Tanzania regulations. However, these financial statements include a provision for loan impairment losses of Shs 494 million, determined in accordance with IFRS, necessitating a transfer of Shs 36 million from retained earnings to non-distributable regulatory reserve.

CASH FLOW STATEMENT

	YEAR ENDED 31 DECEMBER 2007	YEAR ENDED 31 DECEMBER 2006
	SHS'000	SHS'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
INTEREST AND SIMILAR INCOME RECEIVED	7,707,555	5,383,110
INTEREST PAID	(3,904,383)	(2,339,439)
NET FEES AND COMMISSION RECEIVED	1,642,024	1,299,330
OTHER INCOME RECEIVED	767,021	648,044
PAYMENT TO EMPLOYEES AND SUPPLIERS	(4,557,008)	(3,500,169)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	**1,655,209**	**1,490,876**
CHANGES IN OPERATING ASSETS AND LIABILITIES		
INCREASE IN INVESTMENT SECURITIES HELD TO MATURITY (WITH MATURITY OF 3 MONTHS AND MORE)	(3,214,171)	(1,515,655)
INCREASE IN LOANS AND ADVANCES TO CUSTOMERS	(6,627,410)	(4,878,740)
INCREASE IN STATUTORY MINIMUM RESERVE	(2,460,000)	(740,000)
INCREASE IN OTHER ASSETS	(260,149)	(104,582)
INCREASE IN DEPOSITS	19,272,350	21,656,514
INCREASE IN OTHER LIABILITIES	1,087,066	503,258
NET CASH INFLOW FROM OPERATING ACTIVITIES	**9,452,895**	**16,411,671**
CASH FLOWS FROM INVESTING ACTIVITIES:		
PURCHASE OF PROPERTY AND EQUIPMENT	(608,880)	(491,816)
PROCEEDS FROM SALE OF EQUIPMENT	822	8,107
NET CASH UTILISED IN INVESTING ACTIVITIES	**(608,058)**	**(483,709)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,844,837**	**15,927,962**
CASH AND CASH EQUIVALENT AT START OF THE YEAR	29,825,452	13,897,490
CASH AND CASH EQUIVALENT AT END OF YEAR	**38,670,289**	**29,825,452**

Notes

Two months cheetahs (Acinonyx Jubatus) with their mother. © M & C Denis-Huaut

1 GENERAL INFORMATION

BOA Bank Tanzania Limited is a limited liability company incorporated under the Companies Act and is domiciled in the United Republic of Tanzania. It is licensed to operate as a Bank under the Banking and Financial Institution Act. The address of its registered office is:

NDC BUILDING
OHIO STREET/KIVUKONI FRONT,
DAR ES SALAAM, TANZANIA

2 ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In 2007 new and revised standards and interpretations became effective for the first time and have been adopted by the Bank, where relevant to its operations.

The following amendment to an existing standard and new standard are mandatory for the Bank's accounting periods beginning on or after 1 January 2007.

- IAS 1 Amendment, Capital Disclosures. The amendment to IAS 1 introduces disclosures about the level of the Company's capital and how it manages capital.

- IFRS 7, Financial Instruments: Disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Both standards are applied retrospectively. IFRS 7 supersedes IAS 30 and the disclosure requirements of IAS 32.
Standards, amendments and interpretations to existing standards that are not yet effective and have not been earlier adopted by the Bank;

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2008, but the Bank has not early adopted them:

- IAS 23 (Amendment) 'Borrowing cost' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying assets (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing these borrowing costs will be removed. The Bank will apply IAS 23 (Amended) from 1 January 2009 but it is currently not applicable to the Bank as there are no qualifying assets.

- IFRS 8, 'Operating Segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a "management approach," under which segment information is presented on the same basis as that used for internal reporting purposes.

- IFRIC 11, 'Group and Treasury Share Transactions' effective from 1 January 2008.

- IFRIC 12, 'Service Concession Arrangements' effective from 1 January 2008.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania shillings and the amounts are rounded to the nearest thousand, except where otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(B) INTEREST INCOME AND EXPENSE

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the profit and loss account using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(C) FEE AND COMMISSION INCOME

Fees and commission are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

(D) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in Tanzanian Shillings, which is the Banks functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(E) FINANCIAL ASSETS

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so classifying eliminates or significantly reduces a measurement inconsistency. Derivatives are also categorised as held for trading.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and advances to customers fall under this classification.

(iii) Held-to maturity

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

(iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on the trade-date –the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

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

Fair values of quoted investments in active markets are based on quoted bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

(F) IMPAIRMENT OF FINANCIAL ASSETS

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

a) Delinquency in contractual payments of principal or interest;
b) Cash flow difficulties experienced by the borrower;
c) Breach of loan covenants or conditions;
d) Initiation of bankruptcy proceedings;
e) Deterioration of the borrower's competitive position;
f) Deterioration in the value of collateral; and
g) Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted. The Bank assesses whether objective evidence of impairment exists individually for all financial assets.

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account in impairment charge for credit losses.

(G) INCOME TAX

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the Tanzanian Income Tax Act, 2004.

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

(H) PROVISIONS

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

(I) PREMISES AND EQUIPMENT

Premises and equipment are stated at historical cost less depreciation. Depreciation is provided on the straight line basis so as to write down the cost of assets to their residual values over their useful economic lives, at the following rates:

	%
LEASEHOLD PREMISES	20.0
MOTOR VEHICLES	20.0
FURNITURE, FITTINGS AND EQUIPMENT	20.0
COMPUTER EQUIPMENT AND SOFTWARE	33.3

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

(J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

(K) EMPLOYEE BENEFITS

The Bank and its employees contribute to the National Social Security Fund (NSSF), which is a defined contribution scheme. Employees contribute 10% while the Bank contributes 10% to the scheme. A defined contribution scheme is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The Bank's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

(L) OFFSETTING FINANCIAL INSTRUMENTS

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

(M) ACCEPTANCES AND LETTERS OF CREDIT

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

4 FINANCIAL RISK MANAGEMENT

4.1 CREDIT RISK

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

4.1.1 Credit risk measurement

(a) Loans and advances

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

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

(i) The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. Clients of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

BANK'S INTERNAL RATINGS SCALE

BANK'S RATING	DESCRIPTION OF THE GRADE
1	CURRENT
2	ESPECIALLY MENTIONED
3	SUBSTANDARD
4	DOUBTFUL
5	LOSS

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

4.1.2 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 counterparties and groups, and to industries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. 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-balance sheet 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.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional and common practice is to obtain security for funds advanced. 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.

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

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

(b) Credit-related commitments

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

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

4.1.3 Impairment and provisioning policies

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

The impairment provision shown in the balance sheet at year-end is derived from each of the four internal rating grades. However, the majority of the impairment provision comes from the bottom three gradings. The table below shows the percentage of the Bank's on-balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

	2007			2006
	LOANS AND ADVANCES (%)	**IMPAIRMENT PROVISION (%)**	**LOANS AND ADVANCES (%)**	**IMPAIRMENT PROVISION (%)**
CURRENT	93	-	92	-
ESPECIALLY MENTIONED	1	-	3	-
SUBSTANDARD	3	15	1	16
DOUBTFUL	-	-	-	-
LOSS	3	71	5.0	72
TOTAL	**100.0**	**2**	**100.0**	**4**

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the criteria set out in note 3 (f).

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

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

	2007	2006
	SHS'000	SHS'000
CREDIT RISK EXPOSURES RELATING TO ON BALANCE SHEET ASSETS ARE AS FOLLOWS:		
LOANS AND ADVANCES TO BANKS	28,130,754	23,628,722
GOVERNMENT SECURITIES HELD TO MATURITY	24,146,780	19,922,837
LOANS AND ADVANCES TO CUSTOMERS:		
LOANS TO INDIVIDUALS		
- OVERDRAFT	1,046,058	1,214,373
- TERM LOANS	5,592,717	3,360,525
LOANS TO CORPORATE ENTITIES:		
- CORPORATE CUSTOMERS	3,031,867	3,736,632
- SMES	14,431,611	9,163,313
CREDIT RISK EXPOSURES RELATING TO OFF BALANCE SHEET ASSETS ARE AS FOLLOWS:		
FINANCIAL GUARANTEES, OUTSTANDING		
LETTERS OF CREDIT AND INDEMNITIES	2,412,369	1,657,823
COMMITMENTS TO EXTEND CREDIT	4,042,473	1,855,907
TOTAL	**82,834,629**	**64,540,132**

The above table represents a worse case scenario of credit risk exposure to the Bank as at 31 December 2007 and 31 December 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, of the total maximum exposure 63% is derived from loans and advances to banks and customers (December 2006: 64%); 29% represents investments in debt securities (December 2006: 31%). Management is confident in its 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 based on the following:

- 94% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (December 2006: 95%);
- 94% of the loans and advances portfolio are considered to be neither past due nor impaired (December 2006: 95%);
- Of the Shs 24,596 million loans and advances assessed on an individual basis, only 2% is impaired (December 2006: 4%);
- An improvement in the credit quality of loans and advances has resulted in a lower impairment charge in the income statement showing a 95% decrease, and
- All the investments in debt securities and other bills are considered to be current.

4.1.5 Loans and advances

Loans and advances are summarised as follows:

AMOUNTS ARE IN SHS'000	2007		2006	
	LOAN AND ADVANCES TO CUSTOMERS	LOAN AND ADVANCES TO BANKS	LOAN AND ADVANCES TO CUSTOMERS	LOAN AND ADVANCES TO BANKS
NEITHER PAST DUE NOR IMPAIRED	23,290,336	28,130,754	17,149,967	23,628,722
PAST DUE BUT NOT IMPAIRED	684,208	-	100,799	-
IMPAIRED	621,859	-	921,574	-
GROSS	**24,596,403**	**28,130,754**	**18,172,340**	**23,628,722**
LESS: ALLOWANCE FOR IMPAIRMENT	(494,150)	-	(697,497)	-
NET	**24,102,253**	**28,130,754**	**17,474,843**	**23,628,722**

The total impairment provision for loans and advances is Shs 494 million (December 2006: Shs 697 million). Further information of the impairment allowance for loans and advances to customers is provided in Note 15.

During the year ended 31 December 2007, the Bank's total loans and advances increased by 35% as a result of the expansion of the lending business. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Bank focused more on the business with SMEs or banks with good credit rating or retail customers providing sufficient collateral.

(a) Loans and advances neither past due nor impaired

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

LOANS AND ADVANCES TO CUSTOMER (SHS '000)

	INDIVIDUAL (RETAIL CUSTOMERS)		CORPORATE CUSTOMERS		TOTAL	
	OVERDRAFT	TERM LOANS	CORPORATE	SMES	LOAN AND ADVANCES TO CUSTOMER	LOAN AND ADVANCES TO BANKS
31 DECEMBER 2007						
CURRENT	954,303	5,420,531	2,871,547	13,699,282	22,945,663	28,130,754
ESPECIALLY MENTIONED	91,756	-	-	252,917	344,673	-
SUBSTANDARD	-	-	-	-	-	-
DOUBTFUL	-	-	-	-	-	-
LOSS	-	-	-	-	-	-
TOTAL	**1,046,058**	**5,420,531**	**2,871,547**	**13,952,199**	**23,290,336**	**28,130,754**
31 DECEMBER 2006						
CURRENT	864,803	3,660,506	3,428,934	8,738,479	16,692,722	23,628,722
ESPECIALLY MENTIONED	-	2,700	122,488	332,057	457,245	-
SUBSTANDARD	-	-	-	-	-	-
DOUBTFUL	-	-	-	-	-	-
LOSS	-	-	-	-	-	-
TOTAL	**864,803**	**3,663,206**	**3,551,422**	**9,070,536**	**17,149,967**	**23,628,722**

(b) Loans and advances past due but not impaired

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 that were past due but not impaired were as follows:

AMOUNTS ARE IN SHS'000

	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
31 DECEMBER 2007					
PAST DUE TO 30 DAYS	-	-	-	-	-
PAST DUE TO 30-60 DAYS	-	-	-	-	-
PAST DUE 60-90 DAYS	-	-	72,367	611,841	684,208
TOTAL	**-**	**-**	**72,367**	**611,841**	**684,208**
FAIR VALUE OF COLLATERAL	**-**	**-**	**88,288**	**734,209**	**822,497**

The fair value of collateral is based on valuation techniques commonly used for the corresponding assets.

	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
31 DECEMBER 2007					
PAST DUE TO 30 DAYS	-	-	-	-	-
PAST DUE TO 30-60 DAYS	-	-	-	-	-
PAST DUE 60-90 DAYS	-	-	-	100,799	100,799
TOTAL	-	-	-	100,799	100,799
FAIR VALUE OF COLLATERAL	**-**	**-**	**-**	**120,959**	**120,959**

(c) Loans and advances individually impaired

(i) Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is Shs 622 million (December 2006: Shs 922 million). The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows: (Amounts are in Shs'000).

	INDIVIDUAL (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
31 DECEMBER 2007					
INDIVIDUALLY IMPAIRED LOANS	-	56,969	-	564,890	621,859
FAIR VALUE OF COLLATERAL	-	-	-	423,668	423,668
31 DECEMBER 2006					
INDIVIDUALLY IMPAIRED LOANS	-	93,255	-	828,319	921,574
FAIR VALUE OF COLLATERAL	-	-	-	621,239	621,239

(ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2007 was nil. (December 2006: nil). No collateral is held by the Bank against loans and advances to Banks.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totaled Shs 501 million at 31 December 2007 (December 2006: Shs 115 million).

	2007	2006
LOANS AND ADVANCES TO CUSTOMERS – INDIVIDUALS:	TSHS'000	TSHS'000
TERM LOANS	500,713	115,228
OVERDRAFT	-	-
TOTAL	**500,713**	**115,228**

4.1.6 Debt securities, treasury bills and other eligible bills

The only investment securities held by the Bank are treasury bills and bonds issued by the Government.

4.1.7 Repossessed collateral

During the year, the Bank obtained assets by taking possession of collateral held as security, as follows:

NATURE OF ASSETS	CARRYING AMOUNTS
	TSHS'000
RESIDENTIAL PROPERTY	50,000
COMMERCIAL PROPERTY	205,000
MOTOR VEHICLE	11,000
	266,000

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

4.1.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2007. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties (Amounts are in Shs'000).

	TANZANIA	EUROPE	AMERICA	OTHERS	TOTAL
LOANS AND ADVANCES TO BANKS	5,443,742	21,856,675	830,154	183	28,130,754
INVESTMENT SECURITIES HELD TO MATURITY	24,146,780	-	-	-	24,146,780
LOANS AND ADVANCES TO CUSTOMERSTO INDIVIDUALS:					
- OVERDRAFT	1,046,058	-	-	-	1,046,058
- TERM LOANS	5,592,717	-	-	-	5,592,717
TO CORPORATE ENTITIES:					
- CORPORATE CUSTOMERS	3,031,867	-	-	-	3,031,867
- SMES	14,431,611	-	-	-	14,431,611
AT 31 DECEMBER 2007	**53,692,775**	**21,856,675**	**830,154**	**183**	**76,379,787**
AT 31 DECEMBER 2006	**39,437,627**	**20,030,334**	**925,419**	**633,022**	**61,026,402**

4.1.8 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 carrying amounts, as categorised by the industry sectors of its counterparties (Amounts are in Shs'000):

	FINANCIAL INSTITUTIONS	AGRICULTURE FISHING AND FOREST	MANUFACTURING	CONSTRUCTION	REAL ESTATE	TRANSPORTATION	WHOLESALE & RETAIL TRADE	INDIVIDUALS	OTHER	TOTAL
LOANS AND ADVANCES TO BANKS	28,130,754	-	-	-	-	-	-	-	-	28,130,754
GOVERNMENT SECURITIES HELD TO MATURITY	24,146,780	-	-	-	-	-	-	-	-	24,146,780
LOANS AND ADVANCES TO CUSTOMERS										
TO INDIVIDUAL:										
- OVERDRAFT	-	-	-	-	-	-		1,046,058	-	1,046,058
- TERM LOANS	-	-	-	-	-		-	5,592,717	-	5,592,717
TO CORPORATE ENTITIES:										
- CORPORATE CUSTOMERS	-	292,364	-	226,418	-	1,756,329	-	-	756,756	3,031,867
- SMES	1,943,236	192,043	604,176	1,940,856	890,689	839,651	4,087,078	-	3,933,882	14,431,611
AS AT 31 DECEMBER 2007	54,220,770	484,407	604,176	2,167,274	890,689	2,595,980	4,087,078	6,638,775	4,690,638	76,379,787
AS AT 31 DECEMBER 2006	44,090,097	213,059	81,612	634,482	1,035,636	2,226,144	2,117,378	4,574,897	6,053,097	61,026,402

4.2 MARKET RISK

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

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

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

4.2.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. 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.

At 31 December 2007, if the functional currency had strengthened/weakened by 10% against the foreign currencies (i.e. US dollar, Euro and Sterling pound) with all other variables held constant, post-tax profit for the year would have been TShs 129 million (2006: TShs 6 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of foreign currencies denominated financial assets and liabilities. Profit is more sensitive to movement in functional currency/US dollar exchange rates in 2007 than in 2006 because of the increased amount of foreign currency denominated financial assets and liabilities.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2007. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency. (All amounts expressed in thousands of Tanzania Shillings).

Concentrations of currency risk – on- and off-balance sheet financial instruments.

4.2.1 Foreign exchange risk (continued)

AT 31 DECEMBER 2007	TZS	USD	EURO	GBP	ZAR	TOTAL
ASSETS						
CASH AND BALANCE WITH BANK OF TANZANIA	9,770,384	962,867	501,524	4,163	-	11,238,938
LOANS AND ADVANCES TO BANKS	100,000	23,612,851	4,152,733	264,987	183	28,130,754
INVESTMENT SECURITIES HELD TO MATURITY	24,146,780	-	-	-	-	24,146,780
LOANS AND ADVANCES TO CUSTOMERS	16,500,293	7,584,667	17,293	-	-	24,102,253
OTHER ASSETS	426,556	25,686	-	2,005	-	454,247
INCOME TAX RECOVERABLE	55,986	-	-	-	-	55,986
TOTAL FINANCIAL ASSETS	**50,999,999**	**32,186,071**	**4,671,550**	**271,155**	**183**	**88,128,958**
LIABILITIES						
DEPOSITS FROM OTHER BANKS	7,364,486	-	-	-	-	7,364,486
CUSTOMER DEPOSITS	38,679,822	29,465,175	4,654,148	266,051	-	73,065,196
OTHER LIABILITIES	1,073,042	896,584	6,689	116	-	1,976,431
TOTAL FINANCIAL LIABILITIES	**47,117,350**	**30,361,759**	**4,660,837**	**266,167**	**-**	**82,406,113**
NET ON BALANCE SHEET FINANCIAL POSITION	**3,882,649**	**1,824,312**	**10,713**	**4,988**	**183**	**5,722,845**
CREDIT COMMITMENTS	**1,794,020**	**2,248,453**	**-**	**-**	**-**	**4,042,473**
31 DECEMBER 2006						
TOTAL FINANCIAL ASSETS	38,992,489	25,392,955	2,168,424	165,770	2,193	66,721,831
TOTAL FINANCIAL LIABILITIES	34,233,825	25,315,765	2,325,089	172,018	-	62,046,697
NET ON-BALANCE SHEET FINANCIAL POSITION	**4,758,664**	**77,190**	**(156,665)**	**(6,248)**	**2,193**	**4,675,134**
CREDIT COMMITMENTS	**655,691**	**1,200,216**	**-**	**-**	**-**	**1,855,907**

4.2.2 Interest rate risk

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

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON INTEREST BEARING	TOTAL
	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000
AT 31 DECEMBER 2007							
ASSETS							
CASH AND BALANCES WITH BANK OF TANZANIA	-	-	-	-	-	11,238,938	11,238,938
LOANS AND ADVANCES TO BANKS	18,608,742	2,264,180	5,660,450	-	-	1,597,383	28,130,754
INVESTMENT SECURITIES HELD TO MATURITY	2,707,443	3,493,154	17,519,873	426,310	-	-	24,146,780
LOANS AND ADVANCES TO CUSTOMERS	5,320,618	997,345	7,086,950	10,638,550	58,789	-	24,102,253
OTHER ASSETS	-	-	-	-	-	454,247	454,247
TAX RECOVERABLE	-	-	-	-	-	55,986	55,986
TOTAL FINANCIAL ASSETS	**26,636,803**	**6,754,679**	**30,267,273**	**11,064,860**	**58,789**	**13,346,554**	**88,128,958**
LIABILITIES							
DEPOSITS FROM OTHER BANKS	7,364,486	-	-	-	-	-	7,364,486
CUSTOMER DEPOSITS	14,186,132	14,975,114	10,692,498	-	-	3,211,452	73,065,196
OTHER LIABILITIES	-	-	-	-		1,976,431	1,976,431
TOTAL FINANCIAL LIABILITIES	**21,550,618**	**14,975,114**	**10,692,498**	**-**	**-**	**35,187,883**	**82,406,113**
TOTAL INTEREST REPRICING GAP	**5,086,185**	**(8,220,435)**	**19,574,775**	**11,064,860**	**58,789**		
AT 31 DECEMBER 2006							
TOTAL FINANCIAL ASSETS	10,347,426	10,754,753	30,312,515	6,385,513	313,189	8,608,435	66,721,831
TOTAL FINANCIAL LIABILITIES	14,621,292	9,026,649	13,664,362	-	-	24,734,394	62,046,697
TOTAL INTEREST REPRICING GAP	**(4,273,866)**	**1,728,104**	**16,648,153**	**6,385,513**	**313,189**		

4.3 LIQUIDITY RISK

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

4.3.1 Liquidity risk management process

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

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

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

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.

4.3.2 Funding approach

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

4.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, as the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000
AT 31 DECEMBER 2007						
LIABILITIES						
DEPOSITS FROM OTHER BANKS	7,364,486	-	-	-	-	7,364,486
CUSTOMER DEPOSITS	47,397,584	14,975,114	10,692,498	-	-	73,065,196
OTHER LIABILITIES	1,976,431	-	-	-	-	1,976,431
TOTAL LIABILITIES (contractual maturity dates)	**56,738,502**	**14,975,114**	**10,692,498**	**-**	**-**	**82,406,113**
TOTAL ASSETS (expected maturity dates)	**39,982,793**	**6,754,680**	**30,267,836**	**11,064,860**	**58,789**	**88,128,958**
AT 31 DECEMBER 2006						
LIABILITIES						
DEPOSITS FROM OTHER BANKS	10,854,898	-	-	-	-	10,854,898
CUSTOMER DEPOSITS	27,611,421	9,026,649	13,664,362	-	-	50,302,433
OTHER LIABILITIES	889,365	-	-	-	-	889,365
TOTAL LIABILITIES (contractual maturity dates)	**39,355,685**	**9,026,649**	**13,664,362**	**-**	**-**	**62,046,697**
TOTAL ASSETS (expected maturity dates)	**19,034,359**	**10,754,751**	**30,312,517**	**6,385,513**	**234,691**	**66,721,831**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection and treasury and other eligible bills; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

4.3.4 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 23), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 23) are also included below based on the earliest contractual maturity date.

AT 31 DECEMBER 2007	NO LATER THAN 1 YEAR	1 – 5 YEARS	OVER 5 YEARS	TOTAL
	SHS ' 000	SHS ' 000	SHS'000	SHS' 000
OUTSTANDING LETTERS OF CREDIT, GUARANTEES AND INDEMNITIES	2,412,369	-	-	2,412,369
COMMITMENTS TO EXTEND CREDIT	4,042,473	-	-	4,042,473
TOTAL	**6,454,842**	**-**	**-**	**6,454,842**

4.3.4 Off-balance sheet items (continued)

AT 31 DECEMBER 2006	NO LATER THAN 1 YEAR	1 – 5 YEARS	OVER 5 YEARS	TOTAL
	SHS ' 000	SHS ' 000	SHS'000	SHS' 000
OUTSTANDING LETTERS OF CREDIT, GUARANTEES AND INDEMNITIES	1,657,824	-	-	1,657,824
COMMITMENTS TO EXTEND CREDIT	1,855,907	-	-	1,855,907
TOTAL	**3,513,731**	**-**	**-**	**3,513,731**

4.4 CAPITAL MANAGEMENT

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

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

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

The BoT requires each bank or banking group to:

(a) hold the minimum level of Core Capital of Shs 5 billion;

(b) maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10%;

(c) and maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

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

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Prepaid expenses and deferred charges are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2007 and year ended 31 December 2006. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

TIER 1 CAPITAL	2007	2006
	SHS'000	SHS'000
SHARE CAPITAL	8,726,024	6,478,154
ADVANCE SHARE CAPITAL	-	2,332,912
ACCUMULATED LOSSES	(1,767,469)	(2,842,199)
SHARE PREMIUM	85,041	-
PREPAID EXPENSES AND DEFERRED CHARGES	(712,557)	(1,039,525)
TOTAL QUALIFYING TIER 1 CAPITAL	**6,331,039**	**4,929,342**
TIER 2 CAPITAL	**-**	**-**
TOTAL REGULATORY CAPITAL	**6,331,039**	**4,929,342**

RISK-WEIGHTED ASSETS		
ON-BALANCE SHEET	23,737,986	17,024,509
OFF-BALANCE SHEET	1,641,235	1,803,380
TOTAL RISK-WEIGHTED ASSETS	**25,379,221**	**18,827,889**

	REQUIRED RATIO 2007 %	BANK'S RATIO 2007 %
TIER 1 CAPITAL	10	25
TIER 1 + TIER 2 CAPITAL	12	25

The increase of the regulatory capital in the year 2007 is mainly due to the contribution of the current-year profit and decrease in prepaid expenses and deferred charges.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next 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.

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows in an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Held to maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

(c) Premises and equipment

Critical estimates are made by the directors in determining depreciation rates for premises and equipments and their residual values. The rates are set out in note 3(i) above.

6 INTEREST AND SIMILAR INCOME

	2007	2006
	SHS'000	SHS'000
LOAN AND ADVANCES	3,253,059	2,377,866
INVESTMENT SECURITIES HELD TO MATURITY	3,264,900	2,338,125
PLACEMENTS	1,189,596	667,120
TOTAL	**7,707,555**	**5,383,110**

7 INTEREST EXPENSE AND SIMILAR CHARGES

TIME DEPOSITS	2,982,488	1,803,680
SAVINGS DEPOSITS	67,515	46,913
OTHERS	854,380	488,846
TOTAL	**3,904,383**	**2,339,439**

8 FEES, COMMISSION AND OTHER INCOME

COMMISSION AND FEES FROM BANKING OPERATIONS	662,188	494,721
COMMISSION ON TELEGRAPHIC TRANSFERS		
AND INTERNATIONAL TRADE FINANCE ACTIVITIES	323,579	260,183
FACILITY FEES FROM LOANS AND ADVANCES	183,268	134,586
COMMISSION ON LETTERS OF CREDIT AND GUARANTEES	131,216	99,969
OTHER INCOME	341,773	309,870
TOTAL	**1,642,024**	**1,299,330**

9 OPERATING EXPENSES

EMPLOYEE BENEFITS (NOTE 10)	1,878,804	1,309,780
OCCUPANCY EXPENSES	483,315	381,844
REPAIRS AND MAINTENANCE	312,697	273,120
ADVERTISING AND BUSINESS PROMOTION	381,201	138,631
LEGAL AND PROFESSIONAL FEES	100,858	45,282
TRAVELLING EXPENSES	133,000	115,713
DEPRECIATION (NOTE 17)	213,977	157,955
DIRECTORS' EMOLUMENTS		
-FEES	17,841	15,031
-OTHERS	333,929	338,577
AUDITORS' REMUNERATION	23,833	22,750
SWIFT AND CORRESPONDENT BANK CHARGES	59,910	45,126
OTHERS	850,232	629,614
TOTAL	**4,789,597**	**3,473,424**

10 EMPLOYEE BENEFITS

Employee benefits comprise the following:

	2007	2006
	SHS'000	SHS'000
WAGES AND SALARIES	1,196,251	801,264
SOCIAL SECURITY COSTS (NSSF CONTRIBUTIONS)	124,532	83,383
OTHER EMPLOYMENT COSTS AND BENEFITS	558,021	425,133
TOTAL	**1,878,804**	**1,309,780**

11 INCOME TAX EXPENSE

The tax charge for the year is arrived at as follows:

- CURRENT TAX – PRIOR PERIODS	(562)	-
- DEFERRED INCOME TAX CHARGE – CURRENT YEAR	455,880	646,584
- DEFERRED INCOME TAX CHARGE – PRIOR YEARS	21,693	(208,853)
TOTAL	**477,011**	**437,731**

The tax assessments for the years of income 1999 to 2006 have not yet been agreed with the Tanzania Revenue Authority. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate, as follows:

	2007	2006
	SHS'000	SHS'000
PROFIT INCOME BEFORE TAX	1,438,661	1,117,308
TAX CALCULATED AT A TAX RATE OF 30%	431,598	335,192
TAX EFFECT OF:		
- TAX ALLOWANCE ON STATUTORY PROVISION	-	254,342
- ITEMS RESULTING IN REDUCED TAX CHARGE	(875)	-
- EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	25,157	57,050
- OVER PROVISION OF TAX IN PRIOR YEARS – CURRENT TAX	(562)	-
- UNDER PROVISION OF TAX IN PRIOR YEARS – DEFERRED TAX	21,693	(208,853)
TOTAL	**477,011**	**437,731**

12 CASH AND BALANCES WITH BANK OF TANZANIA

	2007	2006
	SHS'000	SHS'000
CASH ON HAND	2,910,087	1,599,137
BALANCES WITH THE BANK OF TANZANIA:		
STATUTORY MINIMUM RESERVE (SMR)	6,900,000	4,440,000
CLEARING ACCOUNT	1,428,851	(593,231)
TOTAL	**11,238,938**	**5,445,907**

13 LOANS AND ADVANCES TO BANKS

	2007	2006
	SHS'000	SHS'000
BALANCES WITH OTHER BANKS	1,597,383	1,198,536
ITEMS IN COURSE OF COLLECTION	1,897,231	1,480,801
PLACEMENTS WITH LOCAL BANKS	5,443,742	2,039,947
PLACEMENTS WITH FOREIGN BANKS	19,192,398	18,909,438
INCLUDED IN CASH AND CASH EQUIVALENTS (NOTE 22)	**28,130,754**	**23,628,722**

All the loans granted by the Bank bear variable interest rates linked to the changes in the Bank's base lending rate.

14 INVESTMENT SECURITIES HELD TO MATURITY

	2007	2006
	SHS'000	SHS'000
GOVERNMENT SECURITIES:		
TREASURY BILLS MATURING WITHIN 3 MONTHS	6,200,597	5,190,824
TREASURY BILLS MATURING BETWEEN 3 MONTHS AND 1 YEAR	17,519,873	14,732,012
TOTAL	**23,720,470**	19,922,837
TREASURY BONDS MATURING WITHIN 2 YEARS	426,310	-
TOTAL INVESTMENT SECURITIES HELD-TO-MATURITY	**24,146,780**	**19,922,837**

Treasury bills are debt securities issued by the Bank of Tanzania for a term of three months, six months, or a year whereas Treasury bonds have maturity ranges between 2-7 years.

15 LOANS AND ADVANCES TO CUSTOMERS

	2007	2006
	SHS'000	SHS'000
ADVANCES TO CUSTOMERS	24,086,123	17,978,917
ADVANCES TO STAFF	510,280	193,422
GROSS LOANS AND ADVANCES	24,596,403	18,172,339
LESS: CREDIT IMPAIRMENT PROVISION	(494,150)	(697,496)
NET LOANS AND ADVANCES	**24,102,253**	**17,474,843**

All the loans granted by the Bank bear variable interest rates linked to the changes in the Bank's base lending rate. Reconciliation of credit impairment provision on loans and advances by class is as follows (Amounts are in Shs'000):

	RETAIL CUSTOMERS	CORPORATE CUSTOMERS	
	TERM LOANS	SMES	TOTAL
BALANCE AT 1 JANUARY 2007	**92,431**	**605,065**	**697,496**
INCREASE IN PROVISION FOR LOAN IMPAIRMENT	-	19,585	19,585
WRITE OFFS	(35,461)	(187,470)	(222,931)
AT 31 DECEMBER 2007	**56,970**	**437,180**	**494,150**
BALANCE AT 1 JANUARY 2006	48,372	402,036	450,408
INCREASE IN PROVISION FOR LOAN IMPAIRMENT	44,059	376,525	420,584
WRITE OFFS	-	(606,646)	(606,646)
AT 31 DECEMBER 2006	**92,431**	**605,065**	**697,496**

16 OTHER ASSETS

	2007	2006
	SHS'000	SHS'000
PREPAID EXPENSES	285,880	181,249
SUNDRY DEBTORS AND STOCKS OF STATIONERY	168,367	12,849
TOTAL	**454,247**	**194,098**

17 PREMISES AND EQUIPMENT

	LEASEHOLD PREMISES	MOTOR VEHICLES	EQUIPMENT	COMPUTER SOFTWARE	FURNITURE & FITTINGS	WORK IN PROGRESS	TOTAL
	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000
COST							
AT 1 JANUARY 2006	**292,498**	**150,604**	**582,454**	**311,567**	**195,602**	**-**	**1,532,725**
ADDITIONS	263,224	-	160,010	46,773	21,810	-	491,816
WRITE OFFS	-	-	(65,061)	-	(32,402)	-	(97,463)
AT 31 DECEMBER 2006	**555,722**	**150,604**	**677,403**	**358,340**	**185,010**	**-**	**1,927,078**
DEPRECIATION							
AT 1 JANUARY 2006	**279,858**	**150,604**	**414,756**	**246,566**	**189,683**	**-**	**1,281,467**
CHARGE FOR THE YEAR	23,850	-	81,896	45,39	26,817	-	157,955
WRITE OFFS	-	-	(64,363)	-	(32,454)	-	(96,817)
AT 31 DECEMBER 2006	**303,708**	**150,604**	**432,289**	**291,958**	**164,046**	**-**	**1,342,605**

NET BOOK AMOUNT:							
AT 31 DECEMBER 2006	**252,014**	**-**	**245,114**	**66,382**	**20,963**	**-**	**584,473**
COST							
AT 1 JANUARY 2007	**555,722**	**150,604**	**677,403**	**358,340**	**185,010**	**-**	**1,927,078**
ADDITIONS	74,783	-	321,606	97,322	14,160	101,009	608,880
DISPOSALS		-	(12,126)	-	(21,839)	-	(33,964)
ADJUSTMENT		-	5,362	(7,430)	4,556	-	2,488
AT 31 DECEMBER 2007	**630,505**	**150,604**	**992,245**	**448,232**	**181,887**	**101,009**	**2,504,482**
DEPRECIATION							
AT 1 JANUARY 2007	**303,708**	**150,604**	**432,238**	**291,958**	**164,098**	**-**	**1,342,605**
CHARGE FOR THE YEAR	55,969	-	124,005	24,180	9,824	-	213,978
DISPOSALS	-	-	(12,126)	-	(21,362)	-	(33,488)
ADJUSTMENT			(7,308)	12,727	(18)		5,401
AT 31 DECEMBER 2007	**359,677**	**150,604**	**455,436**	**328,865**	**152,508**	**-**	**1,528,497**
NET BOOK AMOUNT:							
AT 31 DECEMBER 2007	**270,828**	**-**	**455,436**	**119,367**	**29,345**	**101,009**	**975,985**

18 CUSTOMER DEPOSITS

	2007	2006
	SHS'000	SHS'000
CUSTOMER ACCOUNTS	72,293,671	49,779,417
ACCRUED INTEREST ON DEPOSITS	771,525	523,017
TOTAL	**73,065,196**	**50,302,434**

All deposits from customers have variable interest rates.

19 OTHER LIABILITIES

BANK DRAFTS PAYABLE	1,355,012	312,253
ACCRUALS AND OTHER PROVISIONS	450,717	451,840
DEFERRED COMMITMENT AND FACILITY FEES	170,702	125,272
TOTAL	**1,976,431**	**889,365**

20 DEFERRED INCOME TAX

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

AT 1 JANUARY	**(858,276)**	**(1,296,007)**
INCOME STATEMENT CHARGE – (NOTE 11)	477,573	437,731
AT 31 DECEMBER	**(380,703)**	**(858,276)**

Deferred tax assets and liabilities and deferred tax charge to the income statement are attributed to the following items:

	RESTATED 1 JANUARY 2007	CHARGED /(CREDITED) TO INCOME STATEMENT	31 DECEMBER 2007
	SHS'000	SHS'000	SHS'000
DEFERRED TAX ASSETS			
PROVISIONS	(30,110)	(1)	(30,111)
ACCELERATED TAX DEPRECIATION	(20,826)	2,234	(18,592)
TAX LOSSES CARRIED FORWARD	(807,340)	475,340	(331,999)
TOTAL	**(858,276)**	**477,573**	**(380,703)**

21 SHARE CAPITAL

	2007	2006
	SHS'000	SHS'000
AUTHORISED		
2,000 CLASS "A" ORDINARY SHARES OF SHS 1 MILLION EACH	2,000,000	2,000,000
4,100 CLASS "B" ORDINARY SHARES OF SHS 375,000 EACH	1,537,500	1,537,500
55,811 CLASS "C" ORDINARY SHARES OF SHS 115,792 EACH	6,462,467	6,462,467
1 CLASS "D" ORDINARY SHARE OF SHS 32,688	33	33
TOTAL	**10,000,000**	**10,000,000`**
CALLED UP AND FULLY PAID		
2,000 CLASS "A" ORDINARY SHARES OF SHS 1 MILLION EACH	2,000,000	2,000,000
4,100 CLASS "B" ORDINARY SHARES OF SHS 375,000 EACH	1,537,500	1,537,500
44,809 CLASS "C" ORDINARY SHARES OF SHS 115,792 EACH	5,188,524	2,940,654
TOTAL	**8,726,024**	**6,478,154**

During the year, total 19,413 class "C" ordinary shares (2006: 25,396 shares) were issued, and paid for by the advance towards share capital at premium price of Shs 120,172/60 each, which was above nominal price of Shs 115,792.

The shareholding of the Bank was as follows:

	2007	2006
	%	%
BANK OF AFRICA - KENYA	34.1	-
AUREOS EAST AFRICA FUND LLC	23.2	-
BIO-BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES	23.2	-
FMO-NETHERLANDS DEVELOPMENT FINANCE CORPORATION	4.1	5.5
TDFL	7.1	9.6
BELGOLAISE BANK SA	-	73.0
OTHERS	8.3	11.9
TOTAL	**100**	**100**

22 CASH AND CASH EQUIVALENTS

	2007	2006
	SHS'000	SHS'000
CASH AND BALANCES WITH BANK OF TANZANIA	4,338,938	1,005,906
LOANS AND ADVANCES TO BANKS	28,130,754 2	3,628,722
INVESTMENT SECURITIES HELD TO MATURITY		
(WITH MATURITIES OF 3 MONTHS OR LESS)	6,200,597	5,190,824
TOTAL	**38,670,289**	**29,825,452**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with Central Bank, treasury bills and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Tanzania.

23 CONTINGENT LIABILITIES AND COMMITMENTS

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

	2007	2006
	TSHS'000	TSHS'000
CONTINGENT LIABILITIES		
OUTSTANDING LETTERS OF CREDIT (FOREIGN CURRENCY)	1,093,662	671,657
OUTSTANDING GUARANTEES AND INDEMNITIES:		
- FOREIGN CURRENCY	1,045,367	518,218
- LOCAL CURRENCY	273,340	467,949
TOTAL	**2,412,369**	**1,657,824**

Nature of contingent liabilities

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

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

OTHER COMMITMENTS	2007	2006
	TSHS'000	TSHS'000
UNDRAWN FORMAL STAND-BY FACILITIES,		
CREDIT LINES AND OTHER COMMITMENTS TO LEND	4,042,473	1,855,907

Nature of commitments

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

	2007	2006
	TSHS'000	TSHS'000
CAPITAL COMMITMENTS		
CAPITAL EXPENDITURE THAT HAS BEEN APPROVED		
BY THE BOARD BUT NOT YET CONTRACTED FOR.	1,268,006	552,922

24 RELATED PARTY TRANSACTIONS

The ultimate holding company up to 30 June 2007 was Belgolaise Bank SA, a company incorporated in Belgium. Thereafter, was taken over jointly by BANK OF AFRICA - KENYA, Aureous Fund East Africa LLC and BIO-Belgian Investment Company for Developing Countries.

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

There were no loans made to directors, key management personnel or related companies during the year.

DEPOSIT WITH RELATED COMPANIES

	RELATED COMPANIES	
	2007	2006
	SHS'000	SHS'000
DEPOSITS		
DEPOSITS AT THE BEGINNING OF THE YEAR	**-**	**1,705,566**
DEPOSITS RECEIVED DURING THE YEAR	890,143	-
DEPOSITS REPAID DURING THE YEAR	(886,179)	(1,705,566)
DEPOSITS AS AT THE END OF THE YEAR	**3,964**	**-**
INTEREST EXPENSE	-	-

CASH AND SHORT TERM FUNDS WITH RELATED COMPANIES

	2007	2006
	SHS'000	SHS'000
CASH BALANCES	-	630,820
NOSTRO BALANCES	-	16,134
	-	646,954
INTEREST EARNED	918	20,832
KEY MANAGEMENT COMPENSATION		
SALARIES AND OTHER SHORT-TERM BENEFITS	333,929	338,577

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director of the Bank.

Directors' remuneration

Fees and other emoluments paid to directors of the Bank during the year are as follows:

NAME	DIRECTORS FEES	OTHER EMOLUMENTS
	SHS'000	SHS'000
AMBASSADOR F. KAZAURA	13,216	-
Mr. E. OLE NAIKO	4,625	-
Mr. JUMA KISAAME	-	258,036
Mr. KOBENA ANDAH	-	75,893
TOTAL	**17,841**	**333,929**

BOA BANK
TANZANIA
GROUPE BANK OF AFRICA

BOA BANK - TANZANIA

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