BANK OF AFRICA - TANZANIA

www.boatanzania.com

DAR ES SALAAM BRANCHES

HEAD OFFICE BRANCH
NDC Development House – Ohio Street/Kivukoni Front
P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 211 01 04 / 12 90 – Fax: (255) 22 211 37 40
Mobile: (255) 754 885 538 / 787 933 335

AGGREY BRANCH
Aggrey Street – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 218 47 91 / 3 – Fax: (255) 22 218 47 62

AIRPORT BRANCH
Nyerere Road – Safasha House – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 286 44 81 / 2 – Fax: (255) 22 286 04 81

ILALA BRANCH
Ilala Amana/Uhuru Road – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 286 31 92 / 3 – Fax: (255) 22 286 31 94

KIJITONYAMA BRANCH
Letsya Towers – Kijitonyama, – Bagamoyo Road
P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 277 13 57 / 14 38 – Fax: (255) 22 277 00 148

MTONI BRANCH
Kilwa Road – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 285 68 37 / 8 – Fax: (255) 22 285 68 39

MBEZI BEACH BRANCH
Africana-Mbezi Beach – Mbezi Industrial Area – Bagamoyo Road
P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 262 75 73 / 4 – Fax: (255) 22 262 75 75

MSIMBAZI BRANCH
Big Bon Building, Msimbazi Stree – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 218 01 37 / 8 – Fax: (255) 22 218 01 68

SINZA BRANCH
Maembe Commercial Centre – Shekilango Road
P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 246 13 59 / 8 – Fax: (255) 22 246 13 60

TANDIKA BRANCH
Ugweno / Chihota Street – Opposite Tandika Police Post
P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 285 64 17 / 8 – Fax: (255) 22 285 64 19

REGIONAL BRANCHES

ARUSHA BRANCH
ACU Building – Sokoine Road – P.O. Box 1591 – Arusha
Phone: (255) 27 254 51 28 / 9 – Fax: (255) 27 254 51 30

MBEYA BRANCH
Mwanjelwa Street – Kisangani Building – P.O. Box 6414 – Mbeya
Phone: (255) 25 250 31 70 / 26 84 – Fax: (255) 25 250 26 27

MOROGORO BRANCH
Madaraka Street – Plot No. 23/24 – P.O. Box 2100 – Morogoro
Phone: (255) 23 261 36 81 / 2 – Fax: (255) 23 261 36 83

MOSHI BRANCH
Market Street – P.O. Box 8156 – Moshi
Phone: (255) 27 275 02 72 / 3 – Fax: (255) 27 275 02 98

MWANZA BRANCH
Kaluta / Lumumba Street – P.O. Box 381 – Mwanza
Phone: (255) 28 254 22 98 / 9 – Fax: (255) 28 254 22 94

TUNDUMA BRANCH
Mwaka Street – P.O. Box 74 – Tunduma
Phone: (255) 25 253 04 32 – Fax: (255) 25 253 04 35

HEAD OFFICE

BANK OF AFRICA TANZANIA
GROUPE BANK OF AFRICA

NDC Development House – Ohio Street/Kivukoni Front – P.O. Box 3054 – Dar es Salaam – TANZANIA
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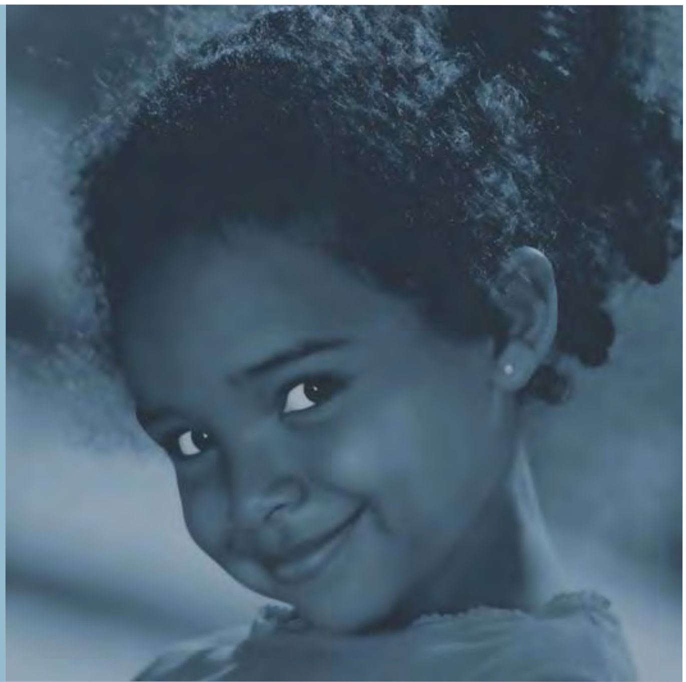
6/2011 - CR 26235 - TAM TAM TEAM - Cover: photo © Miroslav - Fotolia.com

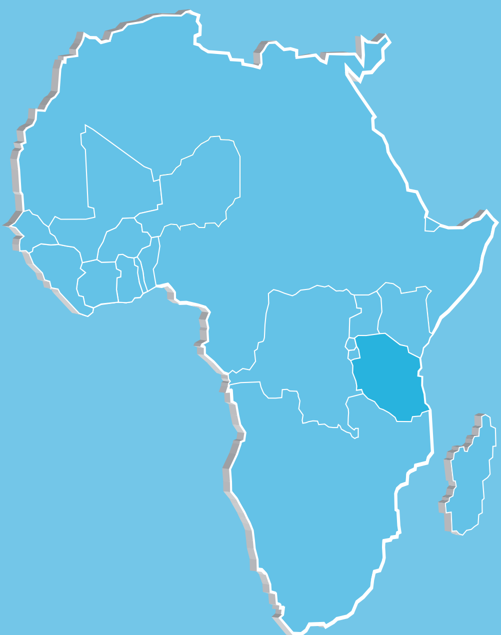
BANK OF AFRICA - TANZANIA

ANNUAL REPORT

2010

Developing
our continent.





Pour l'essor
de notre continent.

BANK OF AFRICA
TANZANIA

GROUPE BANK OF AFRICA

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BANK OF AFRICA - BENIN

20 Branches in Cotonou.
17 Regional Branches.

BANK OF AFRICA - BURKINA FASO

13 Branches in Ouagadougou.
8 Regional Branches.

BANK OF AFRICA - CÔTE D'IVOIRE

12 Branches in Abidjan.
8 Regional Branches.

BANK OF AFRICA - GHANA

14 Branches in Accra.
5 Regional Branches.

BANK OF AFRICA - MALI

14 Branches in Bamako.
7 Regional Branches and 2 Local Branches.

BANK OF AFRICA - NIGER

8 Branches in Niamey.
8 Regional Branches.

BANK OF AFRICA - SENEGAL

13 Branches in Dakar.
5 Regional Branches.

BANQUE DE L'HABITAT DU BENIN

1 Branch in Cotonou.

ACTIBOURSE

Head Office in Cotonou.
1 contact in each BOA company.
1 Liaison Office in Abidjan.

BOA-ASSET MANAGEMENT

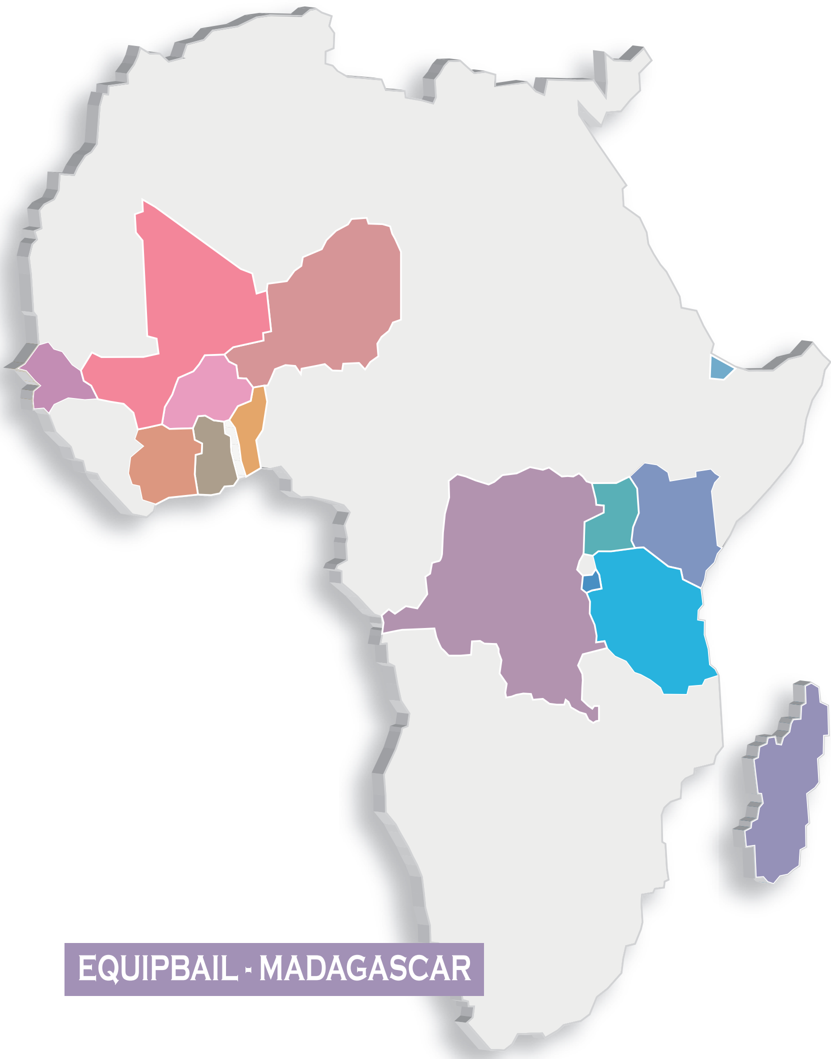
Head Office in Abidjan.

Group Banks and Subsidiaries

BOA - FRANCE

4 Branches in Paris.

1 Branch in Marseille.



EQUIPBAIL - MADAGASCAR

AGORA

AÏSSA

ATTICA

REPRESENTATIVE OFFICE

Head Office in Paris, France.

BANK OF AFRICA FOUNDATION

Head Office in Bamako.
Presence in 11 countries where the Group operates.

BANK OF AFRICA - KENYA

9 Branches in Nairobi.
10 Regional Branches.

BANK OF AFRICA - MER ROUGE

3 Branches in Djibouti.

BANK OF AFRICA - TANZANIA

10 Branches in Dar es Salaam.
6 Regional Branches.

BANK OF AFRICA - UGANDA

12 Branches in Kampala.
10 Regional Branches.

BANK OF AFRICA - MADAGASCAR

19 Branches in Antananarivo.
43 Regional Branches.

BANK OF AFRICA - RDC

4 Branches in Kinshasa.
1 Regional Branch.

BANQUE DE CREDIT DE BUJUMBURA

(BCB) Integrated into BOA network in 2008.
6 Branches in Bujumbura.
10 Regional Branches.

Bank Of Africa Group

Quality customer service

Dynamic and accessible staff

Financial solidity

Cohesive network

A wide range of financing solutions

Expertise in financial engineering

Strong partners

GROUP TURNOVER 2010

± 310 M€

STRONG POINTS

A strong network

More than 4,000 people at your service.

About 300 dedicated operating and service support offices in 15 countries, excluding affiliated partners.

A continuously expanding fleet of Automated Teller Machines and Electronic Payment Terminals.

Close to 1,000,000 bank accounts.

A wide and varied offer

Full range of banking and financial services.

An attractive range of bank insurance products.

Tailored solutions for all financing issues.

Successful financial engineering.

Strategic partners, including:

Banque Marocaine du Commerce Extérieur (BMCE Bank),

Proparco,

International Finance Corporation (IFC - World Bank Group),

West African Development Bank (BOAD),

Netherlands Development Finance Company (FMO),

Belgium Investment Company for Developing Countries (BIO),

and investment fund Aureos.

Unique experience in Africa

Continuous development for almost 30 years.

Main products of the Bank

BANK OF AFRICA English speaking network | BOA-TANZANIA

		BOA-TANZANIA
Accounts	Current Account	(Local & Foreign Currency)
	Goodwill Account	
	Remunerated Current Account	
	Salary Account	
	Personal Current Account	
	Wakili Current Account	
Investment Products	Call Deposits Account	
	Chama Account	
	Children Savings Account	
	Classic Saving Account	
	Family Savings Account	« Dira »
	Forexave Account	
	Ero Savings Account	
	Gold Plus Account	
	Investment Plan Account	
	Ordinary Saving Account	
	Fixed Deposit Account	
	Premium Plus Account	
	Reward Saving Account	
	Schools Fees Account	
	SESAME Savings Account	
	Student Savings Account	
	Term Deposit	
Electronic Banking	B-Web	
	B-SMS / B-Phone	
	SESAME ATM Card	(Umoja Switch Network)
	TOUCAN Card	
M-Payment	M-PESA	
	MTN Mobile Money	
Loans	2 in 1 loan	
	Bridging Overdraft	
	Instant Cash	
	Motor Cycle loan	
	Motor Vehicle Loan	
	Personal Loans	
	Personal Motor loan	
	Salary Advance	
	Schools Fees Loan	
	Super Kikapu	
Transfers and Changes	Foreign Exchange	
	Moneygram	
	Travellers Cheques	
	Western Union	
Complementary Products & Services	Banker's Cheques	
	e-tax	
	Utility Bill payments	
BOA Company Services	BOA-TANZANIA also offers a wide range of products and services to the attention of Corporates and SMEs organizations, institutions and professionals.	

Activity Report 2010

Comments from the Managing Director

In 2010, the economic and monetary management policies of the Government of Tanzania focused on slowing inflation and bringing annual inflation to a single digit; reducing the dependence on donor support for the budget to about 50%; and continuing a program aimed at making Tanzania self sufficient in food production.

BANK OF AFRICA - TANZANIA's (BOA-TANZANIA) overall financial performance for 2010 was good with growth of 40% in its balance sheet size. Total assets increased by 40%, customer deposits by 31.2% improving our market share to 2.1%. A key component of the asset growth was a 45% increase in the loan and advances portfolio. The Bank ended the year with an after tax profit of TZS 1.84 billion which was 87.8% above the corresponding period in 2009.

The branch expansion program saw the Bank increase its delivery channels further by opening of two branches at Mbeya and Tunduma. This brought the number of branches to 14 and is a pointer to the investment being done to imprint the BANK OF AFRICA (BOA) brand in Tanzania. In the short-term this program continued to put pressure on operating costs and although the cost to income ratio improved by 9.6% to 79%, it is still considered relatively high targeted to reduce further in 2011.

Kobby ANDAH addressing invited guests during the launch event of Mbeya Branch.

Over 2011, the Bank shall emphasize on improving customer quality care and delivery. We intend continue to selectively continue extending our delivery channels albeit at a slower pace than before as more importance will be placed on consolidating our existing branch network. Management will also continue to focus on cost control and all aspects of risk management.

We extend our sincere gratitude to our customers for their continued support and loyalty, staff for their contribution to the Bank's growth and all stakeholders who acted as catalysts in bringing us this far.

We look forward to a year driven by determination of effort to bring us closer to the aspirations that we strive to achieve in our three year strategic plan.

Kobby ANDAH

Managing Director

HIGHLIGHTS 2010

BOA Directors Meeting 2010, in Cotonou, in Bénin.
© BOA-BÉNIN

Groupe BANK OF AFRICA Network management Meeting 2010, in Dar es Salaam, in Tanzanie.
© BOA-TANZANIA

FEBRUARY

BOA-TANZANIA changed the face of its website for more interactivity with customers.

MAY

The Bank was represented by the Managing Director and Chairman of the Board of Directors in the World Economic Forum that took place in Dar es Salaam.

SME Spark is reviewed and revamped so as to accommodate customers' needs and to counter competition in the market.

JUNE

BOA-TANZANIA hosted the Groupe BANK OF AFRICA Network management Meeting, in Dar es Salaam, in Tanzania.

AUGUST

Opened the 13th and 14th branch in Mbeya and Tunduma.

The name BOA BANK – TANZANIA changed to BANK OF AFRICA – TANZANIA LTD.

The Bank undertook a benchmarking customer satisfaction survey carried out by a well renowned research consultant in East Africa – Synovate (formerly Steadman Group); this survey ranked BOA-TANZANIA 1st with 89.6% in the customer satisfaction index against peers.

SEPTEMBER

Take off of Private Banking, Home Finance and School Loan products.

Msimbazi Branch wins the Super Deposit campaign and bags the TZS 5 million award.

DECEMBER

Participation in the Groupe BANK OF AFRICA Directors Meeting, in Cotonou, in Benin.

KEY FIGURES 2010

TOTAL ASSETS

232,725,237

TZS' 000

ON 31/12/2010

ACTIVITY	
*Deposits**	195,601,188
*Loans**	103,106,236
INCOME	
*Operating income**	18,106,313
*Operating expense**	14,237,910
*Profit before tax**	2,639,287
STRUCTURE	
*Total assets**	232,725,237
Number of Employees	201

** in TZS' 000*

(At 31/12/2010, EUR 1 = TZS 1,952.44)

Corporate Social Responsibility Initiatives 2010

BANK OF AFRICA – TANZANIA (BOA-TANZANIA) believes that community investments are an important component to corporate citizenship. The Bank made notable contributions in social programs that had great impact in the communities in which we operate.

Donation to Josiah Kibira University College of Tumaini University.

Participation in AIESEC Career Fair 2010.

Easter Luncheon at the CCBRT in Tanzania Hospital.

Education

Donation to Josiah Kibira University College of Tumaini University

In support of the education sector in Tanzania, the Bank contributed TZS 5,5 Million on the 12th of March 2010 towards the establishment of the Josiah Kibira University College of Tumaini University. The fundraising Gala dinner was attended by some senior members of the Bank led by the Chairman of the Board of Directors Amb. Fulgence KAZAURA and the Managing Director, Mr. Kobby ANDAH.

Participation in AIESEC Career Fair 2010

In support of the development of the youth in the country, BOA-TANZANIA participated in the AIESEC Tanzania Career Fair on the 17th and 18th of April 2010 held at University of Dar es Salaam and on the 26th of April 2010 in Mwanza. This offered a chance for the Bank to interact with university students from 7 universities countrywide. Being a pan-African Bank with a local focus, it is important that BOA-TANZANIA continues to bring a diverse and multi-talented group of employees into the company.

Fun Fair at the French School - 11th December, 2010

Always ensuring to keep our partners close, the Bank joined the French School for their end of year Fun Fair in addition to contributing USD 1,000 towards the event.

Health

Easter Luncheon at the Comprehensive Community Based Rehabilitation in Tanzania (CCBRT) Hospital

Staff from the Bank paid a visit to the children admitted in the hospital with club feet, bow legs and other congenital deformities during the Easter holiday and hosted a luncheon for them. This was aimed at caring for the disabled and also gave them a chance to give back to their community. This went a long way in instilling confidence in the children within the hospital and enhancing the Bank's efforts in community service.

CCBRT: BOA-TANZANIA printed brochures to assist the hospital to sensitize the public on how to make donations.

Donation to the CCBRT in Tanzania Hospital.

Staff Donations to Comprehensive Community Based Rehabilitation in Tanzania (CCBRT) Hospital

BOA-TANZANIA staff have been making monthly donations to CCBRT from 1st of July 2010 to date and managed to donate up to TZS 2,250,000. The Bank also printed brochures that were distributed within its 14 Branches in an effort to assist the hospital to sensitize the public on how to make donations to CCBRT and areas in which their donations are channeled to.

Donation to flood victims in Kilosa.

Social

Donation to flood victims in Kilosa

In response to the flooding in Morogoro, the Bank donated mattresses to Kilosa flood victims on the 7th of March 2010. The mattresses were handed over by the Managing Director, Mr. Kobby ANDAH and were received by the Minister of Finance and Economic Affairs, Mr. Mustapha MKULO.

Bus shelters for residents of Tunduma and Mbeya.

Bus shelters for residents of Tunduma and Mbeya

In an effort to enhance the social welfare of the community, BOA-TANZANIA in August 2010 put up 6 bus shelters along the Mbeya-Tunduma road as part of an awareness campaign for the new Mbeya and Tunduma Branches. This was part of its corporate social responsibility by providing for the locals shelters in which to wait for public transport; these did not exist before in both towns.

Rotary Dar Marathon

17 members of staff participated in the marathon organized by Rotary Clubs of Tanzania. The Bank also supported the organization financially to the tune of TZS 2,5 million. The proceeds of this charity event were directed towards the "Water for life" project that aims to provide water to schools and hospitals.

The female category winner at BOA International Marathon in Bamako.

BOA International Marathon

Contribution to the BOA International Marathon in Bamako, by financing the trip and the stay of a delegation. The female Tanzanian athlete sponsored by BOA-TANZANIA came first in her category.

Photos : © Joseph Komba

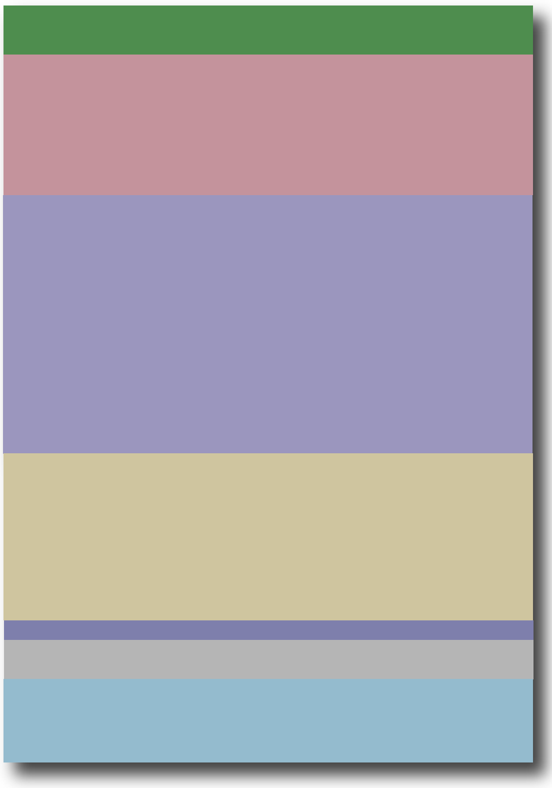
Board of Directors

The Directors who held office during the year and to the date of 23 February 2011 were:

- Ambassador Fulgence KAZAURA, Chairman
- Paul DERREUMAUX
- Vincent de BROUWER
- Emmanuel Ole NAIKO
- Shakir MERALI
- Henri LALOUX
- Peter LOCK
- M'Fadel El HALAISSI
- Kobby ANDAH, Managing Director

Capital

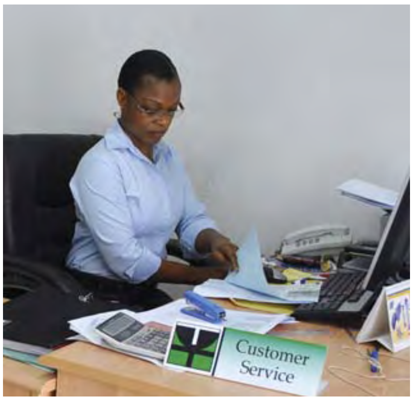
The Bank has TZS 15 billion authorized ordinary shares with accumulative nominal value of TZS 14 billion. The following is the Bank's shareholding structure as at 31st December 2010.
Shareholding Position based on number of shares (%):



6.42%	AFH-OCEAN INDIEN
18.59%	AUREOS EAST AFRICA FUND LLC
34.14%	BANK OF AFRICA – KENYA
22.07%	BIO-BELGIAN INVESTMENT COMPANY
2.56%	NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)
5.22%	OTHERS
11.00%	TANZANIAN DEVELOPMENT FINANCE (TDFL)

Report and Financial Statements

for the year ended 31 December 2010



DIRECTORS'REPORT

The directors present their report and audited financial statements for the year ended 31 December 2010, which disclose the state of affairs of BANK OF AFRICA – TANZANIA Limited (the Bank).

1. INCORPORATION

BANK OF AFRICA – TANZANIA Limited is a limited liability Company incorporated under the Companies Act CAP 212, Act No. 2 of 2002 and is domiciled in the United Republic of Tanzania.

2. BANK'S VISION AND MISSION

The Bank's vision is to be the preferred Bank to our chosen markets. The Bank will realise this by serving our customers with efficiency and courtesy, contributing to the development of all our stakeholders, optimize the growth of BANK OF AFRICA GROUP through synergies and common development plans and promote growth and stability of the economies in which we operate.

3. PRINCIPAL ACTIVITIES AND PERFORMANCE FOR THE YEAR

The Bank is engaged in taking deposits on demand, providing short-term and medium term credit facilities and other banking services.

Business developments

The Bank's overall financial performance for 2010 was good with growth of 40% in its balance sheet size. Total assets increased by 40%, customer deposits by 31.2% improving our market share to 2.1%. A key component of the asset growth was a 45% increase in the loan and advances to customer portfolio. The Bank ended the year with an after tax profit of Shs 1.84 billion which is an increase of 87.8% compared to the corresponding year in 2009.

The branch expansion program saw the Bank increasing its delivery channels further by opening of two branches at Mbeya and Tunduma in 2010. This brought the number of branches to 14 and is a pointer to the investment being done to imprint the BANK OF AFRICA brand in the Tanzanian market. In the short-term this program continued to put pressure on operating costs and although the cost to income ratio improved by 9.7% to 79%, it is still considered relatively high targeted to reduce further in 2011.

Over 2011, the Bank shall emphasize on improving customer quality care and delivery. We intend to continue to selectively continue extending our delivery channels albeit at a slower pace than before as more importance will be placed on consolidating our existing branch network. Management will also continue to focus on cost control and all aspects of risk management. We extend our sincere gratitude to our customers for their continued support and loyalty, staff for their contribution to the Bank's growth and all stakeholders who acted as catalysts in bringing us this far. We look forward to a year driven by determination of effort to bring us closer to the aspirations that we strive to achieve in our three year strategic plan. The Directors propose or recommend dividend payment of Shs 920 million for the year 2010, subject to unification of shares and agreement on the modalities of distribution. (2009: Nil)

4. DIRECTORS

The Directors of the Bank at the date of this report and who have served in office since 1 January 2010 unless otherwise stated are:

Name	Position	Nationality	Appointment date
Mr. Fulgence KAZAURA	Chairman	Tanzanian	
Mr. Paul DERREUMAUX	Member	French	
Mr. Vincent de BROUWER	Member	Belgian	
Mr. Emmanuel Ole NAIKO	Member	Tanzanian	
Mr. M'Fadel El HALAISSI	Member	Moroccan	01 June 2010
Mr. Shakir MERALI	Member	Kenyan	
Mr. Kobena ANDAH	Managing Director	British	
Mr. Peter LOCK	Member	Netherland	
Mr. Henri LALOUX	Member	Belgian	

The Board met four times during the year. The Company Secretary at the date of this report, who served in this capacity since 01 January 2010 is Mr. Patrick MALEWO (Tanzanian).

5. CORPORATE GOVERNANCE

The Board of Directors consists of 9 Directors, including the Managing Director. Apart from the Managing Director, no other director holds an executive position in the Bank. The Board takes overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control, policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Managing Director assisted by senior management. Senior management is invited to attend board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units. The Bank is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency and accountability.

During the year the Board of Directors of the Bank had the following board sub-committees to ensure a high standard of corporate governance throughout the Bank. All these committees report to the main Board of Directors.

i) Board Credit Approval Committee

Name	Position	Nationality
Vincent de BROUWER	Chairman	Belgian
Emmanuel Ole NAIKO	Member	Tanzanian

The committee conducts its business by circulation and the decisions are discussed and ratified in the Board Risk Committee.

ii) Board Audit Committee

Name	Position	Nationality
Vincent de BROUWER	Chairman	Belgian
Emmanuel Ole NAIKO	Member	Tanzanian
Shakir MERALI	Member	Kenyan
Henri LALOUX	Member	Belgian
Peter LOCK	Member	Dutch

The committee met four times during the year.

iii) Board Risk Committee

Name	Position	Nationality
Shakir MERALI	Chairman	Kenyan
Vincent de BROUWER	Member	Belgian
Emmanuel Ole NAIKO	Member	Tanzanian
Henri LALOUX	Member	Belgian
Peter LOCK	Member	Dutch

The committee met four times during the year.

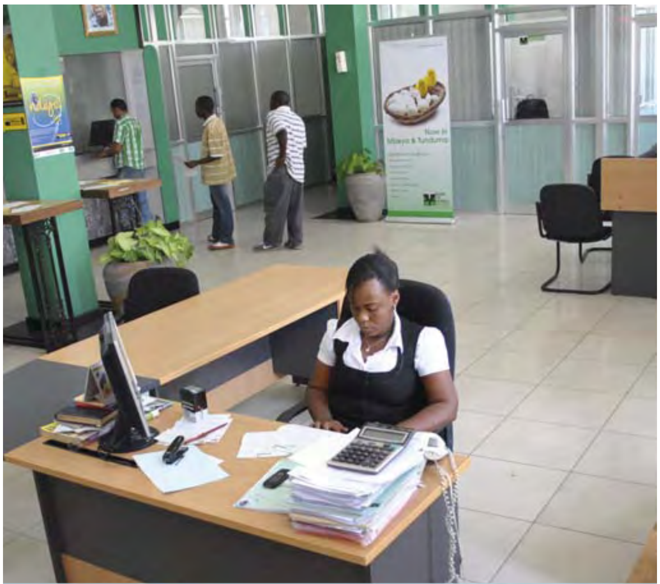
6. CAPITAL STRUCTURE

The Bank's capital structure as at 31 December 2010 is disclosed in note 3.4 to the financial statements.

7. SHAREHOLDERS OF THE BANK

The total number of shareholders during the year was 18 (2009: 18 shareholders). None of the directors of the Bank has interest in the issued share capital.
The shareholding of the Bank during the year is as disclosed in note 22 to the financial statements.

Airport Branch in Dar es Salaam.


Airport banking hall.

Mtoni Branch in Dar es Salaam.

8. MANAGEMENT

The management of the Bank is under the Managing Director and is organized in the following departments;

- Corporate Banking
- Retail & SME Banking
- Treasury
- Finance
- Operations
- Marketing
- Information Technology
- HR and Administration
- Risk

9. FUTURE DEVELOPMENT PLANS

Over 2011, the Bank shall focus on increasing market share by improving on customer quality care and delivery, product innovation, bank modernization and focus on chosen markets whereby we intend to launch VISA Card and Mobile Banking as well as secure USD 8.5 million subordinated debts from Proparco and IFC for the purpose of facilitating the on-set of the Bank's mortgage facility and leasing for manufacturing companies and SMEs among others.

We also intend to continue selectively extending our delivery channels albeit at a slower pace than before as more importance will be placed on consolidating our existing branch network. Management will also continue to focus on cost control and all aspects of risk management.

10. SOLVENCY

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Board of Directors has reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future.

11. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

12. EMPLOYEE'S WELFARE

Management and Employees' Relationship

There were continued good relations between employees and management for the year ended 31 December 2010. There were no unresolved complaints received by Management from the employees during the year.

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

Training Facilities

In its annual budget for the year 2011, the Bank has allocated a sum of Shs 201 million for staff training in order to improve employee's technical skills hence effectiveness (2010: Actual spent Shs 293million). Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade skills and enhance development.

Medical Assistance

All members of staff with a maximum number of four beneficiaries (dependants) for each employee were availed medical insurance guaranteed by the Bank. Currently these services are provided by AAR Insurance Tanzania Limited.

Tandika Branch in Dar es Salaam.

Sinza Branch in Dar es Salaam.

Msimbazi Branch in Dar es Salaam.

Financial Assistance to Staff

Loans are available to all confirmed employees depending on the assessment of and the discretion of management as to the need and circumstances.

Persons with Disabilities

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

Employees Benefit Plan

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

The average number of employees during the year was 178 (2009: 143).

Photos : © BOA-TANZANIA

13. GENDER PARITY

As at 31 December 2010, the Bank had 201 employees, out of which 92 were female and 109 were male. (2009: 161 employees, out of which 83 were female and 78 were male).

14. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 25 to these financial statements.

15. SOCIAL AND ENVIRONMENTAL POLICY

The Bank recognises that sustainable development is dependent upon a positive interaction between economic growth, social upliftment and environmental protection.

As a responsible corporate citizen, the Bank has a policy framework that is designed to ensure that all projects undertaken adhere to social and environmental regulations of the relevant local, national and international standards.

The policy framework commits the Bank to:

- Support business activities that contribute to the protection and improvement of the environment;
- Monitor the effects of our activities on the environment and work towards the improvement and pollution prevention;
- Comply with all applicable laws and regulations related to environmental protection and other requirements to which the Bank is subject to and subscribed to and;
- Provide financing to projects with minimal adverse impact on the environment while ensuring that those having potentially major adverse environmental and social impact are accompanied by adequate mitigation measures.

16. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. Donations made to charitable organizations during the year amounted to Shs 21 million (2009: Shs 11 million).

17. CORPORATE SOCIAL RESPONSIBILITY

BANK OF AFRICA – TANZANIA Limited believes in investing in the society in which we operate in. Over the years, we have continuously supported community programs and initiatives that will have a social-economic impact within Tanzania. The Bank is focused on enhancing community activities under the social, education and cultural sectors of the economy.

In 2010, the Bank continued to support Comprehensive Community Based Rehabilitation in Tanzania (CCBRT) through staff donations and organized an Easter luncheon for children with congenital deformities. The Bank also printed brochures that were placed within its branch network to inform its customer and the general public on how to make donations to CCBRT.

The Bank also donated mattresses to the Kilosa flood victims, constructed 6 bus shelters for residents of Tunduma and Mbeya for them to use as they await public transport and contributed to the Rotary Dar Marathon whose proceeds were directed towards the "Water for life project" that aimed at providing water access to schools and hospitals.

In addition, the Bank sponsored the European film festival and printed session brochures for Alliance Française in an effort to support cultural diversity programs.

Furthermore, in support to the education sector, the Bank made donations to Josiah Kibira University College of Tumaini University towards the establishment of the university and the fun fair event at the French School. The Bank also participated in the AIESEC career fair 2010 thereby enhancing a close interaction between the bank and university students.

18. AUDITORS

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

Approved by the Board of Directors on 26/03/11 and signed on its behalf by:

Fulgence KAZAURA

Chairman
26/03/11

STATEMENT OF DIRECTORS' RESPONSIBILITES

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

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

Approved by the Board of Directors on 26/03/11 and signed on its behalf by:

Fulgence KAZAURA

Chairman
26/03/11

Sinza Branch banking hall. © BOA-TANZANIA

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BANK OF AFRICA - TANZANIA LTD

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of BANK OF AFRICA – TANZANIA Limited (the Bank), which comprise the balance sheet as at 31 December 2010, the profit and loss account, statement of comprehensive income, 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

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

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Bank's affairs at 31 December 2010 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act, CAP 212 Act No. 12 of 2002.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Certified Public Accountants

PRICEWATERHOUSECOOPERS

DAR ES SALAAM

Signed by **LEONARD C. MUSUSA**
30/03/2011

Financial Statements

FOR THE YEAR ENDED

31 December 2010

STATEMENTS OF COMPREHENSIVE INCOME

AT 31 DECEMBER	NOTES	2010 SHS'000	2009 SHS'000
INTEREST AND SIMILAR INCOME	5	15,559,882	11,869,931
INTEREST AND SIMILAR EXPENSES	6	(5,605,946)	(5,435,534)
NET INTEREST INCOME		**9,953,936**	**6,434,397**
IMPAIRMENT CHARGE ON LOANS AND ADVANCES	15	(1,257,015)	(659,371)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT		**8,696,921**	**5,775,026**
FEE AND COMMISSION INCOME	7	4,695,959	3,223,584
FEE AND COMMISSION EXPENSE		(304,098)	(284,963)
NET FEE AND COMMISSION INCOME		**4,391,861**	**2,938,621**
FOREIGN EXCHANGE INCOME		3,674,738	1,812,279
OTHER OPERATING INCOME		85,778	1,009
RECOVERY OF BAD DEBTS PREVIOUSLY WRITTEN OFF		27,899	724,852
OPERATING EXPENSES	8	(14,237,910)	(9,882,233)
PROFIT BEFORE INCOME TAX		**2,639,287**	**1,369,554**
INCOME TAX EXPENSE	10	(799,626)	(389,737)
PROFIT FOR THE YEAR		**1,839,661**	**979,817**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,839,661**	**979,817**

BALANCE SHEET

AT 31 DECEMBER		2010	2009
	NOTES	SHS'000	SHS'000
ASSETS			
CASH AND BALANCES WITH BANK OF TANZANIA	12	33,052,123	24,610,427
LOANS AND ADVANCES TO BANKS	13	41,752,892	42,199,977
GOVERNMENT SECURITIES HELD TO MATURITY	14	45,812,401	20,190,270
LOANS AND ADVANCES TO CUSTOMERS	15	103,106,236	71,101,565
OTHER ASSETS	16	1,715,384	1,684,339
PREMISES AND EQUIPMENT	17	5,418,665	4,482,854
INTANGIBLE ASSETS	18	1,137,190	1,345,972
INCOME TAX RECOVERABLE		730,346	563,194
TOTAL ASSETS		**232,725,237**	**166,178,598**
LIABILITIES			
DEPOSITS FROM OTHER BANKS		16,850,739	810,296
CUSTOMER DEPOSITS	19	195,601,188	149,020,621
OTHER LIABILITIES	20	2,542,841	1,629,648
DEFERRED INCOME TAX	21	350,946	261,961
TOTAL LIABILITIES		**215,345,714**	**151,722,526**
EQUITY			
SHARE CAPITAL	22	13,988,539	13,169,542
SHARE PREMIUM		1,262,417	997,392
RETAINED PROFIT		1,804,358	168,911
REGULATORY RESERVE		324,209	120,227
TOTAL EQUITY		**17,379,523**	**14,456,072**
TOTAL LIABILITIES AND EQUITY		**232,725,237**	**166,178,598**

The financial statements on pages 26 to 63 were approved by the Board of Directors and signed on its behalf by:

Fulgence KAZAURA
Chairman

Emmanuel Ole NAIKO
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL	SHARE PREMIUM	RETAINED EARNINGS/ (ACCUMULATED LOSS)	REGULATORY RESERVE	TOTAL
	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000
YEAR ENDED 31 DECEMBER 2010					
AT START OF THE YEAR	13,169,542	997,392	168,911	120,227	14,456,072
ISSUE OF NEW SHARES	818,997	265,025	-	-	1,084,022
PROFIT FOR THE YEAR	-		1,839,661	-	1,839,661
TRANSFER TO REGULATORY RESERVE	-	-	204,214	203,982	-232
BALANCE AT 31 DECEMBER 2010	13,988,539	1,262,417	1,804,358	324,209	17,379,755
YEAR ENDED 31 DECEMBER 2009					
AT START OF THE YEAR	11,562,349	684,925	(1,747,444)	1,056,765	11,556,595
ISSUE OF NEW SHARES	1,607,193	312,467	-	-	1,919,660
PROFIT FOR THE YEAR	-	-	979,817	-	979,817
TRANSFER FROM REGULATORY RESERVE	-	-	936,538	(936,538)	-
BALANCE AT 31 DECEMBER 2009	13,169,542	997,392	168,911	120,227	14,456,072

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 reserve is not available for distribution.

The Bank of Tanzania approved a provision for loan losses of Shs 2,168 million in accordance with Bank of Tanzania regulations. However, these financial statements include a provision for loan impairment losses of Shs 1,844 million, determined in accordance with IFRS, necessitating retention of Shs 324 million in regulatory reserve.

CASH FLOW STATEMENT

	NOTES	2010 SHS'000	2009 SHS'000
CASH FROM OPERATING ACTIVITIES			
INTEREST AND SIMILAR INCOME RECEIVED		13,494,064	10,886,272
INTEREST PAID		(5,306,557)	(5,028,476)
FEES AND COMMISSION RECEIVED		4,695,959	3,223,584
RECOVERY OF BAD DEBTS PREVIOUS WRITTEN OFF		27,899	724,852
FOREIGN EXCHANGE INCOME RECEIVED		3,674,738	1,812,279
PAYMENT TO EMPLOYEES AND SUPPLIERS		(13,495,415)	(9,672,221)
TAX PAID		(878,026)	(656,388)
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETSAND LIABILITIES		**2,212,662**	**1,289,902**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
(INCREASE)/DECREASE IN INVESTMENT SECURITIES HELD TO MATURITY (WITH MATURITY OF 3 MONTHS AND MORE)		(32,217,581)	6,665,591
INCREASE IN LOANS AND ADVANCES TO CUSTOMERS		(32,574,837)	(29,645,552)
INCREASE IN STATUTORY MINIMUM RESERVE		(5,250,000)	(1,650,000)
INCREASE IN OTHER ASSETS		(31,045)	(295,132)
INCREASE IN DEPOSITS		62,321,621	39,497,898
INCREASE/(DECREASE) IN OTHER LIABILITIES		706,238	(206,955)
NET CASH (UTILISED)/GENERATED FROM OPERATING ACTIVITIES		**(4,832,942)**	**15,655,752**
CASH FLOW FROM INVESTING ACTIVITIES			
PURCHASE OF PREMISES AND EQUIPMENT	17	(2,212,683)	(2,332,721)
PURCHASE OF INTANGIBLE ASSETS	18	(158,811)	(94,307)
PROCEEDS FROM SALE OF ASSETS		86,885	2,601
NET CASH UTILISED IN INVESTING ACTIVITIES		**(2,284,609)**	**(2,424,427)**
CASH FLOW FROM FINANCING ACTIVITIES			
PROCEEDS FROM ISSUE OF SHARES		1,084,022	1,919,659
NET CASH INFLOW FROM FINANCING ACTIVITIES		**1,084,022**	**1,919,659**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(6,033,530)**	**15,150,984**
CASH AND CASH EQUIVALENT AT START OF THE YEAR		61,236,648	46,085,648
CASH AND CASH EQUIVALENT AT END OF YEAR	23	**55,203,118**	**61,236,632**

Notes to the Financial Statements

1. GENERAL INFORMATION

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

BANK OF AFRICA – TANZANIA LIMITED
NDC BUILDING
OHIO AVENUE
P.O. BOX 3054
DAR ES SALAAM

The financial statements for the year ended 31 December 2010 have been approved for issue by the Board of Directors on 26 March 2011. Neither the entity's owners nor others have the power to amend the financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. 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 (Shs) and the amounts are rounded to the nearest thousand, except where otherwise indicated.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 3.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The directors believe that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank

The amendments to existing standards below that are part of the Annual Improvements Project 2009 are relevant to the Bank's operations:

STANDARD	TITLE	APPLICABLE FOR FINANCIAL YEAR BEGINNING ON/AFTER
IAS 1	PRESENTATION OF FINANCIAL STATEMENTS	1 JANUARY 2010
IAS 17	LEASES	1 JANUARY 2010
IAS 36	IMPAIRMENT OF ASSETS	1 JANUARY 2010

• IAS 1, 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period. The application of the amendment does not have a significant impact on the Bank's financial statements.

• IAS 17, 'Leases'. The amendment clarifies that when a lease includes both land and buildings elements, an entity shall assess the classification of each element as a finance or an operating lease separately. The application of the amendment does not have a significant impact on the Bank's financial statements.

• IAS 36, 'Impairment of Assets'. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating Segments' (that is, before the aggregation of segments with similar economic characteristics). The application of the amendment does not have a significant impact on the Bank's financial statements.

(ii) New and amended standards, and interpretations mandatory for the financial year beginning 1 January 2010 but not relevant to the Bank:

STANDARD/INTERPRETATION	TITLE	APPLICABLE FOR FINANCIAL YEARS BEGINNING ON/AFTER
IFRS 1	FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS – ADDITIONAL EXEMPTIONS FOR FIRST-TIME ADOPTERS	1 JULY 2009
IFRS 2 (AMENDED)	SHARE-BASED PAYMENT – GROUP CASH-SETTLED SHARE-BASED PAYMENT TRANSACTION	1 JANUARY 2010
IFRS 2	SHARE-BASED PAYMENT (PART OF ANNUAL IMPROVEMENT PROJECT 2009) – SCOPE OF IFRS 2 AND REVISED IFRS 3	1 JULY 2009
IFRS 3	BUSINESS COMBINATIONS	1 JULY 2009
IFRS 5	NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (PART OF ANNUAL IMPROVEMENT PROJECT 2009) – DISCLOSURES OF NON-CURRENT ASSETS (OR DISPOSAL GROUPS) CLASSIFIED AS HELD FOR SALE OR DISCONTINUED OPERATIONS	1 JANUARY 2010
IAS 27 (REVISED)	CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS	1 JULY 2009
IAS 38	INTANGIBLE ASSETS (PART OF ANNUAL IMPROVEMENT PROJECT 2009) – ADDITIONAL CONSEQUENTIAL AMENDMENTS ARISING FROM REVISED IFRS 3	1 JULY 2009
IAS 39	FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT (PART OF ANNUAL IMPROVEMENT PROJECT 2009) – (I) TREATING LOAN PREPAYMENT PENALTIES AS CLOSELY RELATED EMBEDDED DERIVATIVES (II) SCOPE EXEMPTION FOR BUSINESS COMBINATION CONTRACTS	1 JANUARY 2010
IFRIC 9 & IAS 39	REASSESSMENT OF EMBEDDED DERIVATIVES & FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT	30 JUNE 2009
IFRIC 17	DISTRIBUTION OF NON-CASH ASSETS TO OWNERS	1 JULY 2009
IFRIC 18	TRANSFERS OF ASSETS FROM CUSTOMERS	1 JULY 2009
IFRS 8 (AMENDED)	OPERATING SEGMENTS	1 JANUARY 2010

(iii) Standards and interpretations issued but not yet effective

The following new standards, amendments to existing standards and interpretations have been issued and are mandatory for the Bank's accounting periods beginning on or after 1 January 2011 or later periods and are not expected to be relevant to the Bank, except for IFRS 9.

STANDARD/INTERPRETATION	TITLE	APPLICABLE FOR FINANCIAL YEARS BEGINNING ON/AFTER
IFRS 1 (AMENDED)	FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS – LIMITED EXEMPTION FROM COMPARATIVE IFRS 7 DISCLOSURES FOR FIRST-TIME ADOPTERS	1 JULY 2010
IFRS 9	FINANCIAL INSTRUMENTS PART 1: CLASSIFICATION AND MEASUREMENT	1 JANUARY 2013
IAS 24 (AMENDED)	RELATED PARTY DISCLOSURES	1 JANUARY 2011
IAS 32 (AMENDED)	FINANCIAL INSTRUMENTS: PRESENTATION – CLASSIFICATION OF RIGHTS ISSUE	1 FEBRUARY 2010
IFRIC 14 (AMENDED)	IAS 19 – THE LIMIT ON A DEFINED BENEFIT ASSET, MINIMUM FUNDING REQUIREMENT AND THEIR INTERACTION	1 JANUARY 2011
IFRIC 19	EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY INSTRUMENTS	1 JULY 2010

IFRS 9, 'Financial instruments part 1: Classification and measurement' and part 2: Financial liabilities and Derecognition of financial instruments

• IFRS 9, part 1 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets.

Key features are as follows:

• Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

• An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

• All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

• While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Bank is considering the implications of the Standard, the impact on the Bank and the timing of its adoption by the Bank.

• IFRS 9, part 2 was issued in October 2010 and includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation of financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and Measurement', without change except for financial liabilities that are designated at fair value through profit or loss.

• Under the new standard, entities with financial liabilities at fair value through profit or loss recognise changes in the liability's credit risk directly in other comprehensive income. There is no subsequent recycling of the amounts in other comprehensive income to profit or loss, but accumulated gains or losses may be transferred within equity.

Improvements to IFRS

'Improvements to IFRS' were issued in May 2010. The amendments that are relevant to the Bank's operations relate to: IFRS 7, 'Financial Instruments: Disclosures' and IAS 1, 'Presentation of financial statements'. Most of the amendments are effective for annual periods beginning on or after 1 January 2011 with early application permitted.

IFRS 7, 'Financial Instruments: Disclosures'. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

IAS 1, 'Presentation of financial statements'. The amendment clarifies that an entiry must present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

(iv) Early adoption of standards

The Bank did not early-adopt new or amended standards in 2010.

(B) INTEREST INCOME AND EXPENSE

Interest income and expense for all interest-bearing financial instruments except for those classified as held-for-trading or designated at fair value through profit or loss are recognised within 'interest income' and 'interest expense' in the profit and loss account using the effective interest rate method.

The effective interest rate 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 of the effective interest rate 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) TRANSLATION OF FOREIGN CURRENCIES

Transactions are recorded on initial recognition in Tanzania Shillings, being the currency of the primary economic environment in which the Bank operates (the functional currency). Transactions in foreign currencies during the year are converted into the Tanzania shillings using the exchange rates prevailing at the dates of the transaction. 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. Directors determine 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 that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(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 and banks 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 directors have 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.

RECOGNITION AND MEASUREMENT OF FINANCIAL ASSETS

Initial recognition

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.

Subsequent measurement

Loans 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 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.

(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:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

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

The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an appropriate provision and the amount of the loss is recognised in the profit and loss account.

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

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.

(G) FINANCIAL LIABILITIES

The Bank's holding in financial liabilities is mainly in financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

Liabilities measured at amortised cost

Financial liabilities measured at amortised cost are deposits from banks or customers and other liabilities.

(H) 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 nor 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.

(I) 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.

(J) 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
MOTOR VEHICLES	20
FURNITURE AND FITTINGS	20
EQUIPMENT	20

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use.

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

(K) INTANGIBLE ASSETS

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

(L) CASH AND CASH EQUIVALENTS

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

(M) 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.

(N) 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.

(O) ACCEPTANCES AND LETTERS OF CREDIT

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

(P) SHARE CAPITAL

Ordinary shares are classified as 'share capital' in equity. New shares are recorded at nominal value and any premium received over and above the par value of the shares is classified as 'share premium' in equity.

3. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risk. Taking risk is core to a financial business, and the operational risks are inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

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

3.1 CREDIT RISK

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

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 derives 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.

3.1.1 CREDIT RISK MEASUREMENT

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

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

BANK'S INTERNAL RATINGS SCALE

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

3.1.2 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.

(i) Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured.

Some other specific control and mitigation measures are outlined below.

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.

(ii) 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.

3.1.3 IMPAIRMENT AND PROVISIONING POLICIES

The internal rating systems described in Note 3.1.1 focus more on credit-quality mapping from the inception of the lending. 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 is mainly 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:

	2010		2009	
	LOANS & ADVANCES (%)	IMPAIRMENT PROVISION (%)	LOANS & ADVANCES (%)	IMPAIRMENT PROVISION (%)
CURRENT	95.63	0.10	97	-
ESPECIALLY MENTIONED	1.14	0.10	-	5
SUBSTANDARD	1.30	55.5	-	10
DOUBTFUL	0.05	94.9	1	38
LOSS	1.88	47.6	2	92
TOTAL	100.0	2	100.0	2

In addition, the Bank makes a portfolio impairment provision for credit losses based on the probability of loss using historic default ratios.

3.1.4 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

	2010	2009
	SHS'000	SHS'000
CREDIT RISK EXPOSURES RELATING TO ON BALANCE SHEET ASSETS ARE AS FOLLOWS:		
BALANCES WITH BANK OF TANZANIA (*)	23,795,459	15,883,389
LOANS AND ADVANCES TO BANKS	41,752,892	42,199,977
GOVERNMENT SECURITIES HELD TO MATURITY	45,812,401	20,190,270
LOANS AND ADVANCES TO CUSTOMERS		
LOAN TO INDIVIDUAL:		
- OVERDRAFT	6,266,106	3,341,479
- TERM LOANS	8,132,978	7,437,799
LOAN TO CORPORATE ENTITIES:		
- CORPORATE CUSTOMERS	68,617,290	37,833,089
- SMES	20,089,862	22,489,198
TOTAL	214,466,988	149,375,201
CREDIT RISK EXPOSURES RELATING TO OFF BALANCE SHEET ASSETS ARE AS FOLLOWS:		
FINANCIAL GUARANTEES, OUTSTANDING LETTERS OF CREDIT AND INDEMNITIES	11,621,912	8,403,473
COMMITMENTS TO EXTEND CREDIT	10,209,597	10,504,820
TOTAL	236,298,497	168,283,494

(*) Cash on hand is not included since it is not exposed to credit risk.

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2010 and 31 December 2009, 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, 66% is derived from loans and advances to banks and customers (December 2009: 74%); 19% represents investments in debt securities (December 2009: 12%). 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:

- 97% of the customer's loans and advances portfolio is categorised in the top two grades of the internal rating system (December 2009: 97%);
- 96% of the customers' loans and advances portfolio is considered to be neither past due nor impaired (December 2009: 97%);
- All the investments in debt securities are considered to be current.

3.1.5 LOANS AND ADVANCES

Loans and advances are summarised as follows:

	2010		2009	
	SHS'000	SHS'000	SHS'000	SHS'000
	LOAN AND ADVANCES TO CUSTOMERS	LOAN AND ADVANCES TO BANKS	LOAN AND ADVANCES TO CUSTOMERS	LOAN AND ADVANCES TO BANK
NEITHER PAST DUE NOR IMPAIRED	100,365,781	41,752,892	70,378,805	42,199,977
PAST DUE BUT NOT IMPAIRED	1,579,910	-	126,646	-
IMPAIRED	3,004,739	-	1,986,698	-
GROSS	104,950,430	41,752,892	72,492,449	42,199,977
LESS: ALLOWANCE FOR IMPAIRMENT	(1,844,194)	-	(1,390,884)	-
NET OF IMPAIRMENT	103,106,236	41,752,892	71,101,565	42,199,977

The total impairment provision for loans and advances is Shs 1,844 million (2009: Shs 1,391 million). Further information of the impairment allowance for loans and advances to customers is provided in Note 15.

During the year ended 31 December 2010, the Bank's total loans and advances increased by 45% 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 corporate clients or banks with good credit rating or retail customers providing sufficient collateral.

Credit quality of the portfolio of loans and advances that were neither past due nor impaired is assessed by reference to the internal rating system.

(a) 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).

AS AT 31 DECEMBER 2009	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
PAST DUE UP TO 30 DAYS	-	39,606	2,840	-	42,446
PAST DUE UP TO 30-60 DAYS	9,811	74,389	-	-	84,200
PAST DUE UP TO 60-90 DAYS	-	-	-	-	-
TOTAL	9,811	113,995	2,840	-	126,646
FAIR VALUE OF COLLATERAL	12,754	148,194	3,692	-	164,640

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

AS AT 31 DECEMBER 2010	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
PAST DUE UP TO 30 DAYS	-	-	-	-	-
PAST DUE UP TO 30-60 DAYS	-	-	-	-	-
PAST DUE UP TO 60-90 DAYS	12,717	5,155	1,287,897	274,141	1,597,910
TOTAL	12,717	5,155	1,287,897	274,141	1,597,910
FAIR VALUE OF COLLATERAL	9,000	-	2,650,000	-	2,659,000

(b) 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 3,005 million (December 2009: Shs 1,987 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).

AS AT 31 DECEMBER 2010	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
INDIVIDUALLY IMPAIRED LOANS	67,976	1,417,822	-	1,518,941	3,004,739
FAIR VALUE OF COLLATERAL	-	80,211	-	1,295,439	1,375,650

AS AT 31 DECEMBER 2009	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
INDIVIDUALLY IMPAIRED LOANS	167,094	509,001	-	1,310,603	1,986,698
FAIR VALUE OF COLLATERAL	50,343	170,109	-	928,111	1,148,563

(ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2010 was nil. (December 2009: nil). No collateral is held by the Bank against loans and advances to Banks.

(c) 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 totalled Shs 1,960 million at 31 December 2010 (December 2009: Shs 2,270 million).

	2010	2009
LOANS AND ADVANCES TO CUSTOMERS:	TSHS'000	TSHS'000
- TERM LOANS	1,960,261	2,269,784
- OVERDRAFT	-	-
TOTAL	1,960,261	2,269,784

3.1.6 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 of the United Republic of Tanzania.

3.1.7 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	-
COMMERCIAL PROPERTY	150,000
MOTOR VEHICLE	-
TOTAL	150,000

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

3.1.8 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 2010. 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
BALANCES WITH BANK OF TANZANIA	23,795,459	-	-	-	23,795,459
LOANS AND ADVANCES TO BANKS	18,814,921	5,895,932	1,123,285	15,918,754	41,752,892
INVESTMENT SECURITIES HELD TO MATURITY	45,812,401	-	-	-	45,812,401
LOANS AND ADVANCES TO CUSTOMERS					
TO INDIVIDUALS:					
- OVERDRAFT	6,266,106	-	-	-	6,266,106
- TERM LOANS	8,132,978	-	-	-	8,132,978
TO CORPORATE ENTITIES:					
- CORPORATE CUSTOMERS	68,617,290	-	-	-	68,617,290
- SMES	20,089,863	-	-	-	20,089,862
AS AT 31 DECEMBER 2010	191,529,018	5,895,932	1,123,285	15,918,754	214,466,988
AS AT 31 DECEMBER 2009	134,633,009	10,023,472	734,312	3,984,408	149,375,201

(b) 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	MANUFACTURING	BUILDING & CONSTRUCTION	GOVERNMENT	TRANSPORTATION	WHOLESALE RETAIL TRADE	INDIVIDUALS	OTHER	TOTAL
BALANCES WITH BANK OF TANZANIA	23,795,459	-	-	-	-	-	-	-	-	23,795,459
LOANS AND ADVANCES TO BANKS	41,752,892	-	-	-	-	-	-	-	-	41,752,892
GOVERNMENT SECURITIES HELD TO MATURITY	-	-	-		45,812,401	-	-	-	-	45,812,401
LOANS AND ADVANCES TO CUSTOMERS										
TO INDIVIDUAL:										
- OVERDRAFT	-	982	502	39,072	-	465	2,906,848	2,722,662	595,574	6,266,106
- TERM LOANS	-	-	-	-	-	150,468	4,055,387	2,856,577	1,070,546	8,132,978
TO CORPORATE ENTITIES:										
- CORPORATE CUSTOMERS	8,616,526	6,977,635	721,229	3,057,917	-	16,547,298	7,287,442	-	25,443,305	68,617,290
- SMES	131,275	243,877	566,802	1,578,251	-	1,420,467	5,781,196	-	10,367,995	20,089,862
AS AT 31 DECEMBER 2010	74,296,152	722,494	1,288,533	4,675,240	45,812,401	18,118,698	20.030,873	5,579,239	37,477,420	214,466,988
AS AT 31 DECEMBER 2009	59,804,261	7,252,988	2,729,805	6,153,233	20,190,270	12,041,721	11,093,524	3,837,357	26,272,042	149,375,201

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

The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly. Regular reports are submitted to the Board of Directors and 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.

3.2.1 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 2010, if the functional currency had strengthened/weakened by 10% against the US Dollar with all other variables held constant, post-tax profit for the year would have been Shs 108 million (2009: Shs 94 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated financial assets and liabilities. The exposure to foreign currencies other than the US Dollar is minimal.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2010. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

AMOUNTS IN SHS'000	TZS	USD	EURO	GBP	ZAR	KES	UGX	TOTAL
AS AT 31 DECEMBER 2010								
ASSETS								
CASH AND BALANCE WITH BANK OF TANZANIA	29,318,108	3,288,726	163,591	281,698	-	-	-	33,052,123
LOANS AND ADVANCES TO BANKS	2,603,956	30,550,420	100,980	8,485,386	-	10,751	1,399	41,752,892
GOVERNMENT SECURITIES HELD TO MATURITY	45,812,401	-	-	-	-	-	-	45,812,401
LOANS AND ADVANCES TO CUSTOMERS	58,899,123	44,197,149	383	9,581	-	-	-	103,106,236
INCOME TAX RECOVERABLE	730,346	-	-	-	-	-	-	730,346
TOTAL FINANCIAL ASSETS	137,363,934	78,036,295	264,954	8,776,665	-	10,751	1,399	224,453,998
LIABILITIES								
DEPOSITS FROM OTHER BANKS	10,085,010	6,606,990	158,739	-	-	-	-	16,850,739
CUSTOMER DEPOSITS	117,208,756	69,445,646	131,860	8,814,926	-	-	-	195,601,188
OTHER LIABILITIES	1,612,821	929,763	141	116	-	-	-	2,542,841
TOTAL FINANCIAL LIABILITIES	128,906,587	76,982,399	290,740	8,815,042	-	-	-	214,994,768
NET ON BALANCE SHEET FINANCIAL POSITION	8,457,347	1,053,896	-25,786	(38,377)	-	10,751	1,399	9,459,230

3.2.1 FOREIGN EXCHANGE RISK (Continued)

CREDIT COMMITMENTS	6,022,970	4,186,627	-	-	-			10,209,597
AS AT 31 DECEMBER 2009								
TOTAL FINANCIAL ASSETS	99,036,091	48,318,128	9,309,681	1,997,780	2,389	1,064	300	158,665,433
NET ON BALANCE SHEET FINANCIAL POSITION	8,660,488	(965,444)	(432,912)	(61,017)	2,389	1,064	300	7,204,868
CREDIT COMMITMENTS	4,273,576	6,231,245	-	-	-	-	-	10,504,821

3.2.2 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. 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 balance sheet items (Amounts Shs'000).

	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
AS AT 31 DECEMBER 2010							
ASSETS							
CASH AND BALANCES WITH BANK OF TANZANIA	-	-	-	-	-	33,052,123	33,052,123
LOANS AND ADVANCES TO BANKS	29,081,721	8,203,573	4,467,598	-	-	-	41,752,892
GOVERNMENT SECURITIES HELD TO MATURITY	-	498,103	21,138,953	17,263,438	6,911,906	-	45,812,401
LOANS AND ADVANCES TO CUSTOMERS	92,597,757	-	8,000,659	2,507,819	-	-	103,106,236
TAX RECOVERABLE	-	-	-	-	-	730,346	730,346
TOTAL FINANCIAL ASSETS	121,679,478	8,701,676	33,607,210	19,771,257	6,911,906	33,782,469	224,453,998
LIABILITIES							
DEPOSITS FROM OTHER BANKS	8,363,409	2,587,330	5,900,000	-	-	-	16,850,739
CUSTOMER DEPOSITS	47,872,035	16,081,165	55,721,017	7,341	-	75,919,630	195,601,188
OTHER LIABILITIES	-	-	-	-	-	2,542,841	1,629,648
TOTAL FINANCIAL LIABILITIES	56,235,444	18,668,495	61,621,017	7,341	-	78,462,471	214,994,768
TOTAL INTEREST REPRICING GAP	65,444,034	(9,966,819)	(28,013,807)	19,763,916	6,911,906	(44,680,002)	9,459,230

AS AT 31 DECEMBER 2009

TOTAL FINANCIAL ASSETS	49,939,974	9,954,323	27,610,767	35,003,645	8,380,609	27,776,115	158,665,433
TOTAL FINANCIAL LIABILITIES	90,905,639	18,562,629	40,259,797	102,852	-	1,629,648	151,460,565
TOTAL INTEREST REPRICING GAP	(40,965,665)	(8,608,306)	(12,649,030)	34,900,793	8,380,609	26,146,467	7,204,868

At 31 December 2010, if the interest rates on functional currency denominated assets and liabilities had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been Shs 139 million (2009: Shs 71 million) lower/higher, mainly as a result of fluctuations in interest income and interest expense. At 31 December 2010, if the interest rates on US dollar denominated assets and liabilities had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been Shs 22 million (2009: Shs 9 million) lower/higher, mainly as a result of fluctuations in interest income and interest expense. The exposure to interest rates fluctuations on assets and liabilities denominated in currencies other than US dollar is minimal.

3.3 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.

3.3.1 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 3.3.3).

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.

3.3.2 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.

3.3.3 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
AS AT 31 DECEMBER 2010						
LIABILITIES						
DEPOSITS FROM OTHER BANKS	8,363,409	2,587,330	5,900,000	-	-	16,850,739
CUSTOMER DEPOSITS	123,791,665	16,081,165	55,721,017	7,341	-	195,601,188
INTEREST PAYMENTS	31,002	402,238	2,091,637	-	-	2,524,877
OTHER LIABILITIES	2,542,841	-	-	-	-	2,542,841
TOTAL LIABILITIES (contractual maturity dates)	134,728,917	19,070,733	63,712,654	7,341	-	217,519,645
TOTAL ASSETS (expected maturity dates)	134,631,601	8,701,676	34,337,788	19,771,257	6,911,906	204,354,228
AS AT 31 DECEMBER 2009						
LIABILITIES						
DEPOSITS FROM OTHER BANKS	810,296	-	-	-	-	810,296
CUSTOMER DEPOSITS	90,095,343	18,562,629	40,259,797	102,852	-	149,020,621
INTEREST PAYMENTS	203,922	937,609	937,609	1,718	-	2,186,858
OTHER LIABILITIES	1,629,648	-	-	-	-	1,629,648
TOTAL LIABILITIES (contractual maturity dates)	92,845,209	19,500,238	41,197,406	104,570	-	153,647,423
TOTAL ASSETS (expected maturity dates)	78,805,187	9,954,323	27,610,767	35,003,646	8,380,608	159,754,531

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 bills; loans and advances to banks; and loans and advances to customers. The total assets included in the table above are the carrying amounts as per the balance sheet and exclude future interest.

3.3.4 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 expiring not later than 1 year are also included below.

	2010	2009
	SHS'000	SHS'000
OUTSTANDING LETTERS OF CREDIT, GUARANTEES AND INDEMNITIES	11,621,912	8,403,473
COMMITMENTS TO EXTEND CREDIT	10,209,597	10,504,820
TOTAL	21,831,509	18,908,293

3.3.5 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of government securities held-to-maturity at 31 December 2010 is estimated at Shs 43,367 million (2009: Shs 24,046 million) compared to their carrying values of Shs 45,812 million (2009: 20,190 million). The fair values of the Bank's other financial assets such as loans and advances to customers approximate the respective carrying amounts due to the generally short periods to maturity dates. Fair values are based on the last auction for Treasury bills and Bonds that was held in December 2010.

3.4 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 2010 and year ended 31 December 2009. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

	2010	2009
	SHS'000	SHS'000
TIER 1 CAPITAL		
SHARE CAPITAL	13,988,539	13,169,542
RETAINED EARNINGS	1,804,358	211,188
SHARE PREMIUM	1,262,417	997,392
PREPAID EXPENSES AND DEFERRED CHARGES	(2,726,674)	(2,859,383)
TOTAL QUALIFYING TIER 1 CAPITAL	14,328,640	11,518,739
TIER 2 CAPITAL		
PORTFOLIO IMPAIRMENT PROVISION	102,277	97,933
TOTAL REGULATORY CAPITAL	14,430,917	11,616,672
RISK-WEIGHTED ASSETS		
ON-BALANCE SHEET	89,015,171	59,373,706
OFF-BALANCE SHEET	12,826,733	11,827,626
TOTAL RISK-WEIGHTED ASSETS	101,841,905	71,201,332

	REQUIRED RATIO	BANK'S RATIO	BANK'S RATIO
	2010	2010	2009
	%	%	%
TIER 1 CAPITAL	10	14	16
TIER 1 + TIER 2 CAPITAL	12	14	16

The increase of the regulatory capital during the year 2010 is mainly due to increase in paid up capital arising from the issue of new shares and contribution of the current year profit.

4. 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.

5. INTEREST AND SIMILAR INCOME

	2010	2009
	SHS'000	SHS'000
LOANS AND ADVANCES	11,402,239	7,873,960
INTEREST ON IMPAIRED LOANS	513,750	307,020
GOVERNMENT SECURITIES HELD TO MATURITY	3,092,010	3,202,977
LOANS AND ADVANCES TO BANKS	551,883	485,974
TOTAL	15,559,882	11,869,931

6. INTEREST AND SIMILAR EXPENSES

	2010	2009
	SHS'000	SHS'000
DEPOSITS FROM OTHER BANKS	68,931	156,267
CUSTOMER DEPOSITS	5,537,015	5,279,267
TOTAL	5,605,946	5,435,534

7. FEES AND COMMISSION INCOME

	2010	2009
	SHS'000	SHS'000
COMMISSION AND FEES FROM BANKING OPERATIONS	1,793,716	1,311,789
COMMISSION ON TELEGRAPHIC TRANSFERS AND INTERNATIONAL TRADE FINANCE ACTIVITIES	1,002,173	613,546
FACILITY FEES FROM LOANS AND ADVANCES	808,796	705,824
COMMISSION ON LETTERS OF CREDIT AND GUARANTEES	837,682	338,981
OTHER	253,592	253,444
TOTAL	4,695,959	3,223,584

8. OPERATING EXPENSES

	2010	2009
	SHS'000	SHS'000
EMPLOYEE BENEFITS (NOTE 9)	6,172,772	3,991,020
OCCUPANCY EXPENSES	1,346,816	995,847
REPAIRS AND MAINTENANCE	439,748	457,795
ADVERTISING AND BUSINESS PROMOTION	319,201	343,329
LEGAL AND PROFESSIONAL FEES	759,871	202,243
TRAVELLING EXPENSES	181,389	208,118
DEPRECIATION AND AMORTIZATION (NOTE 17 AND 18)	1,643,327	1,149,784
DIRECTORS' EMOLUMENTS		
- FEES	53,831	50,120
- OTHERS	580,426	530,657
AUDITORS' REMUNERATION	61,372	55,551
OTHERS	2,679,157	1,897,770
TOTAL	14,237,910	9,882,233

9. EMPLOYEE BENEFITS

	2010	2009
	SHS'000	SHS'000
EMPLOYEE BENEFITS COMPRISE THE FOLLOWING:		
WAGES AND SALARIES	3,968,014	2,949,149
SOCIAL SECURITY COSTS (NSSF CONTRIBUTIONS)	395,067	295,186
OTHER EMPLOYMENT COSTS AND BENEFITS	1,809,691	746,685
TOTAL	6,636,946	3,991,020

10. INCOME TAX EXPENSE

	2010	2009
	SHS'000	SHS'000
THE TAX CHARGE FOR THE YEAR IS ARRIVED AT AS FOLLOWS:		
- CURRENT TAX – CURRENT YEAR	713,057	251,307
- CURRENT TAX – PRIOR YEARS	(2,415)	-
- DEFERRED INCOME TAX – CURRENT YEAR	87,791	172,809
- DEFERRED INCOME TAX – PRIOR YEARS	1,193	(34,379)
TOTAL	799,626	389,737

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

	2010	2009
	SHS'000	SHS'000
PROFIT INCOME BEFORE TAX	2,639,287	1,369,554
TAX CALCULATED AT A TAX RATE OF 30%	791,786	410,866
TAX EFFECT OF:		
- EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	9,062	13,250
- OVER PROVISION OF TAX IN PRIOR YEARS	(1,222)	(34,379)
TOTAL	799,626	389,737

11. FINANCIAL INSTRUMENTS BY CATEGORY

	LOANS AND RECEIVABLES	HELD-TO-MATURITY	TOTAL
AS AT 31 DECEMBER 2010			
FINANCIAL ASSETS			
CASH AND BALANCES WITH BANK OF TANZANIA	33,052,123	-	33,052,123
LOANS AND ADVANCES TO BANKS	41,752,892	-	41,752,892
GOVERNMENT SECURITIES HELD TO MATURITY	-	45,812,401	45,812,401
LOANS AND ADVANCES TO CUSTOMERS	103,106,236	-	103,106,236
OTHER ASSETS	91,609	-	91,609
TOTAL	178,002,860	45,812,401	223,815,261

	OTHER LIABILITIES AT AMORTISED COST
FINANCIAL LIABILITIES	
DEPOSITS FROM OTHER BANKS	16,850,739
CUSTOMER DEPOSITS	195,601,188
OTHER LIABILITIES	2,542,841
TOTAL	215,345,714

	LOANS AND RECEIVABLES	HELD-TO-MATURITY	TOTAL
AS AT 31 DECEMBER 2009			
FINANCIAL ASSETS			
CASH AND BALANCES WITH BANK OF TANZANIA	24,610,427	-	24,610,427
LOANS AND ADVANCES TO BANKS	42,199,977	-	42,199,977
GOVERNMENT SECURITIES HELD TO MATURITY	-	20,190,270	20,190,270
LOANS AND ADVANCES TO CUSTOMERS	71,101,565	-	71,101,565
OTHER ASSETS	141,990	-	141,990
TOTAL	138,053,959	20,190,270	158,244,229

	OTHER LIABILITIES AT AMORTISED COST
FINANCIAL LIABILITIES	
DEPOSITS FROM OTHER BANKS	810,296
CUSTOMER DEPOSITS	149,020,621
OTHER LIABILITIES	1,629,648
TOTAL	151,460,565

12. CASH AND BALANCES WITH BANK OF TANZANIA

	2010	2009
	SHS'000	SHS'000
CASH ON HAND	9,256,664	8,727,039
BALANCES WITH THE BANK OF TANZANIA:		
STATUTORY MINIMUM RESERVE (SMR)	20,100,000	14,850,000
CLEARING ACCOUNT	3,695,459	1,033,388
TOTAL	33,052,123	24,610,427

The SMR deposit is not available to finance the Bank's day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the cash flow statement (See Note 23). Cash in hand and balances with Bank of Tanzania are non-interest bearing.

13. LOANS AND ADVANCES TO BANKS

	2010	2009
	SHS'000	SHS'000
BALANCES WITH OTHER BANKS	2,660,521	1,613,481
ITEMS IN COURSE OF COLLECTION	992,502	989,012
PLACEMENTS WITH LOCAL BANKS	13,387,412	27,618,168
PLACEMENTS WITH FOREIGN BANKS	24,712,457	11,979,316
INCLUDED IN CASH AND CASH EQUIVALENTS (NOTE 23)	41,752,892	42,199,977

14. GOVERNMENT SECURITIES HELD TO MATURITY

	2010	2009
	SHS'000	SHS'000
TREASURY BILLS MATURING WITHIN 90 DAYS	498,103	9,276,228
TREASURY BILLS MATURING AFTER 90 DAYS	20,608,082	5,823,892
	21,106,185	15,100,120
TREASURY BONDS MATURING WITHIN 5 YEARS	17,681,200	5,090,150
TREASURY BONDS MATURING AFTER 5 YEARS	7,025,016	-
	24,706,216	5,090,150
TOTAL GOVERNMENT SECURITIES HELD-TO-MATURITY	45,812,401	20,190,270

Treasury bills and bonds are debt securities issued by the Government of the United Republic of Tanzania.

15. LOANS AND ADVANCES TO CUSTOMERS

	2010	2009
	SHS'000	SHS'000
LOANS AND ADVANCES TO CUSTOMERS	103,882,536	71,609,111
LOANS AND ADVANCES TO STAFF	1,067,894	883,338
GROSS LOANS AND ADVANCES	104,950,430	72,492,449
LESS: CREDIT IMPAIRMENT PROVISION	(1,844,194)	(1,390,884)
NET LOANS AND ADVANCES	103,106,236	71,101,565

Movement in provision for impairment of loans and advances by class is as follows:

	RETAIL CUSTOMERS TERM LOANS	CORPORATE CUSTOMERS SMES	TOTAL
	SHS'000	SHS'000	SHS'000
BALANCE AT 1 JANUARY 2010	519,715	871,169	1,390,884
INCREASE IN PROVISION FOR INDIVIDUAL LOAN IMPAIRMENT	183,375	1,069,296	1,252,671
INCREASE IN UNIDENTIFIED IMPAIRMENT PROVISION	635	3,709	4,344
WRITE OFFS	(20,774)	(782,931)	(803,705)
AS AT 31 DECEMBER 2010	682,951	1,161,243	1,844,194
BALANCE AT 1 JANUARY 2009	133,913	597,600	731,513
INCREASE IN PROVISION FOR INDIVIDUAL LOAN IMPAIRMENT	354,136	207,302	561,438
INCREASE IN UNIDENTIFIED IMPAIRMENT PROVISION	31,666	66,267	97,933
WRITE OFFS	-	-	-
AS AT 31 DECEMBER 2009	519,715	871,169	1,390,884

16. OTHER ASSETS

	2010	2009
	SHS'000	SHS'000
PREPAID EXPENSES	1,589,484	1,550,656
SUNDRY DEBTORS AND STOCKS OF STATIONERY	125,900	133,683
TOTAL	1,715,384	1,684,339

17. PREMISES AND EQUIPMENT

	LEASEHOLD PREMISES	MOTOR VEHICLES	EQUIPMENT	FURNITURE & FITTINGS	WORK IN PROGRESS	TOTAL
	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000
COST						
AT 1 JANUARY 2009	1,986,430	138,870	2,066,836	222,045	25,685	4,439,866
ADDITIONS	1,128,277	15,000	1,023,592	94,284	71,569	2,332,721
DISPOSALS	-		-	-	-	(2,518)
TRANSFER		-	(2,518)	-	-	-
AS AT 31 DECEMBER 2009	3,114,707	153,870	3,087,910	316,329	97,254	6,770,070
DEPRECIATION						
AT 1 JANUARY 2009	462,682	132,683	737,036	162,701	-	1,495,102
CHARGE FOR THE YEAR	374,463	2,500	390,463	21,611	-	789,036
DISPOSALS	-	-	(925)	-	-	(925)
ADJUSTEMENT	4,003	-	-	-	-	4,003
AS AT 31 DECEMBER 2009	841,148	135,183	1,126,574	184,312	-	2,287,216
NET BOOK VALUE:						
AT 31 DECEMBER 2009	2,273,559	18,687	1,961,336	132,017	97,254	4,482,854
COST						
AT 1 JANUARY 2010	3,114,707	153,870	3,087,910	316,329	97,254	6,770,070
ADDITIONS	940,825	315,115	687,349	87,908	195,484	2,212,683
DISPOSALS	-	(132,121)	(1,582)	-	-	(133,703)
TRANSFER	69,900	-	14,636	-	(84,536)	-
ADJUSTEMENT	-	-	2,299	-	-	2,299
AS AT 31 DECEMBER 2010	4,125,433	336,866	3,776,612	404,237	208,201	8,851,349
DEPRECIATION						
AT 1 JANUARY 2010	841,148	135,183	1,126,574	184,312	-	2,287,216
CHARGE FOR THE YEAR	635,440	18,393	576,393	44,839	-	1,275,065
DISPOSALS	-	(132,121)	(474)	-	-	(132,595)
ADJUSTMENTS	1,690	-	1,785	(478)	-	2,997
AS AT 31 DECEMBER 2010	1,478,278	21,456	1,704,277	228,673	-	3,432,684
NET BOOK VALUE:						
AS AT 31 DECEMBER 2010	2,647,155	315,410	2,072,335	175,564	208,201	5,418,665

18. INTANGIBLE ASSETS

	COMPUTER SOFTWARE 2010 SHS'000	COMPUTER SOFTWARE 2009 SHS'000
AT START OF YEAR	1,345,972	1,612,413
ADDITIONS	158,811	94,307
AMORTISATION	(367,593)	(360,748)
AT END OF YEAR	1,137,190	1,345,972
AS AT 31 DECEMBER		
COST	2,293,339	2,134,528
ACCUMULATED AMORTISATION	(1,156,149)	(788,556)
NET BOOK VALUE	1,137,190	1,345,972

19. CUSTOMER DEPOSITS

	2010 SHS'000	2009 SHS'000
CURRENT ACCOUNTS	77,340,844	62,055,977
TIME DEPOSITS	104,638,182	75,807,644
SAVINGS DEPOSITS	13,136,229	8,569,481
OTHERS	485,934	2,587,519
TOTAL	195,601,188	149,020,621

20. OTHER LIABILITIES

	2010 SHS'000	2009 SHS'000
BANK DRAFTS PAYABLE	804,167	257,238
ACCRUALS AND OTHER PROVISIONS	1,102,953	1,013,420
DEFERRED COMMITMENT AND FACILITY FEES	635,721	358,990
TOTAL	2,542,841	1,629,648

21. 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:

	2010	2009
	SHS'000	SHS'000
AS AT 1 JANUARY	261,962	123,532
CHARGED TO PROFIT AND LOSS ACCOUNT		
– CURRENT YEAR (NOTE 10)	87,791	172,809
– PRIOR YEARS	1,193	(34,379)
AS AT 31 DECEMBER	350,946	261,961

Deferred tax assets and liabilities and deferred tax charge to the profit and loss account are attributed to the following items:

	RESTATED 1 JANUARY 2010	CHARGED TO PROFIT AND LOSS ACCOUNT	31 DECEMBER 2010
	SHS'000	SHS'000	SHS'000
DEFERRED TAX LIABILITY			
ACCELERATED TAX DEPRECIATION	237,033	31,811	268,844
OTHER TIMING DIFFERENCES	24,929	57,173	82,102
TOTAL	261,962	88,984	350,946

22. SHARE CAPITAL

	2010	2009
	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
98,991 CLASS "C" ORDINARY SHARES OF SHS 115,792 EACH	11,462,366	11,462,366
1 CLASS "D" ORDINARY SHARE OF SHS 32,688	33	33
1 CLASS "E" ORDINARY SHARE OF SHS 101,440	101	101
TOTAL	**15,000,000**	**15,000,000**

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
83,184 CLASS "C" ORDINARY SHARES OF SHS 115,792 EACH	10,451,039	9,632,042
TOTAL	**13,988,539**	**13,169,542**

During the year, 18,270 class "C" ordinary shares were issued to existing shareholders, and 13,880 were subscribed and paid for at premium resulting into an increase in share premium by Shs 312 million. All classes of shares rank pari-pasu in voting rights and dividend payments.

	2010	2009
	%	%
THE SHAREHOLDING OF THE BANK WAS AS FOLLOWS:		
BANK OF AFRICA KENYA	34.1	34.7
AUREOS EAST AFRICA FUND LLC	18.6	19.7
BIO-BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES	22.1	23.4
AFH-OCEAN INDIEN	6.4	2.7
TANZANIA DEVELOPMENT FINANCE LIMITED (TDFL)	11.0	10.3
FMO-NETHERLANDS DEVELOPMENT FINANCE CORPORATION	2.6	3.7
OTHERS	5.2	5.5
TOTAL	**100**	**100**

23. CASH AND CASH EQUIVALENTS

	2010	2009
	SHS'000	SHS'000
CASH AND BALANCES WITH BANK OF TANZANIA (NOTE 12)	33,052,123	24,610,427
LESS: STATUTORY MINIMUM RESERVE (SMR)	(20,100,000)	(14,850,000)
TOTAL	12,952,123	9,760,427
INVESTMENT SECURITIES HELD TO MATURITY (MATURING WITHIN 90 DAYS) (NOTE 14)	498,103	9,276,228
LOANS AND ADVANCES TO BANKS (NOTE 13)	41,752,892	42,199,977
TOTAL	55,203,118	61,236,632

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.

24. 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.

	2010	2009
	SHS'000	SHS'000
CONTINGENT LIABILITIES		
OUTSTANDING LETTERS OF CREDIT (FOREIGN CURRENCY)	441,552	3,882,515
OUTSTANDING GUARANTEES AND INDEMNITIES:		
- FOREIGN CURRENCY	4,114,723	1,610,951
- LOCAL CURRENCY	7,065,637	2,910,007
TOTAL	11,621,912	8,403,473

Nature of contingent liabilities

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 customers' default.

OTHER COMMITMENTS	2010	2009
	SHS'000	SHS'000
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	10,209,597	10,504,820

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.

CAPITAL COMMITMENTS	2010	2009
	SHS'000	SHS'000
CAPITAL EXPENDITURE THAT HAS BEEN APPROVED BY THE BOARD BUT NOT YET CONTRACTED FOR	216,320	488,000

25. RELATED PARTY TRANSACTIONS

The shareholders of the bank are disclosed in note 22. The ultimate holding company of the Bank is BANK OF AFRICA Group.

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:

	2010	2009
	SHS'000	SHS'000
DEPOSITS AND LOANS AND ADVANCES TO DIRECTORS AND KEY MANAGEMENT PERSONNEL		
DEPOSITS	292,949	276,043
LOAN AND ADVANCES	142,255	160,905
INTEREST INCOME RECEIVED	12,622	17,006
INTEREST EXPENSE PAID	(2,104)	(6,339)
CASH AND SHORT TERM FUNDS WITH GROUP BANKS		
LOAN AND ADVANCES TO GROUP BANKS	15,708,049	3,983,189
DEPOSITS FROM GROUP BANKS	6,622,284	541,009
INTEREST INCOME RECEIVED	116,558	22,285
INTEREST EXPENSE INCURRED	(91,369)	(62,667)
FOREIGN EXCHANGE INCOME RECEIVED	738,990	176,250
OPERATING EXPENSES PAID TO GROUP BANKS	(721,070)	(183,310)
GUARANTEE FEES EXPENSE PAID TO GROUP BANKS	(154,141)	(191,405)

KEY MANAGEMENT COMPENSATION

SALARIES AND OTHER SHORT TERM EMPLOYEE BENEFITS	1,048,550	1,104,302
POST-EMPLOYMENT BENEFITS	75,912	110,430
TOTAL	1,124,461	1,214,732

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:

	2010		2009	
	DIRECTORS FEES	OTHER EMOLUMENTS	DIRECTORS FEES	OTHER EMOLUMENTS
NAME	SHS'000	SHS'000	SHS'000	SHS'000
AMBASSADOR F. KAZAURA	15,380	-	19,860	-
MR. E. OLE NAIKO	5,915	-	8,212	-
MR. PAUL DERREUMAUX	5,915	-	8,212	-
MR. KOBBY ANDAH	-	464,174	-	454,055
MR. VINCENT DE BROUWER	5,915	-	8,212	
MR. RICHARD CARTER	-	-	2,812	-
MR. PETER LOCK	5,915	-	2,812	-
MR. SHAKIR MERALI	5,915	-	-	-
MR. HENRI LALOUX	5,915	-	-	-
MR. M'FADEL EL HALAISSI	2,965	-	-	-
TOTAL	53,835	464,174	50,120	454,055

Personal notes

Personal notes