FOCUSED ON DEVELOPMENT IN THE HEART OF AFRICA

BANK OF AFRICA – TANZANIA

2012 Annual Report

BANK OF AFRICA TANZANIA

GROUPE BANK OF AFRICA

BOA Group celebrates its 30th Anniversary

Table of contents

BANK OF AFRICA Group celebrates its 30th Anniversary

This year we are celebrating our Group's 30th Anniversary.

BANK OF AFRICA was established at a time when the West African banking sector experienced serious difficulties. The founder's goal of the first BANK OF AFRICA, BOA-MALI, created in 1983 and then headed by Paul DERREUMAUX, was to fill a gap by creating a private African bank, with African capital, and dedicated to serving the African economy.

The original shareholders felt keenly the immense potential of a project that would help bring Africa together for a better future.

Investors – both private and public, both national and international – had also placed their trust in this project and helped it to develop into what it is today – a group with a presence in 15 African countries through 16 commercial banks as well as numerous financial companies.

The majority shareholder, BMCE Bank, has put at the disposal of BOA Group its multiple skills, as well as its international and continental experience. Alongside other shareholders, it also provides the necessary capital for BOA to develop and expand throughout the continent.

All the BOA subsidiaries have now adopted BMCE Bank's business model, which is based on extending banking services to citizens on a large-scale and assisting both private and public economic players with advice and financing to manage their companies and implement their projects.

Almost 5,000 staff members of all nationalities conduct their work with conviction and commitment. These women and men comprise teams that have expanded as the Group has developed, by knowing how to make the most of their differences, in order to become even stronger and more effective together.

But BOA is above all the hundreds of thousands of customers – retail clients of all classes and ages, companies of all sizes and economic sectors, associations, public services, investors, industrialists, and entrepreneurs – who each day place their trust in its professionalism.

This year, as we celebrate the Group's 30 years of existence, I would like to pay tribute to our shareholders, those who were with us from the start and those who joined later; to our hundreds of thousands of customers; to our 5,000 staff members; and to the authorities in each host country who provide us with their continuous support.

Thank you for your trust,
thank you for your work,
thank you for your support,
thank you, everyone,
and long live the BANK OF AFRICA Group!

Mohamed BENNANI

Chairman and Managing Director

Photo: © E. Legouhy

30 years of growth and expansion

Bank network

1983 BANK OF AFRICA – MALI

15 Branches and 1 Business Centre in Bamako.
8 Regional Branches and 13 Local Branches.

1990 BANK OF AFRICA – BENIN

22 Branches, 1 Business Centre and 2 Port Branches in Cotonou.
21 Regional Branches.

1994 BANK OF AFRICA – NIGER

Created in 1989: NIGERIAN INTERNATIONAL BANK (NIB). Integrated into BOA network in 1994.

8 Branches in Niamey.
8 Regional Branches.

1996 BANK OF AFRICA – CÔTE D'IVOIRE

Created in 1980: BANAFRIQUE.
Integrated into BOA network in 1996.

13 Branches and 1 Business Centre in Abidjan.
8 Regional Branches and 1 Local Branch.

1998 BANK OF AFRICA – BURKINA FASO

14 Branches and 1 Business Centre in Ouagadougou.
13 Regional Branches.

1999 BANK OF AFRICA – MADAGASCAR

Created in 1989: BANKIN'NY TANTSAHA MPAMOKATRA (BTM) / National Bank for Rural Development.
Integrated into BOA network in 1999.

21 Branches in Antananarivo.
56 Regional Branches.

2001 BANK OF AFRICA – SENEGAL

17 Branches and 1 Business Centre in Dakar.
10 Regional Branches.

2004 BANQUE DE L'HABITAT DU BENIN

2 Branches in Cotonou.

2004 BANK OF AFRICA – KENYA

Created in 1981: BANQUE INDOSUEZ Kenyan Branch > CREDIT AGRICOLE–INDOSUEZ > CALYON.
Incorporated under Kenyan law, integrated as a subsidiary into BOA network in 2004.

14 Branches in Nairobi.
12 Regional Branches.

2006 BANK OF AFRICA – UGANDA

Created in 1985: SEMBULE INVESTMENT BANK Ltd > ALLIED BANK. Integrated into BOA network in 2006.

20 Branches in Kampala.
13 Regional Branches.

2007 BANK OF AFRICA – TANZANIA

Created in 1995: EURAFRICAN BANK – TANZANIA Ltd (EBT). Integrated into BOA network in 2007.

10 Branches in Dar es Salaam.
9 Regional Branches.

2008 BANQUE DE CRÉDIT DE BUJUMBURA

Created in 1909 in Brussels: BANQUE DU CONGO BELGE (BCB). 1922: BCB Branch in Usumbura, Burundi. 25 July 1964: BANQUE DE CREDIT DE BUJUMBURA (BCB). Integrated into BOA network in 2008

7 Branches and 3 Counters in Bujumbura.
12 Regional Branches and 2 Counters in Provinces.

2010 BANK OF AFRICA – RDC

7 Branches in Kinshasa.
1 Regional Branch.

2010 BANK OF AFRICA – MER ROUGE

Created in 1908: BANQUE INDOSUEZ MER ROUGE (BIRM). Integrated into BOA network in 2011.

3 Branches in Djibouti.

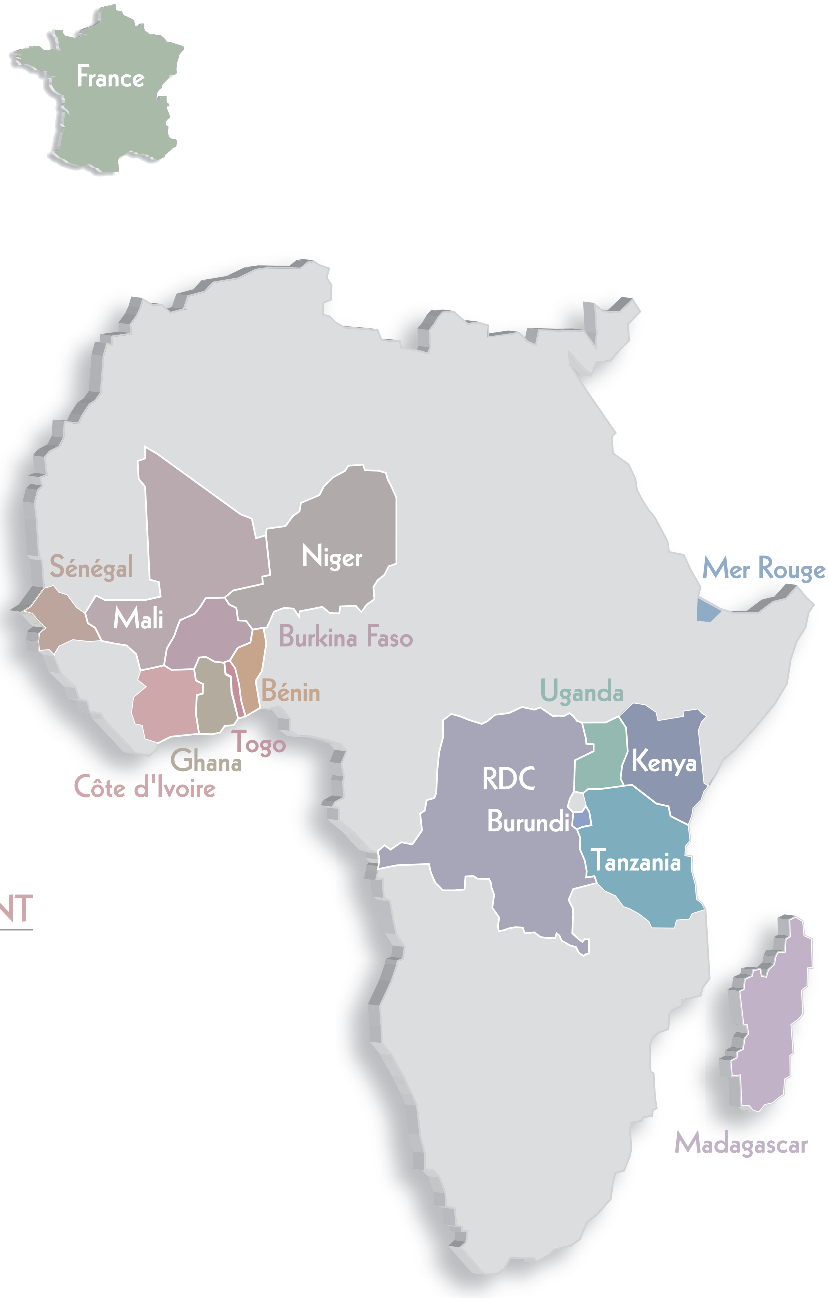
2011 BANK OF AFRICA – GHANA

Created in 1999: AMALBANK.
Integrated into BOA network in 2011.

14 Branches and 1 Business Centre in Accra.
5 Regional Branches.

2013 BANK OF AFRICA – TOGO

3 Branches in Lomé.



Subsidiaries

1997 ACTIBOURSE

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

2002 AÏSSA

Head Office in Cotonou.

2002 AGORA

Head Office in Abidjan.

2004 ATTICA

Head Office in Abidjan.

2009 BOA-ASSET MANAGEMENT

Head Office in Abidjan.

2010 BOA-FRANCE

4 Branches in Paris.
1 Branch in Marseille.

Other entities

1999 BANK OF AFRICA FOUNDATION

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

2000 BOA REPRESENTATIVE OFFICE

Head Office in Paris.

www.bank-of-africa.net

30 years of experience serving customers

A strong network*

5,000 people at the service of more than one million customers.

About 370 dedicated operating and service support offices in 16 countries.

A continuously expanding base of Automated Teller Machines and Electronic Payment Terminals, numbering around 450.

Close to 1,450,000 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.

A leading banking partner, BMCE BANK,

which is part of FinanceCom, a major Moroccan financial group.

Strategic partners, including:

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 30 years.

(*): As at 31 December 2012

The commitments of the Group for 30 years

- Quality of customer service
- Dynamic, accessible staff
- Financial solidity
- Cohesive network
- Wide range of financing solutions
- Expertise in financial engineering
- Strong partners

Group turnover 2012: 451.7 million euros

Main products of the Bank

Accounts	Personal Current Account
	Elite Current Account
	Executive Current Account
Investment Products	Call Deposits Account
	Children Savings Account 'Smart Junior Investor Account'
	Family Savings Account 'Dira'
	Vuna Account
	Ordinary Savings Account
	Fixed Deposit Account
	Premium Plus Account
	Term Deposit
Electronic Banking	B-Web
	SESAME ATM Card (Umoja Switch Network)
	B-Mobile
M-Payment / M-Banking	M-Pesa
	Airtel Money
Loans	Personal Loans
	Personal Motor Loan
	Scheme Loan
	Home Finance
	Insurance Premium Finance
	School Fees Loan - Back To School Loan
	Warehouse Receipt Financing
Transfers & Changes	Foreign Exchange
	MoneyGram
	Travellers Cheques
	Western Union
	Sigue Money Transfer
Complementary Products & Services	Banker's Cheques
	Tax Payments (T-Pay)
	Utility Bill Payments 'DAWASCO Payments'
BOA Company Services	BOA-TANZANIA thus offers a wide range of products and services to the attention of Corporates and SMEs, organizations, institutions and professionals.

Activity Report 2012

Comments from the Managing Director

Tanzania's economy performed well in 2012, recording GDP growth of 6.5% despite rising inflation and liquidity challenges. The country's economic prospects are also positive as forecasted from government spending on infrastructure and projected Foreign Direct Inflows (FDI) in extractive oil and gas industries. Inflation reached two-digit figures in 2012, peaking at almost 20% at the beginning of the year, and by the end of 2012 this rate had declined to 12.1%. The Tanzanian shilling was also under pressure due to high demand of forex to import oil for power generation and transportation.

The key performance indicators demonstrate remarkable resistance to industry turbulence, which positioned BANK OF AFRICA – TANZANIA among the profitable banks in 2012. The Bank achieved growth in customer deposits of 17% to TZS 264 billion in a period of tight liquidity and high inflation. Total assets increased to TZS 343 billion from TZS 284 (2011), attributed to growth in the loan book which was increased by 31% to TZS 198 billion. The overall profit before tax doubled to TZS 3.3 billion.

Our Bank continued to spread its footprints in Tanzania by opening two branches in Mtibwa and Kahama. The commitment to expand its network further in Tanzania will provide it with more delivery channels in 2013.

In collaboration with Central Structures of BOA Group, the Bank began implementing a project to improve the business delivery model and enhance our customer offerings with the aim to increase efficiency and productivity.

The Bank has also been an active player in fulfilling its commitment to society by undertaking significant activities to support health, education and communities that it interacts with.

The Bank is well positioned nationally and internationally and well equipped for the future. Its customers and their needs are the focus of its strategy in the coming year. This is reflected in the 2013-15 Development Plan which aims at repositioning the Bank as a market leader and increase its total assets by an average of 28% per annum and reduce its cost to income ratio to below 70% by 2015.

New products will be introduced including Electronic Banking products as well as alternate channels. A Channel Migration strategy has been put in place to increase effectiveness and efficiency.

I wish to thank shareholders, Directors and all staff members for their prudent corporate governance, hard work, dedication and commitment that enabled the Bank to achieve its successful performance for the period under review.

I also thank our customers as they enable the Bank to grow when their business prospers.

Ammishaddai OWUSU-AMOAH

Managing Director

Highlights 2012

March

The Bank ran an internal fixed deposit campaign dubbed 'Shinda mamilioni ya pasaka' (Win millions over the Easter holidays) over a one-month period. A total of 12 staff members were awarded during this campaign.

May

The Bank launched the 'Grow and Win' deposit campaign. The campaign, which came to an end in July 2012, saw 2 customers awarded for highest deposit volumes during the campaign period.

Participation in the 2012 BANK OF AFRICA network management meetings, in Marrakech, Morocco.

June

The Bank participated in the first ever Tanzania Homes Expo in the country by showcasing the Home Finance Product in the exhibition.

The Bank ran a Telegraphic Transfer (TT) Campaign targeted towards awarding customers discounted rates on foreign currency transfers made in 3 particular branches – Mwanza, Msimbazi and Aggrey branches.

July

The Bank launched a new product - Insurance Premium Finance - into the market that would enable individuals and companies to acquire funds to pay for their insurance covers thus allowing the customers to protect their cash flows for other business needs.

October

The Bank partnered with Airtel to offer products and services of added value to customers - Airtel Money and Aggregator Financing.

November

Opened its 17th branch, Mtibwa Branch, in Morogoro region which is almost 200 km from Dar es Salaam.

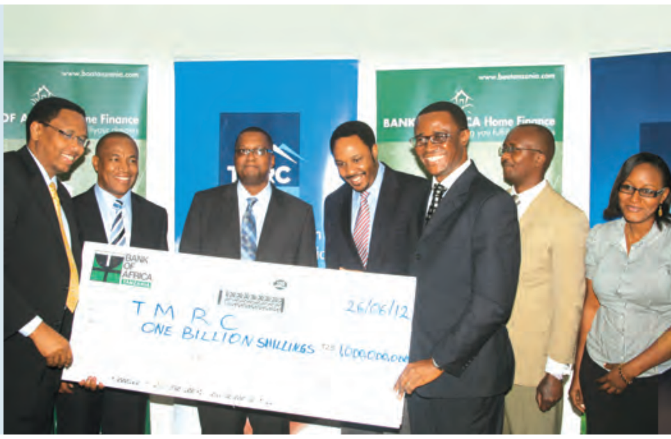
The Bank launched the last deposit campaign – Weka na Ushinde / Deposit and Win – for the year which was to run for 4 months from November 2012; the campaign came to an end in February 2013.

December

The Bank hosted the 2012 BANK OF AFRICA Directors meetings, in Arusha, Tanzania.

Launch of
Insurance Premium Finance.

BOA-TANZANIA and
TMRC Partnership.



Key figures on 31/12/2012

Total Assets*	342,766,290

Activity

Deposits*	264,495,616
Loans*	197,666,022

Income

Net interest income*	17,811,229
Operating income*	28,850,168
Operating expenses*	23,215,939
Profit before tax*	3,333,251
Profit after tax*	2,536,954

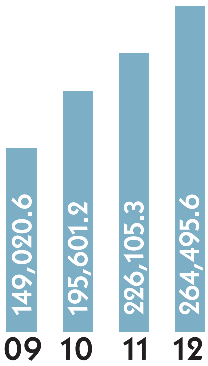
Structure

Number of employees	223

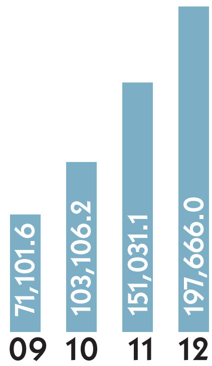
* In TZS thousands (EUR 1 = TZS 1,952, as at 31st Dec 2012).

** In TZS millions.

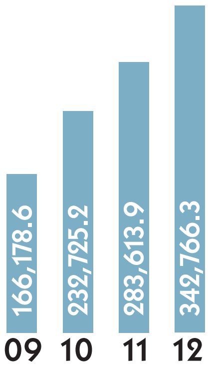
Evolution from 2009 to 2012



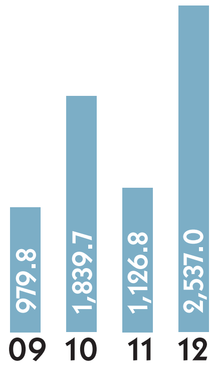
Total Deposits**



Total Loans**



Total Assets**



Profit after tax**

BOA-TANZANIA MD welcomes Group Directors during the Plenary Meeting in Arusha, Tanzania.

Mr BENNANI, BOA Group CEO, speaking to Directors, in Arusha, Tanzania.

Corporate Social Responsibility Initiatives

BOA-TANZANIA in its commitment towards supporting its immediate community, engaged in various corporate social responsibility initiatives in the education, health and social sectors in 2012.

Education

Construction of teachers quarters at a local school

The Bank donated TZS 10 million to go towards construction of teachers quarters at Kisiba Secondary School located in Rungwe, a district about 900 km from Dar es Salaam, to the South.

Sponsorship of TAMONGSCO Annual General Meeting

The Bank contributed a sum of TZS 2.9 million in the education sector by supporting the Tanzania Managers and Owners of Non-Governmental Schools general meeting. The meeting was held to discuss modalities on how to improve the access and quality of education in Tanzania and has also helped the Bank to secure more educational institutions as their preferred banking partners.

Baobab Secondary School Study Tour

The Bank hosted a group of students from Baobab Secondary School on a study tour in order to teach them about different aspects in banking. The study tour was part of the school's Commerce curriculum. Baobab Secondary School is a customer of the Bank.

Baobab Secondary School Visit.

Donation to Kisiba Secondary School, in Rungwe.

Participation in the AIESEC TANZANIA Career Fair

In the spirit of supporting youth development as part of its CSR focus, BOA-TANZANIA once again participated in a career fair organized by AIESEC Tanzania at the University of Dar es Salaam.

AIESEC is the world's largest student-run organization and has a global network of over 50,000 members across more than 110 countries and territories in 1,000 universities worldwide. The career fair provides a platform for employers to interact with their potential employees from different higher learning institutions in the country.

CCBRT Invest in Your Future Campaign.

Health

Easter luncheon with the admitted children at the Comprehensive Community Based Rehabilitation in Tanzania (CCBRT)

As is the annual Bank's tradition, staff members once again celebrated Easter festivities with the children admitted at CCBRT Disability Hospital with club feet, bow legs and other congenital deformities. For the 3rd year running, staff from the Bank spent time and had lunch with the children and also distributed various gifts amongst the children.

Support for the CCBRT Invest in Your Future Campaign

In the spirit of supporting the health and education sector as part of our CSR focus, the Bank donated USD 10,000 for the CCBRT Invest In Your Future Campaign run by CCBRT. This campaign's aim was to increase the percentage of children who receive an education by preventing disability, raising awareness and empowering families. The Bank recognized the significance of this initiative as a means of preventing disability in children and making education accessible to these children as future leaders.

Social

BOA International Marathon

BOA-TANZANIA sponsored two athletes to represent the country in the 5th Edition of the BOA International Marathon in Bamako, Mali. Sarah KAVINA from Tanzania came first in the Women's 10 km category for the 2nd year running.

Sponsorship of the European Film Festival 2012

As part of the Bank's annual engagement in supporting cultural integration via maintaining a close relationship with the French community in the country, BOA-TANZANIA, once again, sponsored this year's European Film Festival to the tune of USD 1,000.

1 - Tanzanian delegation at BOA International Marathon. 2/3 - CCBRT Easter Luncheon.

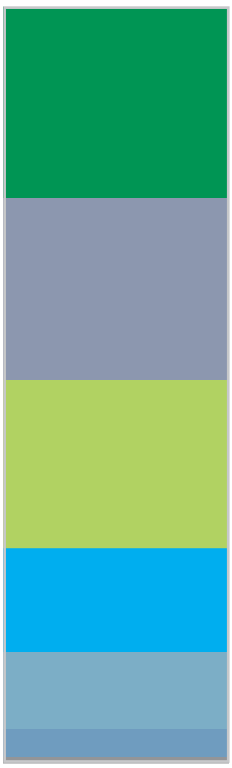
Board of Directors

The Directors who held office during the year and to the date of 24th May 2013 were:

Ambassador Fulgence KAZAURA, Chairman
Mohamed BENNANI
Abdelkabir BENNANI
Vincent de BROUWER
Bernard CHRISTIAANSE
Henri LALOUX
Shakir MERALI
Emmanuel Ole NAIKO
Ammishaddai OWUSU-AMOAH

Capital

The Bank, as at 31st December 2012, had in issue 139,481 shares with a total nominal value of TZS 18.98 billion. The following is the Bank's shareholding structure as at 31st December 2012.
Shareholding Position (%):



25.30% AFH–OCEAN INDIEN

24.05% BANK OF AFRICA – KENYA

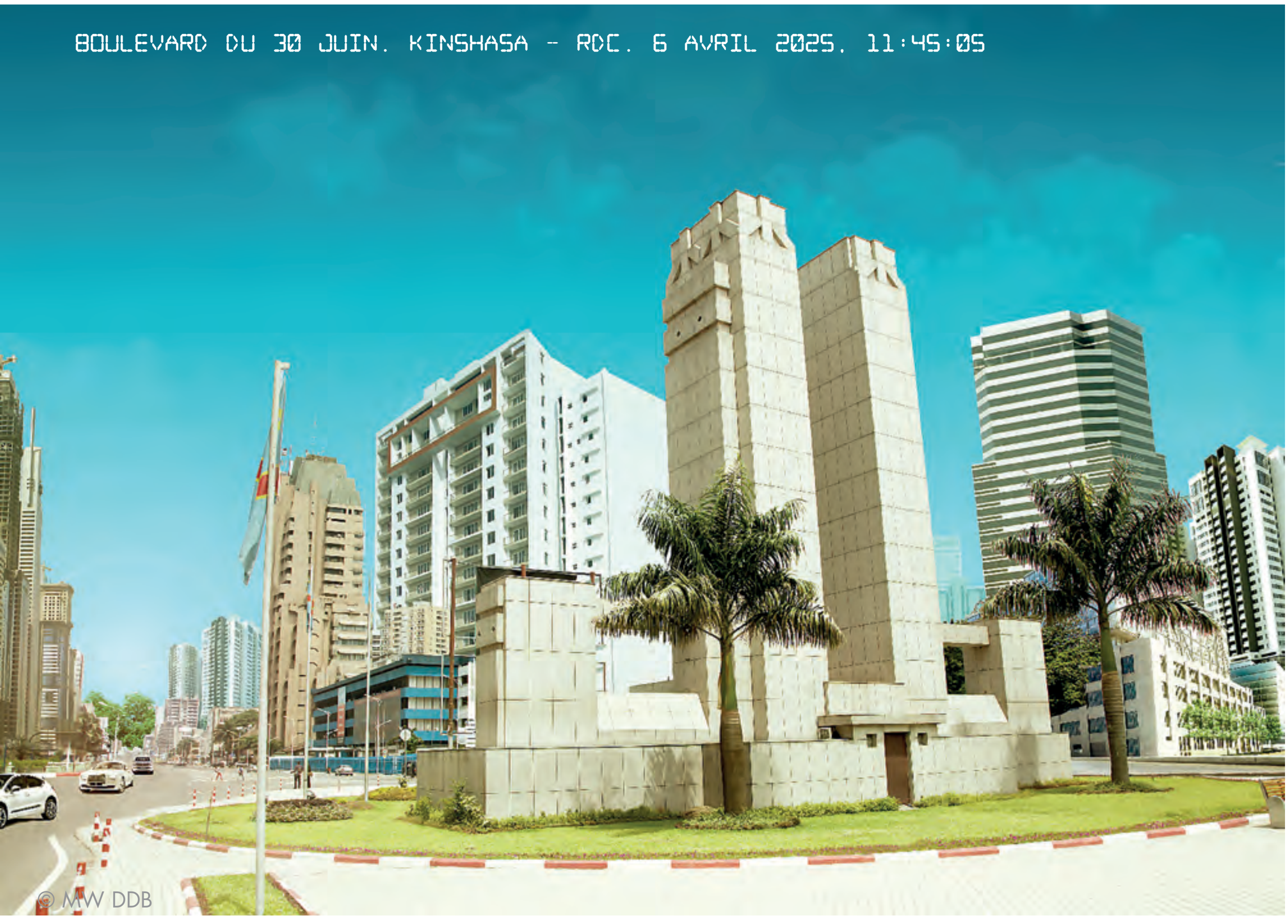
22.24% BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES (BIO)

13.70% AUREOS EAST AFRICA FUND LLC

10.19% TANZANIA DEVELOPMENT FINANCE LIMITED (TDFL)

3.70% NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)

0.82% OTHER SHAREHOLDERS



Report and Financial Statements

for the year ended 31 December 2012

Report of the Directors

for the year ended 31 December 2012

The Directors present their report and audited financial statements for the year ended 31 December 2012, 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 in our chosen markets. The Bank will realize this by serving customers with efficiency and courtesy, contributing to the development of all stakeholders. The Bank will also 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 perfomance 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 performance for 2012 witnessed a growth of 21% in its balance sheet size. Total assets increased by 21%, customer deposits by 17%. Our assets growth represented an increase of 31% in the loans and advances to customers portfolio. The Bank ended with an after tax profit of Shs 2.5 billion (2011: Shs 1.1 billion) which was an increase of 125%. The increase in profit was largely contributed by the increase in net interest income 47% and non-funded income 24%.

During the year, 1,622 ordinary shares were issued to existing shareholders, and paid for generating cash inflow of Shs 310 million.

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

PERFORMANCE INDICATOR	DEFINITION AND CALCULATION METHOD	BANK OF AFRICA – TANZANIA RATIOS	
		2012	2011
Return on equity	Net profit/Total equity	**8.7%**	4.3%
Return on assets	Net profit/Total assets	**0.7%**	0.4%
Cost to income ratio	Total costs/Net income	**80.5%**	85.8%
Interest margin on earning assets	Total interest income/(investment in government securities + balances with other financial institutions + interbank loan receivables + investments in other securities + net loans, advances and overdraft	**10.7%**	6.0%
Non - interest income to Gross income	Non - interest income/Total income	**38.3%**	22.0%
Gross loans to customers to customer deposits	Total loans to customers /Total deposits from customers	**75.8%**	67.7%
Non - performing loans to gross loans	Non - performing loans /Gross loans and advances	**3.0%**	2.6%
Earning assets to total assets	Earning assets/Total assets	**82.3%**	82.8%
Growth on total assets	Trend (2012 total assets – 2011 total assets)	**20.9%**	21.9%
Growth on loans and advances to customers	Trend (2012 loans and advances – 2011 total loans)	**30.9%**	46.5%
Growth on customer deposits	Trend (2012 deposits – 2011 total deposits)	**17.0%**	15.6%
CAPITAL ADEQUACY			
Tier 1 Capital	CORE CAPITAL/Risk weighted assets including Off balance sheet items	**13.0%**	16.0%
Tier 1 + Tier 2 Capital	TOTAL CAPITAL/Risk Weighted assets including Off-balance sheet items	**15.0%**	18.0%

The Bank continued with its branch expansion strategy with an eye on SMEs by opening two new branches in Mtibwa and Kahama for the year ended December 2012. This brought the number of branches to 18 and marks its presence in 8 regions of the Tanzania mainland. In the short-term this program continued to put pressure on operating costs. Despite the increase in expenses, the Bank's cost to income ratio declined year on year from 86% (2011) to 81% (2012), a clear demonstration of the efficient return the Bank is earning from the investments and expenditure made in the business. The Bank will continue with the expansion programme and is expected to open five new branches in the coming 12 months.

Business developments (continued)

The non-performing loans to gross loans slightly increased from 2.6% (2011) to 3% (2012), however the ratio is below industry average which stood at 7%. The credit selection, appraisal and approval processes, complemented by strong relationships with customers have ensured that potential credit delinquencies are identified and managed at an early stage. This arrangement has proved to be beneficial to the Bank and customers, especially in light of the challenges that they are facing in the prevailing difficult economic environment.

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.

4 Dividend

The Directors do not recommend the payment of any dividend for the year 2012.

5 Directors

The Directors of the Bank at the date of this report and who have served in office since 01 January 2012 unless otherwise stated are:

1	Mr. Fulgence KAZAURA	Chairman	Tanzanian	
2	Mr. Mohamed BENNANI	Member	Moroccan	
3	Mr. Vincent de BROUWER	Member	Belgian	
4	Mr. Emmanuel Ole NAIKO	Member	Tanzanian	
5	Mr. Shakir MERALI	Member	Kenyan	
6	Mr. Peter LOCK	Member	Dutch	
7	Mr. Henri LALOUX	Member	Belgian	
8	Mr. Abdelkabir BENNANI	Member	Moroccan	Appointed on 02/03/2012
9	Mr. Ammishaddai OWUSU-AMOAH*	Managing Director	Ghanaian	
10	Mr. Paul DERREUMAUX	Member	French	Resigned on 28/06/2012
11	Mr. M'Fadel EL HALAISSI	Member	Moroccan	Resigned on 28/02/2012

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 2012, is Mr. Patrick MALEWO (Tanzanian).

* Denotes Executive Director

Cocktail during Group Directors Meeting in Dar es Salaam, Tanzania – March 2012.

6 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
Henry LALOUX	Member	Belgian
Peter LOCK	Member	Dutch
Abdelkabir BENNANI	Member	Moroccan

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
Henry LALOUX	Member	Belgian
Peter LOCK	Member	Dutch
Abdelkabir BENNANI	Member	Moroccan

The committee met four times during the year.

7 Capital structure

The Bank's capital structure as at 31 December 2012 is disclosed in note 3.5 to the financial statements.

8 Shareholders of the Bank

The total number of shareholders during the year was 8 (2011: 11 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 27 to the financial statements.

9 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 management
- Legal and compliance

10 Future development plans

In 2013, the Bank shall emphasize on improving customer quality care and delivery. We intend to continuously increase our delivery channels and embracing technological advancements in banking thereby taking our services closer to public. Management will also continue to focus on cost control and all aspects of risk management. The Bank expects to issue 41,676 more shares in year 2013 in order to support the targeted growth.

11 Key strengths and resources

In light of key strengths and resources at the disposal of the Bank, the Directors believe that the Bank will achieve its objectives as highlighted on Future Development Plans. Being affiliated to BANK OF AFRICA Group with presence in 16 countries worldwide, the Bank enjoys considerable technological and intellectual capital. Now ranked among top 10 banks in Tanzania, the Bank will continue to strive to penetrate further into the market. The Bank has well-functioning staff motivational and retention schemes which have resulted in a reliable and committed team of staff.

12 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.

13 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.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2012 and is of the opinion that they met accepted criteria.

14 Employee's welfare

Management and Employees' Relationship

There were continued good relations between employees and management for the year ended 31 December 2012. 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 2013, the Bank has allocated a sum of Shs 216 million for staff training in order to improve employee's technical skills hence effectiveness (2012: Actual spent Shs 161 million). 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.

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. Public administered pension plans to which Banks' employees are members are National Social Security Fund and Parastatal Pension Fund.

15 Gender party

As at 31 December 2012, the Bank had 223 employees, out of which 97 were female and 126 were male. (2011: 221 employees, out of whom 96 were female and 125 were male).

16 Related party transactions

All related party transactions and balances are disclosed in note 31 to these financial statements.

17 Social and environmental policy

The Bank recognizes 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.

18 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 25 million (2011: Shs 17 million).

19 Corporate social responsibility

BANK OF AFRICA – TANZANIA, in its commitment towards supporting its immediate community, engaged in a number of corporate social responsibility initiatives in the education, health, sports and other social sectors.

In recognition of the education sector as a significant factor in enhancing economic development in the country, the Bank supported the construction of teachers' quarters at Kisiba Secondary School. The Bank went further to sponsor and participate in a career fair organized by AIESEC Tanzania members from the University of Dar es Salaam and higher learning institutions in the country in support of youth development and transition into the employment world. Still in strong support of the education sector, the Bank also took students from Baobab Secondary School on an educative tour of the Bank and its operations as part of the school's Commerce studies curriculum and also contributed financially towards the organization and execution of the Tanzania Managers and Owners of Non-Governmental Schools' (TAMONGSCO) Annual General Meeting.

For the health sector, the Bank continued its support for the Comprehensive Community Based Rehabilitation in Tanzania (CCBRT) by hosting the annual Easter Luncheon and provided educative gifts for the children admitted at the institution with physical, visual, hearing and intellectual impairments as well as those with epilepsy. In addition to that, the Bank also donated a considerable amount of funds to support CCBRT's Invest in Your Future Campaign which aimed at increasing the percentage of children who receive an education by preventing disability, raising awareness and empowering families.

In support of sports development in the country, the Bank sponsored two young athletes' participation in the annual BOA International Marathon of Bamako in Mali. This was in recognition of athletics as potential for successful sports in the country and the need to assist in development of that particular sport.

Finally, in support of promotion of cultural integration and diversity, the Bank also contributed financially towards the annual European Film Festival.

20 Auditors

The Bank's Auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of PricewaterhouseCoopers, as Auditors of the Bank for the year ending 31 December 2013 will be put to the Annual General Meeting.

Fulgence KAZAURA

Chairman

16th March 2013

BOA-TMRC Partnership.

Statement of Directors' Responsibilities

for the year ended 31 december 2012

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 Company as at the end of the financial year and of its profit or loss. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act, CAP 212 Act No.12 of 2002. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its profit 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. To enable the Directors to meet these responsibilities they set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures

Launch of Airtel Money.

and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known risks across the Company. While operating risk cannot be fully eliminated, the Company endeavors to minimize it by ensuring the appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The external Auditors are responsible for independently reviewing and reporting on the Company's financial statements. The financial statements have been examined by the external Auditors and there report is presented on page 27 and 28.

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

Fulgence KAZAURA

Chairman

16th March 2013

Launch of the Mtibwa Branch.

Report of the Independent Auditor

to the members of BANK OF AFRICA – TANZANIA Limited

Report on the Financial Statements

We have audited the accompanying financial statements of BANK OF AFRICA — TANZANIA Limited (the Bank), which comprise the statement of financial position as at 31 December 2012, the statement of profit and loss account and other Comprehensive Income, statement of changes in equity and statement of cash flows 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 judgment, 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 financial affairs at 31 December 2012 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 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.

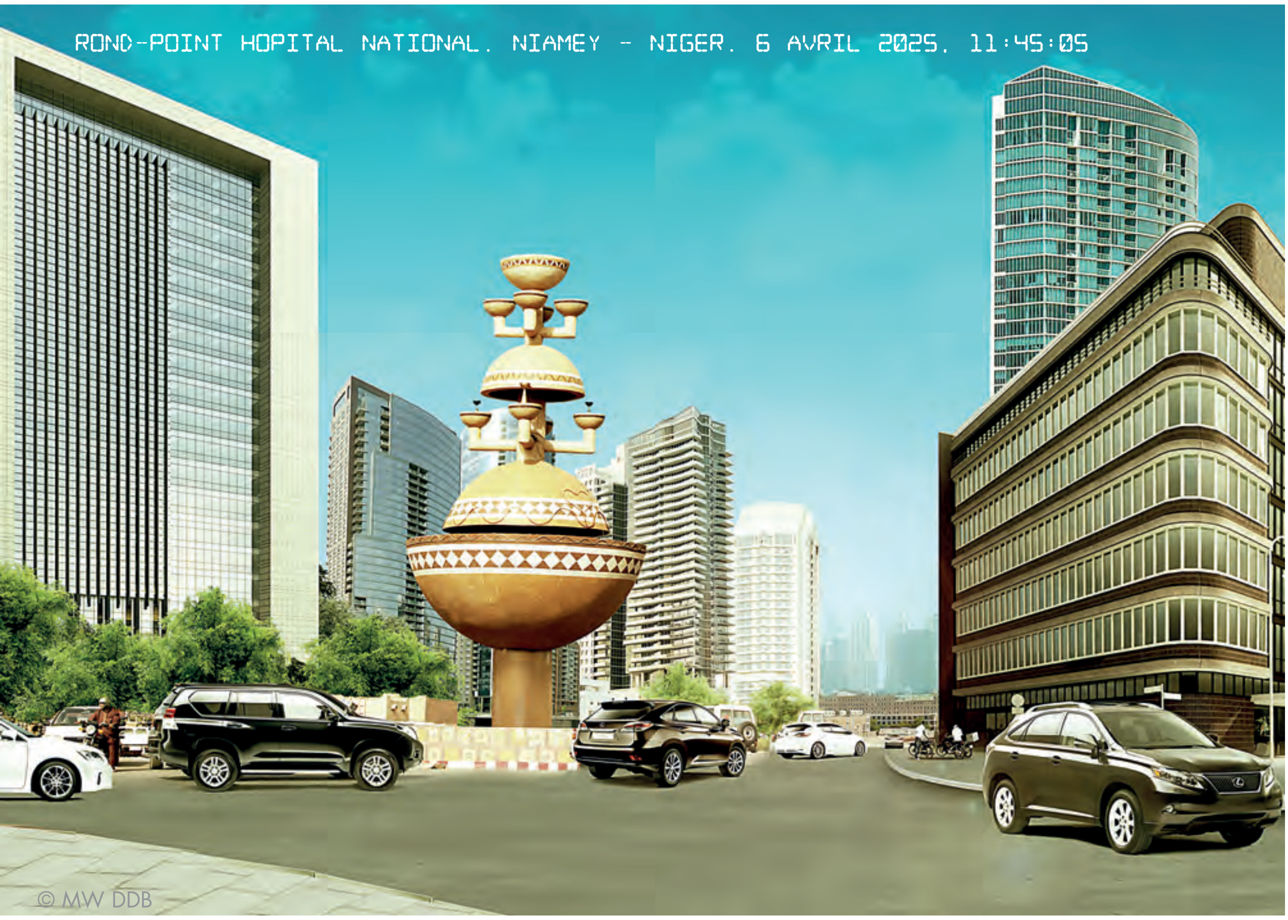
Leonard C. MUSUSA, FCPA - PP

For and on behalf of **PricewaterhouseCoopers**

Certified Public Accountants

Dar es Salaam

26th March 2013



Financial Statements

for the year ended 31 December 2012

Financial Statements
for the year ended 31 December 2012

Statement of profit and loss and other Comprehensive Income

	NOTES	2012	2011
		SHS 000	SHS 000
INTEREST AND SIMILAR INCOME	5	29,815,411	20,012,368
INTEREST AND SIMILAR EXPENSE	6	(12,004,182)	(7,860,789)
NET INTEREST INCOME		**17,811,229**	**12,151,579**
IMPAIRMENT CHARGE ON LOANS AND ADVANCES	7	(2,300,978)	(1,410,637)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT		**15,510,251**	**10,740,942**
FEE AND COMMISSION INCOME	8	8,192,128	6,597,787
FEE AND COMMISSION EXPENSE		(366,100)	(340,352)
NET FEE AND COMMISSION INCOME		**7,826,028**	**6,257,435**
FOREIGN EXCHANGE INCOME		3,212,911	3,016,214
OPERATING EXPENSES	9	(23,215,939)	(18,375,026)
PROFIT BEFORE INCOME TAX		**3,333,251**	**1,639,565**
INCOME TAX CHARGE	11	(796,297)	(512,774)
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,536,954**	**1,126,791**

Statement of Financial Position

	NOTES	2012	2011
		SHS 000	SHS 000
ASSETS			
CASH AND BALANCES WITH BANK OF TANZANIA	13	49,605,392	39,246,992
LOANS AND ADVANCES TO BANKS	14	44,022,429	39,871,944
GOVERNMENT SECURITIES HELD TO MATURITY	15	40,275,862	43,870,477
LOANS AND ADVANCES TO CUSTOMERS	16	197,666,022	151,031,070
EQUITY INVESTMENT		1,000,000	-
OTHER ASSETS	17	2,301,509	1,812,894
PREMISES AND EQUIPMENT	18	5,294,970	5,996,639
INTANGIBLE ASSETS	19	1,578,278	822,125
INCOME TAX RECOVERABLE		252,365	961,770
DEFERRED TAX ASSETS	26	769,463	-
TOTAL ASSETS		**342,766,290**	**283,613,911**
LIABILITIES			
DEPOSITS FROM OTHER BANKS		30,170,075	14,009,017
DEPOSITS FROM CUSTOMERS	20	264,495,616	226,105,252
SUBORDINATED LOANS	21	13,700,490	13,555,955
OTHER LIABILITIES	22	5,106,557	3,123,750
DEFERRED INCOME TAX	26	-	373,644
TOTAL LIABILITIES		**313,472,738**	**257,167,618**
EQUITY			
SHARE CAPITAL	27	18,981,953	18,794,138
SHARE PREMIUM		4,519,055	4,396,565
RETAINED PROFIT		5,254,097	2,774,690
REGULATORY RESERVE		538,447	480,900
TOTAL EQUITY		**29,293,552**	**26,446,293**
TOTAL LIABILITIES AND EQUITY		**342,766,290**	**283,613,911**

The financial statements on pages 30 to 71 were approved by the Board of Directors and signed on its behalf by:

Fulgence KAZAURA
Chairman

16th March 2013

Financial Statements
for the year ended 31 December 2012

Statement of Changes in Equity

	SHARE CAPITAL	SHARE PREMIUM	RETAINED EARNINGS	REGULATORY RESERVE	TOTAL EQUITY
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
YEAR ENDED 31 DECEMBER 2012					
AT START OF THE YEAR	18,794,138	4,396,565	2,774,690	480,900	26,446,293
TRANSACTIONS WITH OWNERS					
ISSUE OF NEW SHARES	187,815	122,490	-	-	310,305
COMPREHENSIVE INCOME					
NET PROFIT FOR THE YEAR	-	-	2,536,954	-	2,536,954
TOTAL COMPREHENSIVE INCOME	-	-	2,536,954	-	2,536,954
TRANSFER TO REGULATORY RESERVE	-	-	(57,547)	57,547	-
AT 31 DECEMBER 2012	18,981,953	4,519,055	5,254,097	538,447	29,293,552
YEAR ENDED 31 DECEMBER 2011					
AT START OF THE YEAR	13,988,539	1,262,417	1,804,590	324,209	17,379,755
TRANSACTIONS WITH OWNERS					
ISSUE OF NEW SHARES	4,805,599	3,134,148	-	-	7,939,747
COMPREHENSIVE INCOME					
NET PROFIT FOR THE YEAR	-	-	1,126,791	-	1,126,791
TOTAL COMPREHENSIVE INCOME	-	-	1,126,791	-	1,126,791
TRANSFER TO REGULATORY RESERVE	-	-	(156,691)	156,691	-
AT 31 DECEMBER 2011	18,794,138	4,396,565	2,774,690	480,900	26,446,293

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.

Statement of Cash Flows

	NOTES	2012	2011
		SHS 000	SHS 000
CASH FROM OPERATING ACTIVITIES			
INTEREST AND SIMILAR INCOME RECEIVED	23	29,007,954	19,813,370
INTEREST PAID	24	(10,768,066)	(7,147,231)
FEES AND COMMISSION RECEIVED	8	8,192,128	6,597,787
FEES AND COMMISSION PAID		(366,100)	(340,352)
RECOVERY OF BAD DEBTS PREVIOUS WRITTEN OFF		336,600	371,971
FOREIGN EXCHANGE INCOME RECEIVED		3,212,911	3,016,214
PAYMENT TO EMPLOYEES AND SUPPLIERS		(20,462,260)	(20,484,383)
TAX PAID		(1,230,000)	(721,500)
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**7,923,167**	**1,105,876**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
INVESTMENT SECURITIES HELD TO MATURITY (WITH MATURITY OF 3 MONTHS AND MORE)		16,468,689	4,661,709
LOANS AND ADVANCES TO CUSTOMERS		(45,991,917)	(48,058,059)
STATUTORY MINIMUM RESERVE		(4,825,000)	(1,540,000)
OTHER ASSETS		(488,615)	(97,510)
DEPOSITS FROM CUSTOMERS		34,432,021	29,790,507
DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS		16,161,058	-
OTHER LIABILITIES		1,982,806	580,902
NET CASH GENERATED/ (UTILISED) IN OPERATING ACTIVITIES		**25,662,209**	**(13,556,575)**
CASH FLOW FROM INVESTING ACTIVITIES			
PURCHASE OF PREMISES AND EQUIPMENT	18	(1,233,644)	(2,257,037)
PURCHASE OF INTANGIBLE ASSETS	19	(1,180,911)	(83,508)
PROCEEDS FROM SALE OF ASSETS		-	-
INVESTMENT IN EQUITY SECURITIES		(1,000,000)	-
NET CASH UTILISED IN INVESTING ACTIVITIES		**(3,414,555)**	**(2,340,545)**
CASH FLOW FROM FINANCING ACTIVITIES			
PROCEEDS FROM SUBORDINATED LOANS		-	13,451,080
PROCEEDS FROM ISSUE OF SHARES		310,305	7,939,747
NET CASH GENERATED FROM FINANCING ACTIVITIES		**310,305**	**21,390,827**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**22,557,959**	**5,493,707**
CASH AND CASH EQUIVALENT AT START OF THE YEAR		60,696,825	55,203,118
CASH AND CASH EQUIVALENT AT END OF YEAR	25	**83,254,784**	**60,696,825**

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

2. Summary of significant accounting polices

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

(a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgment 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 judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(i) New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on the Bank's financial statements.

(ii) New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

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

Amendment to IAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The application of this amendment will mainly impact the presentation of the primary statements. The standard is effective from 1 July 2012. IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The application of IFRS 13 may enhance fair value disclosures in a lot of circumstances. The standard is effective from 1 January 2013.

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

(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 recognized within 'interest income' and 'interest expense' in statement of profit or loss using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized 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 recognized 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 recognized 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 recognized as an adjustment in the statement of profit or loss over the period of the facility.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Tanzania Shillings rounded to the nearest thousand, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

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

(e) Financial assets

The Bank classifies its financial assets into the following categories: loans and receivables and held-to-maturity financial assets. Directors determine the appropriate classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are initially recognized at fair value which is the cash consideration to or purchase the loan including any transaction costs and measured subsequently at amortized cost using the effective interest method. Loans and advances to customers and banks fall under this classification.

(ii) 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.

(iii) Available-for-sale

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

Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in the statement of comprehensive income, except for impairment losses, until the financial asset is derecognized. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in the statement comprehensive income is recognized in the statement of profit or loss and other comprehensive income.

Recognition and measurement of financial assets

Initial recognition

Purchases and sales of financial assets categorized as loans and receivables and held-to-maturity are recognized on the trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs. Financial assets are derecognized 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 amortized cost using the effective interest method.

(f) Impairment of financial assets

Assets carried at amortized cost

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

- 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 recognized 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 recognized in statement of profit or loss.

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 recognized (such as an improvement in the debtors credit rating), the previously recognized impairment loss is revised by adjusting the provision account. The amount of the reversal is recognized in the statement of profit or loss in impairment charge for credit losses.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

(f) Impairment of financial assets (continued)

When a loan is uncollectible, it is written off against the related allowance 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. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

Assets classified as available-for-sale

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

(g) Financial liabilities

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

Liabilities measured at amortized cost

Financial liabilities are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

Classes of financial instruments

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

FINANCIAL ASSETS	CATEGORY
CASH AND BALANCES WITH BOT	LOANS AND RECEIVABLES
LOANS AND ADVANCES TO OTHER BANKS	LOANS AND RECEIVABLES
HELD TO MATURITY INVESTMENT SECURITIES	HELD TO MATURITY
LOANS AND ADVANCES TO CUSTOMERS	LOANS AND RECEIVABLES
OTHER ASSETS EXCLUDING PREPAYMENTS	LOANS AND RECEIVABLES
AVAILABLE-FOR-SALE FINANCIAL ASSETS	INVESTMENT SECURITIES - EQUITY SECURITIES
FINANCIAL LIABILITIES	
DEPOSITS FROM BANKS	FINANCIAL LIABILITIES AT AMORTIZED COST
DEPOSITS FROM CUSTOMERS	FINANCIAL LIABILITIES AT AMORTIZED COST
OTHER LIABILITIES	FINANCIAL LIABILITIES AT AMORTIZED COST

(h) Income tax

Income tax expense is the aggregate of the charge to the statement 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 realized or the deferred income tax liability is settled. Deferred income tax assets are recognized 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 recognized 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
OFFICE EQUIPMENT AND MACHINERY	20
COMPUTER HARDWARE	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

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

(l) Impairment of non-financial assets

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

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

(m) 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.

(n) Employee benefits

The Bank and its employees contribute to the National Social Security Fund (NSSF) and Parastatal Pension Fund (PPF), which are defined contribution schemes. Employees contribute 10% while the Bank contributes 10% to the schemes. 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 profit or loss in the year to which they relate.

(o) 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 recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(p) Acceptances and letters of credit

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

(q) 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.

(r) Operating leases

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

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

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 minimize potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

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, market risk (such as foreign exchange risk, interest rate risk), credit risk, and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important risks are credit risk, liquidity risk and market risk. The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk and market risk.

3.1 Credit risk

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

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Bank's business; the Directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

3.1.1 Credit risk measurement

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'). 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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of 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 recognized 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 grading. 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:

	2012		2011	
	LOANS & ADVANCES (%)	IMPAIRMENT PROVISION (%)	LOANS & ADVANCES (%)	IMPAIRMENT PROVISION %)
CURRENT	96.10	0.17	96.68	0.16
ESPECIALLY MENTIONED	0.95	0.17	0.66	0.16
SUBSTANDARD	1.32	39.74	0.80	23.00
DOUBTFUL	0.23	83.46	0.58	3.53
LOSS	1.40	39.66	1.28	78.94
TOTAL	**100.00**	**1.44**	**100.00**	**1.37**

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

64% of the maximum exposure is derived from loans and advances to customers (2011: 58%); 13% represents investments in government securities (2011: 17%). 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 investment securities based on the following:

- 97.0% of the loans and advances portfolio is categorized in the top two grades of the internal rating system (2011: 97.3%);
- 96% of the loans and advances portfolio are considered to be neither past due nor impaired (2011: 97%);
- The Bank has introduced credit risk unit to monitor credit portfolio on daily basis; and
- No credit risk is considered in investment in Government Treasury bills and bonds.

3.1.5 Loans and advances – age analysis

Loans and advances are summarised as follows:

	2012		2011	
	LOAN & ADVANCES TO CUSTOMERS	LOAN & ADVANCES TO BANKS	LOAN & ADVANCES TO CUSTOMERS	LOAN & ADVANCES TO BANKS
	SHS 000	SHS 000	SHS 000	SHS 000
NEITHER PAST DUE NOR IMPAIRED	192,737,246	44,022,429	148,122,604	39,871,944
PAST DUE BUT NOT IMPAIRED	1,891,818	-	1,010,043	-
IMPAIRED	5,924,337	-	3,939,335	-
GROSS	200,553,401	44,022,429	153,071,982	39,871,944
LESS: ALLOWANCE FOR IMPAIRMENT	(2,887,379)	-	(2,040,912)	-
NET OF IMPAIRMENT	197,666,022	44,022,429	151,031,070	39,871,944
PORTFOLIO ALLOWANCE	332,400		238,500	
INDIVIDUALLY IMPAIRED	2,554,979		1,802,412	
TOTAL	2,887,379		2,040,912	

The total impairment provision for loans and advances is Shs 2,887 million (2011: Shs 2,041 million). Further information of the impairment allowance for loans and advances to customers is provided in Note 16.

During the year ended 31 December 2012, the Bank's total loans and advances increased by 31% as a result of the expansion of the lending business. When entering into new markets or new industries, in order to minimize 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 neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank. (Amounts are in Shs'000).

	LOANS & ADVANCES TO CUSTOMERS					LOANS & ADVANCES TO BANKS
	INDIVIDUAL (RETAIL)		CORPORATE ENTITIES		TOTAL	
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SME		
31-DECEMBER-2012						
CURRENT	718,963	8,642,675	146,437,958	36,937,649	192,737,246	44,022,429
31-DECEMBER-2011						
CURRENT	1,353,971	3,070,184	114,789,767	28,908,682	148,122,604	39,871,944

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class that were past due but not impaired were as follows:
(Amounts are in Shs'000).

	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
31 DECEMBER 2012					
PAST DUE 60-90 DAYS	-	1,644	1,146,204	743,970	1,891,818
31 DECEMBER 2011					
PAST DUE UP TO 60-90 DAYS	-	2,020	1,006,766	1,257	1,010,043

(c) Loans and advances individually impaired

(i) Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is Shs 5,924 million (2011: Shs 3,939 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).

	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
31 DECEMBER 2012					
INDIVIDUALLY IMPAIRED LOANS	-	600,580	2,095,904	3,227,853	5,924,337
31 DECEMBER 2011					
INDIVIDUALLY IMPAIRED LOANS	511,634	149,222	1,253,706	2,024,772	3,939,334

(ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2012 was nil. (2011: nil). No collateral is held by the Bank against loans and advances to banks.

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	
	2012	2011
	SHS 000	SHS 000
RESIDENTIAL PROPERTY	30,000	235,000
COMMERCIAL PROPERTY	-	-
MOTOR VEHICLE	-	-
TOTAL	30,000	235,000

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 (without taking into account any collateral held or other credit support), as categorised by geographical region as of 31 December 2012. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties (Amounts are in Shs'000).

	TANZANIA	EUROPE	AMERICA	OTHERS	TOTAL
LOANS AND ADVANCES TO BANKS	34,407,717	4,663,814	(3,600,564)	8,551,462	44,022,429
INVESTMENT SECURITIES HELD TO MATURITY	40,275,862	-	-	-	40,275,862
LOANS AND ADVANCES TO CUSTOMERS					
TO INDIVIDUALS:					
- OVERDRAFT	717,724	-	-	-	717,724
- TERM LOANS	8,882,625	-	-	-	8,882,625
TO CORPORATE ENTITIES:					
- CORPORATE CUSTOMERS	148,575,106	-	-	-	148,575,106
- SMES	39,490,567	-	-	-	39,490,567
OTHER ASSETS (EXCLUDING PREPAYMENTS & STATIONERY)	870,352	-	-	-	870,352
AS AT 31 DECEMBER 2012	273,219,953	4,663,814	(3,600,564)	8,551,462	282,834,665

Credit risk exposures relating to off-balance sheet items are as follows:

	TANZANIA	EUROPE	AMERICA	OTHERS	TOTAL
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	16,764,059				16,764,059
OUTSTANDING GUARANTEES AND INDEMNITIES	12,730,038				12,730,038
LETTERS OF CREDIT	13,029,562				13,029,562
AT 31 DECEMBER 2012	42,523,659				42,523,659

	TANZANIA	EUROPE	AMERICA	OTHERS	TOTAL
LOANS AND ADVANCES TO BANKS	16,114,244	7,308,955	6,155,205	10,293,540	39,871,944
INVESTMENT SECURITIES HELD TO MATURITY	43,870,477				43,870,477
LOANS AND ADVANCES TO CUSTOMERS					
TO INDIVIDUALS:					
- OVERDRAFT	1,650,244				1,650,244
- TERM LOANS	2,887,442				2,887,442
TO CORPORATE ENTITIES:					
- CORPORATE CUSTOMERS	115,436,376				115,436,376
- SMES	31,057,008				31,057,008
OTHER ASSETS	70,468				70,468
AS AT 31 DECEMBER 2011	211,086,259	7,308,955	6,155,205	10,293,540	234,843,959

Credit risk exposures relating to off-balance sheet items are as follows:

UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	10,209,597	10,209,597
OUTSTANDING GUARANTEES AND INDEMNITIES	11,180,360	11,180,360
LETTERS OF CREDIT	441,552	441,552
AS AT 31 DECEMBER 2011	21,831,509	21,831,509

(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
31 DECEMBER 2012										
LOANS AND ADVANCES TO BANKS	44,022,429	-	-	-	-	-	-	-	-	44,022,429
GOVERNMENT SECURITIES HELD TO MATURITY	-	-	-	-	40,275,862	-	-	-	-	40,275,862
LOANS AND ADVANCES TO CUSTOMERS										
TO INDIVIDUAL:										
- OVERDRAFT	-	151	-	-	-	663	-	399,355	317,555	717,724
- TERM LOANS	-	-	42,967	3,371,692	-	17,650	243,224	5,043,845	163,247	8,882,625
TO CORPORATE ENTITIES:										
- CORPORATE CUSTOMERS	15,362,815	10,641,389	7,969,963	17,210,806	14,568,485	31,659,119	14,869,907	-	36,292,621	148,575,105
- SMES	-	624,329	237,515	4,318,266	-	2,344,658	16,396,640	7,889,108	7,680,052	39,490,568
OTHER ASSETS	-	-	-	-	-	-	-	-	870,352	870,352
AS AT 31 DECEMBER 2012	59,385,244	11,265,869	8,250,445	24,900,764	54,844,347	34,022,090	31,509,771	13,332,308	45,323,827	282,834,665

Credit risk exposures relating to off-balance sheet items are as follows:

	FINANCIAL INSTITUTIONS	AGRICULTURE	MANUFACTURING	BUILDING & CONSTRUCTION	GOVERNMENT	TRANSPORTATION	WHOLESALE & RETAIL TRADE	INDIVIDUALS	OTHER	TOTAL
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	734,627	201,726	1,246,892	762,889	-	2,657,712	4,272,747	1,020,317	5,867,149	16,764,059
OUTSTANDING GUARANTEES AND INDEMNITIES	-	-	201,221	5,616,200	-	568,398	862,468	-	5,481,751	12,730,038
LETTERS OF CREDIT	-	-	144,896	531,212	-	-	4,737,216	-	7,616,238	13,029,562
AS AT 31 DECEMBER 2012	734,627	201,726	1,593,009	6,910,301	-	3,226,110	9,872,431	1,020,317	18,965,138	42,523,659

	FINANCIAL INSTITUTIONS	AGRICULTURE	MANUFACTURING	BUILDING & CONSTRUCTION	GOVERNMENT	TRANSPORTATION	WHOLESALE & RETAIL TRADE	INDIVIDUALS	OTHER	TOTAL
31 DECEMBER 2011										
LOANS AND ADVANCES TO BANKS	39,871,944	-	-	-	-	-	-	-	-	39,871,944
GOVERNMENT SECURITIES HELD TO MATURITY	-	-	-	-	43,870,477	-	-	-	-	43,870,477
LOANS AND ADVANCES TO CUSTOMERS										
TO INDIVIDUAL:										
- OVERDRAFT	-	-	-	221,595	-	-	79,786	1,102,428	246,435	1,650,244
- TERM LOANS	-	-	-	82,908	-	-	68,270	2,511,376	224,888	2,887,442
TO CORPORATE ENTITIES:										
- CORPORATE CUSTOMERS	14,835,947	7,301,346	2,215,113	9,601,981	15,337,556	25,034,742	12,532,214	-	28,577,477	115,436,376
- SMES	-	386,715	363,202	2,251,994	-	1,187,487	14,471,130	-	12,396,480	31,057,008
OTHER ASSETS	-	-	-	-	-	-	-	-	70,468	70,468
AS AT 31 DECEMBER 2011	54,707,891	7,688,061	2,578,315	12,158,478	59,208,033	26,222,229	27,151,400	3,613,804	41,515,748	234,843,959

Credit risk exposures relating to off-balance sheet items are as follows:

UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	621,618	170,694	1,055,081	645,533	-	2,248,873	3,615,466	863,360	4,964,598	14,185,223
OUTSTANDING GUARANTEES AND INDEMNITIES	-	-	294,289	8,213,793	-	831,292	1,261,375	-	8,017,159	18,617,908
LETTERS OF CREDIT	-	-	24,720	90,628	-	-	808,194	-	1,299,372	2,222,914
AS AT 31 DECEMBER 2011	621,618	170,694	1,374,090	8,949,954	-	3,080,165	5,685,035	863,360	14,281,129	35,026,045

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 2012, if the functional currency had strengthened/weakened by 5% against the US Dollar with all other variables held constant, post-tax profit for the year would have been Shs 24 million (2011: Shs 144 million) lower/higher mainly as a result of foreign exchange gains/losses on translation of for US Dollar denominated financial assets and liabilities, respectively.

At 31 December 2012, if the functional currency had strengthened/weakened by 5% against the Sterling Pound with all other variables held constant, post-tax profit for the year would have been Shs 30 million (2011: 105 million) lower/higher mainly as a result of foreign exchange gains/losses on translation of for Sterling Pound denominated financial assets and liabilities respectively.

At 31 December 2012, if the functional currency had strengthened/weakened by 5% against the Euro with all other variables held constant, post-tax profit for the year would have been Shs 47 million lower/higher mainly as a result of foreign exchange gains/losses on translation of for Euro denominated financial assets and liabilities respectively.

The exposure to foreign currencies other than the US Dollar, Euro and GBP is minimal.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2012. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

AT 31 DECEMBER 2012 (AMOUNTS IN SHS 000)	SHS	USD	EURO	GBP	ZAR	KES	UGX	TOTAL
ASSETS								
CASH AND BALANCE WITH BANK OF TANZANIA	38,837,192	9,812,353	57,314	898,533	-	-	-	49,605,392
LOANS AND ADVANCES TO BANKS	11,610,416	23,550,189	8,778,601	79,259	1,464	1,474	1,026	44,022,429
GOVERNMENT SECURITIES HELD TO MATURITY	40,275,862	-	-	-	-	-	-	40,275,862
LOANS AND ADVANCES TO CUSTOMERS	97,678,375	99,959,307	28,340	-	-	-	-	197,666,022
OTHER ASSETS (EXCLUDING PREPAYMENT AND STATIONERY)	681,208	117,141	72,003	-	-	-	-	870,352
TOTAL FINANCIAL ASSETS	189,083,053	133,438,990	8,936,258	977,792	1,464	1,474	1,026	332,440,057
LIABILITIES								
DEPOSITS FROM OTHER BANKS	1,950,411	28,219,664	-	-	-	-	-	30,170,075
DEPOSITS FROM CUSTOMERS	164,775,983	89,842,932	9,784,024	92,677	-	-	-	264,495,616
SUBORDINATED LOANS	-	13,700,490	-	-	-	-	-	13,700,490
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	2,728,834	989,469	501,481	158	-	-	-	4,219,942
TOTAL FINANCIAL LIABILITIES	169,455,228	132,752,555	10,285,505	92,835	-	-	-	312,586,123
NET ON BALANCE SHEET FINANCIAL POSITION	19,627,825	686,435	(1,349,247)	884,957	1,464	1,474	1,026	19,853,934
CREDIT COMMITMENTS	10,720,833	6,043,226	-	-	-	-	-	16,764,059

AT 31 DECEMBER 2011 (AMOUNTS IN SHS 000)	SHS	USD	EURO	GBP	ZAR	KES	UGX	TOTAL
ASSETS								
CASH AND BALANCE WITH BANK OF TANZANIA	32,834,265	5,804,756	83,128	524,843	-	-	-	39,246,992
LOANS AND ADVANCES TO BANKS	4,281,765	23,616,344	41,661	11,930,572	-	1,589	13	39,871,944
GOVERNMENT SECURITIES HELD TO MATURITY	43,870,477	-	-	-	-	-	-	43,870,477
LOANS AND ADVANCES TO CUSTOMERS	75,076,464	75,954,526	80	-	-	-	-	151,031,070
OTHER ASSETS (EXCLUDING PREPAYMENTS AND STATIONERY)	70,468	-	-	-	-	-	-	70,468
TOTAL FINANCIAL ASSETS	156,133,439	105,375,626	124,869	12,455,415	-	1,589	13	274,090,951
LIABILITIES								
DEPOSITS FROM OTHER BANKS	6,094,795	7,914,222	-	-	-	-	-	14,009,017
DEPOSITS FROM CUSTOMERS	136,291,855	79,583,491	134,464	10,095,442	-	-	-	226,105,252
SUBORDINATED LOANS	-	13,555,955	-	-	-	-	-	13,555,955
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	1,024,840	1,444,278	152	260,970	-	-	-	2,730,240
TOTAL FINANCIAL LIABILITIES	143,411,490	102,497,946	134,616	10,356,412	-	-	-	256,400,464
NET ON BALANCE SHEET FINANCIAL POSITION	12,721,949	2,877,680	(9,747)	2,099,003	-	1,589	13	17,690,487
CREDIT COMMITMENTS	6,464,278	7,717,440	-	-	-	-	-	14,181,718

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 risk. It includes the Bank's financial instruments at carrying amounts, categorized 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 31 DECEMBER 2012							
ASSETS							
CASH AND BALANCES WITH BANK OF TANZANIA	-	-	-	-	-	49,605,392	49,605,392
LOANS AND ADVANCES TO BANKS	30,480,657	10,906,055	-	-	-	2,635,717	44,022,429
GOVERNMENT SECURITIES HELD TO MATURITY	-	16,091,963	4,778,498	19,405,401	-	-	40,275,862
LOANS AND ADVANCES TO CUSTOMERS	179,943,281	8,972,220	8,750,521	-	-	-	197,666,022
OTHER ASSETS (EXCLUDING PREPAYMENTS)	-	-	-	-	-	927,018	927,018
TOTAL FINANCIAL ASSETS	**210,423,938**	**35,970,238**	**13,529,019**	**19,405,401**	**-**	**53,168,127**	**332,496,723**
LIABILITIES							
DEPOSITS FROM OTHER BANKS	21,822,875	8,347,200	-	-	-	-	30,170,075
DEPOSITS FROM CUSTOMERS	23,285,504	50,366,712	52,007,148	8,033	-	138,828,219	264,495,616
SUBORDINATED LOAN	-	-	-	13,424,970	-	275,520	13,700,490
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	-	-	-	-	-	4,219,942	4,219,942
TOTAL FINANCIAL LIABILITIES	**45,108,379**	**58,713,912**	**52,007,148**	**13,433,003**	**-**	**143,323,681**	**312,586,123**
TOTAL INTEREST SENSITIVITY GAP	**165,315,559**	**(22,743,674)**	**(38,478,129)**	**5,972,398**	**-**	**-**	**-**

	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 31 DECEMBER 2011							
ASSETS							
CASH AND BALANCES WITH BANK OF TANZANIA	-	-	-	-	-	39,246,992	39,246,992
LOANS AND ADVANCES TO BANKS	16,061,699	9,494,880	-	-	-	14,315,365	39,871,944
GOVERNMENT SECURITIES HELD TO MATURITY	-	3,217,889	21,667,545	12,261,717	6,723,326	-	43,870,477
LOANS AND ADVANCES TO CUSTOMERS	133,225,898	10,049,160	7,210,332	545,680	-	-	151,031,070
OTHER ASSETS (EXCLUDING PREPAYMENT)	-	-	-	-	-	70,468	70,468
TOTAL FINANCIAL ASSETS	149,287,597	22,761,929	28,877,877	12,807,397	6,723,326	53,632,825	274,090,951
LIABILITIES							
DEPOSITS FROM OTHER BANKS	9,261,577	4,747,440	-	-	-	-	14,009,017
DEPOSITS FROM CUSTOMERS	20,512,281	51,714,436	49,783,125	-	-	104,095,410	226,105,252
SUBORDINATED LOAN	-	-	-	-	13,555,955	-	13,555,955
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	-	-	-	-	-	2,730,240	2,730,240
TOTAL FINANCIAL LIABILITIES	29,773,858	56,461,876	49,783,125	-	13,555,955	106,825,650	256,400,464
TOTAL INTEREST SENSITIVITY GAP	119,513,739	(33,699,947)	(20,905,248)	12,807,397	(6,832,629)	-	-

The table below summarises a range of effective interest rates by major currencies for monetary financial instruments for the year ended 31 December 2012:

	SHS	USD
ASSETS		
LOANS AND ADVANCES TO CUSTOMERS	13% -27%	6.5% -13%
LOANS AND ADVANCES TO BANKS	8% -19%	0.1% -0.45%
LIABILITIES		
DEPOSITS FROM CUSTOMERS	0.05% -17%	0.01% -1.5%
DEPOSITS FROM BANKS	7% -15%	0.01% -1.5%

At 31 December 2012, 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 120 million (2011: Shs 134 million) lower/higher, mainly as a result of fluctuations in interest income and interest expense.

At 31 December 2012, 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 59 million (2011: Shs 40million) 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:

- Maintaining a documented liquidity risk/crisis management plan which among other things defines situations which could precipitate liquidity crisis. Examples of such situations are: unusual activities at the branches, default by one or more large borrowers, devaluation of currency in which the Bank has large exposure, large litigation claim on the Bank etc.
- Maintaining adequate liquidity at all times and for all currencies, and hence to be in a position, in the normal course of business to meet all our obligations, to repay depositors, to fulfill commitments to lend and to meet any other commitment made. This takes the form of maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.
- Managing the concentration and profile of debt maturities.
- Presence of liquidity crisis management team (LCMT) whose purpose is to mitigate adverse effects of liquidity crisis. Among other things, it is tasked with: Investigating causes of crisis, assess the timing and duration thereof; decide on preliminary remedial actions to mitigate the effects of the crisis; assessing market sentiments.

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 31 DECEMBER 2012						
LIABILITIES						
DEPOSITS FROM OTHER BANKS	23,297,613	12,871,345	-	-	-	36,168,958
DEPOSITS FROM CUSTOMERS	162,178,074	50,991,993	55,209,791	8,187	-	268,388,045
SUBORDINATED LOANS	61,652	184,952	739,809	16,845,499	-	17,831,912
OTHER LIABILITIES	4,219,942	-	-	-	-	4,219,942
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	**189,757,281**	**64,048,290**	**55,949,600**	**16,853,686**	**-**	**326,608,857**
TOTAL ASSETS (EXPECTED MATURITY DATES)	**263,734,367**	**36,825,439**	**15,853,581**	**57,566,945**	**6,167,752**	**380,148,082**
AS 31 DECEMBER 2011						
LIABILITIES						
DEPOSITS FROM OTHER BANKS	9,277,583	4,778,542	-	-	-	14,056,125
DEPOSITS FROM CUSTOMERS	124,682,530	52,314,362	51,905,857	-	-	228,902,749
SUBORDINATED LOANS	104,875	187,000	561,000	13,076,632	5,610,448	19,539,955
OTHER LIABILITIES	2,730,240	-	-	-	-	2,730,240
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	**136,795,228**	**57,279,904**	**52,466,857**	**13,076,632**	**5,610,448**	**265,229,069**
TOTAL ASSETS (EXPECTED MATURITY DATES)	**202,948,864**	**22,917,202**	**32,883,814**	**45,402,712**	**17,092,438**	**321,245,030**

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.

3.4 Fair values of financial assets and liabilities

The fair value of government securities held-to-maturity at 31 December 2012 is estimated at Shs 44,943 million (2011: Shs 40,210 million) compared to their carrying values of Shs 40,275 million (2011: 43,870 million). Fair values are based on the last auction for Treasury bills and Bonds that was held in December 2012. The fair values of the Bank's other financial assets such as loans and advances to customers and financial liabilities such as deposits and interbank borrowings approximate the respective carrying amounts due to the generally short periods to maturity dates.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

Subordinated loan

Subordinated debts bear interest rate of 6 months LIBOR + 4.5% and have a tenor of seven years including two years grace period on principal repayment. Effective interest rate for IFC loan and PROPACO loan were 6.5% and 6% respectively. There is no change in market rates from last year.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk like Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000
AS 31 DECEMBER 2012				
EQUITY INVESTMENT	-	-	1,000,000	1,000,000
AS 31 DECEMBER 2011				
EQUITY INVESTMENT	-	-	-	-

3.5 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 provided by the Bank of Tanzania (BoT), for supervisory purposes. The required information is filed with the BoT on a monthly and daily basis.

The Bank of Tanzania (BoT) requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of Shs 15 billion, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 12%. The Bank's regulatory capital as managed by its Treasury department and Finance department is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Prepaid expenses, deferred charges and intangible assets are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital and unrealized 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 2012 and year ended 31 December 2011.

	2012	2011
	SHS 000	SHS 000
TIER 1 CAPITAL		
SHARE CAPITAL	18,981,953	18,794,138
RETAINED EARNINGS	5,254,097	2,775,608
SHARE PREMIUM	4,519,055	4,396,565
LESS: DEFERRED TAX ASSET	(769,463)	-
LESS: INTANGIBLE ASSETS	(1,578,278)	(822,125)
LESS: PREPAID EXPENSES	(1,374,491)	(1,691,483)
TOTAL QUALIFYING TIER 1 CAPITAL	**25,032,873**	**23,452,703**
TIER 2 CAPITAL		
SUBORDINATED LOAN*	3,841,893	13,555,955
TOTAL REGULATORY CAPITAL	**28,874,766**	**37,008,658**
RISK-WEIGHTED ASSETS		
ON-BALANCE SHEET	167,433,086	130,260,107
OFF-BALANCE SHEET	24,317,141	19,122,528
MARKET RISK	344,413	13,362
TOTAL RISK-WEIGHTED ASSETS	**192,094,640**	**149,395,997**

	REQUIRED RATIO	BANK'S RATIO	BANK'S RATIO
	2012	2012	2011
	%	%	%
TIER 1 CAPITAL	10	13	16
TIER 1 + TIER 2 CAPITAL*	12	15	18

3.5 Capital management (continued)

The increase of the regulatory capital during the year 2012 is mainly due to increase in paid up capital arising from the issue of new shares and contribution of the current year profit.

*Circular no 7 of reporting regulation allows a maximum of 2% of the risk weighted to be considered as supplementary capital in the computation of total regulatory capital.

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 judgments 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 judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Were the net present values of estimated cash flow differ by +/- 10%, the impairment loss would have been Shs 204 million lower or Shs 234 million higher.

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 judgment. In making this judgment, 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 amortized cost. If all held to maturity investments were to be reclassified as at 31 December 2012 the carrying value would increase by Shs 4,667 million in the fair value reserve account in shareholders' equity.

5. Interest and similar income

	2012	2011
	SHS 000	SHS 000
LOANS AND ADVANCES	24,382,934	15,026,000
GOVERNMENT SECURITIES HELD TO MATURITY	4,209,339	4,313,755
LOANS AND ADVANCES TO BANKS	1,223,138	672,613
TOTAL	**29,815,411**	**20,012,368**

6. Interest and similar expenses

	2012	2011
	SHS 000	SHS 000
DEPOSITS FROM OTHER BANKS	1,088,132	989,971
DEPOSITS FROM CUSTOMERS	10,187,331	6,652,171
INTEREST SUBORDINATED LOANS	728,719	218,647
TOTAL	12,004,182	7,860,789

7. Impairment charge

	2012	2011
	SHS 000	SHS 000
IMPAIRMENT CHARGE	2,637,578	1,782,608
BAD DEBT RECOVERIES	(336,600)	(371,971)
TOTAL	2,300,978	1,410,637

8. Fees and commission income

	2012	2011
	SHS 000	SHS 000
COMMISSION AND FEES FROM BANKING OPERATIONS	3,320,087	2,453,801
COMMISSION ON TELEGRAPHIC TRANSFERS AND INTERNATIONAL TRADE FINANCE ACTIVITIES	1,436,909	1,265,339
FACILITY FEES FROM LOANS AND ADVANCES	1,719,020	1,605,069
COMMISSION ON LETTERS OF CREDIT AND GUARANTEES	1,089,688	895,219
OTHER FEES	626,424	378,359
TOTAL	8,192,128	6,597,787

9. Operating expenses

	2012	2011
	SHS 000	SHS 000
EMPLOYEE BENEFITS (NOTE 10)	10,288,287	7,953,019
OCCUPANCY EXPENSES	1,986,368	1,773,910
REPAIRS AND MAINTENANCE	780,974	599,799
ADVERTISING AND BUSINESS PROMOTION	614,478	228,845
LEGAL AND PROFESSIONAL FEES	820,195	962,291
TRAVELLING EXPENSES	606,250	439,062
DEPRECIATION AND AMORTISATION (NOTE 18 AND 19)	2,358,788	2,077,636

9. Operating expenses (continued)

DIRECTORS' EMOLUMENTS		
- FEES	182,235	63,932
- OTHERS	811,055	758,890
AUDITORS' REMUNERATION	125,262	85,759
OTHERS	4,642,047	3,431,883
TOTAL	**23,215,939**	**18,375,026**

10. Employee benefits

	2012	2011
	SHS 000	SHS 000
EMPLOYEE BENEFITS COMPRISE THE FOLLOWING:		
WAGES AND SALARIES	6,621,038	5,343,463
DEFINED BENEFIT CONTRIBUTIONS (NSSF AND PPF CONTRIBUTIONS)	652,292	525,922
OTHER EMPLOYMENT COSTS AND BENEFITS	3,014,957	2,083,634
TOTAL	**10,288,287**	**7,953,019**

11. Income tax charge

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

	2012	2011
	SHS 000	SHS 000
CURRENT TAX – CURRENT YEAR	1,410,698	489,673
CURRENT TAX – PRIOR YEARS	528,705	403
DEFERRED INCOME TAX – CURRENT YEAR	(387,488)	24,236
DEFERRED INCOME TAX – PRIOR YEARS	(755,618)	(1,538)
TOTAL	**796,297**	**512,774**

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:

	2012	2011
	SHS 000	SHS 000
PROFIT INCOME BEFORE TAX	3,333,251	1,639,565
TAX CALCULATED AT A TAX RATE OF 30%	999,975	491,870
TAX EFFECT OF:		
- EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	23,234	22,039
- OVER PROVISION OF TAX IN PRIOR YEARS	(226,912)	(1,135)
TOTAL	**796,297**	**512,774**

12. Financial instruments by category

AT 31 DECEMBER 2012	LOANS & RECEIVABLES	HELD-TO-MATURITY	AVAILABLE FOR SALE	TOTAL
FINANCIAL ASSETS				
CASH AND BALANCES WITH BANK OF TANZANIA	49,605,392	-	-	49,605,392
LOANS AND ADVANCES TO BANKS	44,022,429	-	-	44,022,429
GOVERNMENT SECURITIES HELD TO MATURITY	-	40,275,862	-	40,275,862
EQUITY INVESTMENT	-	-	1,000,000	1,000,000
LOANS AND ADVANCES TO CUSTOMERS	197,666,022	-	-	197,666,022
OTHER ASSETS (EXCLUDING PREPAYMENT)	927,018	-	-	927,018
TOTAL	**292,220,861**	**40,275,862**	**1,000,000**	**333,496,723**

	OTHER LIABILITIES AT AMORTISED COST
FINANCIAL LIABILITIES	
DEPOSITS FROM OTHER BANKS	30,170,075
DEPOSITS FROM CUSTOMERS	264,495,616
SUBORDINATED LOAN	13,700,490
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	4,219,942
TOTAL	**312,586,123**

AT 31 DECEMBER 2011	LOANS & RECEIVABLES	HELD-TO-MATURITY	TOTAL
FINANCIAL ASSETS			
CASH AND BALANCES WITH BANK OF TANZANIA	39,246,992	-	39,246,992
LOANS AND ADVANCES TO BANKS	39,871,944	-	39,871,944
GOVERNMENT SECURITIES HELD TO MATURITY	-	43,870,477	43,870,477
LOANS AND ADVANCES TO CUSTOMERS	151,031,070	-	151,031,070
OTHER ASSETS (EXCLUDING PREPAYMENT)	121,411	-	121,411
TOTAL	**230,271,417**	**43,870,477**	**274,141,894**

	OTHER LIABILITIES AT AMORTISED COST
FINANCIAL LIABILITIES	
DEPOSITS FROM OTHER BANKS	14,009,017
DEPOSITS FROM CUSTOMERS	226,105,252
SUBORDINATED LOAN	13,555,955
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	2,730,240
TOTAL	**256,400,464**

13. Cash and balances with Bank of Tanzania

	2012	2011
	SHS 000	SHS 000
CASH ON HAND	22,515,845	15,149,992
BALANCES WITH THE BANK OF TANZANIA:		
- STATUTORY MINIMUM RESERVE (SMR)	26,465,000	21,640,000
- CLEARING ACCOUNT	624,547	2,457,000
TOTAL	49,605,392	39,246,992

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 28). Cash in hand and balances with Bank of Tanzania are non-interest bearing.

14. Loans and advances to banks

	2012	2011
	SHS 000	SHS 000
BALANCES WITH OTHER BANKS	138,093	11,371,321
ITEMS IN COURSE OF COLLECTION	2,385,525	2,944,044
PLACEMENTS WITH LOCAL BANKS	32,079,117	14,335,249
PLACEMENTS WITH FOREIGN BANKS	9,419,694	11,221,330
INCLUDED IN CASH AND CASH EQUIVALENTS (NOTE 28)	44,022,429	39,871,944
CURRENT	44,022,429	39,871,944
NON CURRENT	-	-

15. Government securities held to maturity

	2012	2011
	SHS 000	SHS 000
TREASURY BILLS MATURING WITHIN 90 DAYS	16,091,963	3,217,889
TREASURY BILLS MATURING AFTER 90 DAYS	4,778,498	16,144,814
TREASURY BONDS MATURING WITHIN 5 YEARS	19,405,401	12,562,774
TREASURY BONDS MATURING AFTER 5 YEARS	-	11,945,000
TOTAL GOVERNMENT SECURITIES HELD-TO-MATURITY	40,275,862	43,870,477
CURRENT	20,870,461	19,362,703
NON CURRENT	19,405,401	24,507,774

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

16. Loans and advances to customers

	2012	2011
	SHS 000	SHS 000
LOANS AND ADVANCES TO CORPORATE CUSTOMERS	190,589,538	117,477,288
LOANS AND ADVANCES TO RETAIL CUSTOMERS	9,963,863	35,594,694
GROSS LOANS AND ADVANCES	200,553,401	153,071,982
LESS: CREDIT IMPAIRMENT PROVISION	(2,887,379)	(2,040,912)
NET LOANS AND ADVANCES	197,666,022	151,031,070
CURRENT	96,022,731	65,645,383
NON CURRENT	104,530,670	87,426,599
TOTAL	200,553,401	153,071,982

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

	RETAIL CUSTOMERS	CORPORATE CUSTOMERS & SMES	TOTAL
	SHS 000	SHS 000	SHS 000
BALANCE AT 1 JANUARY 2012	602,637	1,438,275	2,040,912
INCREASE IN IMPAIRMENT	1,405,645	1,231,930	2,637,575
WRITE OFFS	(1,140,559)	(650,549)	(1,791,108)
AT 31 DECEMBER 2012	867,723	2,019,656	2,887,379
BALANCE AT 1 JANUARY 2011	682,951	1,161,243	1,844,194
INCREASE IN IMPAIRMENT	677,097	1,105,511	1,782,608
WRITE OFFS	(757,411)	(828,479)	(1,585,890)
AT 31 DECEMBER 2011	602,637	1,438,275	2,040,912

17. Other assets

	2012	2011
	SHS 000	SHS 000
PREPAID EXPENSES	1,374,491	1,691,483
SUNDRY DEBTORS & STOCKS OF STATIONERY	927,018	121,411
TOTAL	2,301,509	1,812,894
CURRENT	1,991,435	1,100,502
NON CURRENT	310,074	712,392

18. Premises and equipment

	LEASEHOLD PREMISES	MOTOR VEHICLES	COMPUTER HARDWARE	MACHINERY & OFFICE EQUIPMENT	FURNITURE & FITTINGS	WORK IN PROGRESS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
COST							
AT 1 JANUARY 2012	4,968,332	336,864	857,957	4,041,567	520,286	383,380	11,108,386
ADDITIONS	285,263	-	83,474	783,285	81,622	-	1,233,644
DISPOSALS	-	-	-	-	(4,051)	-	(4,051)
TRANSFER	100,770	-	-	-	-	(100,770)	-
AT 31 DECEMBER 2012	**5,354,365**	**336,864**	**941,431**	**4,824,852**	**597,857**	**282,610**	**12,337,979**
DEPRECIATION							
AT 1 JANUARY 2012	2,292,538	88,829	471,036	1,965,777	293,567	-	5,111,747
CHARGE FOR THE YEAR	894,853	66,023	120,026	775,044	76,329	-	1,932,275
DISPOSAL	-	-			(1,013)	-	(1,013)
AT 31 DECEMBER 2012	**3,187,391**	**154,852**	**591,062**	**2,740,821**	**368,883**	**-**	**7,043,009**
NET BOOK VALUE:							
AT 31 DECEMBER 2012	**2,166,974**	**182,012**	**350,369**	**2,084,031**	**228,974**	**282,610**	**5,294,970**
COST							
AT 1 JANUARY 2011	4,125,432	336,864	583,772	3,192,842	404,237	208,202	8,851,349
ADDITIONS	634,699	-	274,185	848,725	116,049	383,379	2,257,037
DISPOSALS				-			
TRANSFER	208,201	-		-	-	(208,201)	-
AT 31 DECEMBER 2011	**4,968,332**	**336,864**	**857,957**	**4,041,567**	**520,286**	**383,380**	**11,108,386**
DEPRECIATION							
AT 1 JANUARY 2011	1,478,278	21,455	370,205	1,334,073	228,673	-	3,432,684
CHARGE FOR THE YEAR	814,260	67,374	100,831	631,704	64,894	-	1,679,063
AT 31 DECEMBER 2011	**2,292,538**	**88,829**	**471,036**	**1,965,777**	**293,567**	**-**	**5,111,747**
NET BOOK VALUE:							
AT 31 DECEMBER 2011	**2,675,794**	**248,035**	**386,921**	**2,075,790**	**226,719**	**383,380**	**5,996,639**

No property and equipment has been pledged as collateral.

19. Intangible assets

	2012	2011
	SHS 000	SHS 000
AT START OF YEAR	822,125	1,137,190
ADDITIONS	1,180,911	83,508
AMORTISATION	(426,336)	(398,573)
AT END OF YEAR	1,576,700	822,125
AT 31 DECEMBER		
COST	3,206,848	2,376,847
ACCUMULATED AMORTISATION	(1,628,570)	(1,554,722)
NET BOOK VALUE	1,578,278	822,125

No intangible asset has been pledged as collateral

20. Deposits from customers

	2012	2011
	SHS 000	SHS 000
CURRENT ACCOUNTS	137,164,510	102,015,883
TIME DEPOSITS	106,107,421	104,002,662
SAVINGS DEPOSITS	21,035,485	19,787,823
OTHERS	188,200	298,884
TOTAL	264,495,616	226,105,252
CURRENT	264,487,584	226,002,837
NON CURRENT	8,032	102,415

21. Subordinated Loans

	2012	2011
	SHS 000	SHS 000
INTERNATIONAL FINANCE CORPORATION (IFC)	7,107,480	7,121,160
PROPACO	6,317,760	6,329,920
INTEREST ACCRUED	275,250	104,875
TOTAL	13,700,490	13,555,955
CURRENT	275,250	104,875
NON CURRENT	13,425,240	13,451,080

21. Subordinated Loans (continued)

International Finance Corporation (IFC) and PROPACO issued US$ 4,500,000 and US$ 4,000,000 facilities respectively. Both facilities bear interest rate of 6 months LIBOR + 4.5% and have a tenor of seven years including two years grace period on principal repayment. The facilities have been issued on the goodwill of BOA GROUP S.A. and therefore the Bank has not pledged any tangible securities in respect of this loan. Effective interest rate for IFC loan and PROPACO loan were 6.5% and 6% respectively. There is no change in market rates from last year.

22. Other liabilities

	2012	2011
	SHS 000	SHS 000
BANK DRAFTS PAYABLE	453,984	708,257
ACCRUALS AND OTHER PROVISIONS	3,398,220	1,720,158
DEFERRED COMMITMENT AND FACILITY FEES	1,254,353	695,335
TOTAL	5,106,557	3,123,750

23. Interest received

	2012	2011
	SHS 000	SHS 000
INTEREST RECEIVABLE – AT 1 JANUARY	682,044	483,046
ADD: INTEREST AND SIMILAR INCOME FOR THE YEAR	29,815,411	20,012,368
LESS: INTEREST RECEIVABLE – AT 31 DECEMBER	(1,489,501)	(682,044)
INTEREST AND SIMILAR INCOME RECEIVED	29,007,954	19,813,370

24. Interest paid

	2012	2011
	SHS 000	SHS 000
INTEREST PAYABLE – AT 1 JANUARY	2,551,717	1,838,160
ADD: INTEREST AND SIMILAR CHARGES FOR THE YEAR	12,004,182	7,860,789
LESS: INTEREST PAYABLE – AT 31 DECEMBER	(3,787,833)	(2,551,717)
INTEREST PAID DURING THE YEAR	10,768,066	7,147,232

25. Equity investment

	2012	2011
	SHS 000	SHS 000
TANZANIA MORTGAGE REFINANCE COMPANY (TMRC) - UNLISTED	1,000,000	-

26. 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:

	2012	2011
	SHS 000	SHS 000
AT 1 JANUARY	373,644	350,946
CHARGED/(CREDITED) TO PROFIT OR LOSS		
- CURRENT YEAR (NOTE 11)	(387,488)	24,236
- PRIOR YEARS	(755,619)	(1,538)
AT 31 DECEMBER	(769,463)	373,644

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

	1 JANUARY 2012	CREDIT TO PROFIT OR LOSS ACCOUNT	31 DECEMBER 2012
	SHS 000	SHS 000	SHS 000
DEFERRED TAX LIABILITY			
ACCELERATED TAX DEPRECIATION	242,785	(19,365)	223,420
OTHER TIMING DIFFERENCES	130,859	(1,123,742)	(992,883)
TOTAL	373,644	(1,143,107)	(769,463)

27. Share capital

	2012	2011
	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
185,352 CLASS "C" ORDINARY SHARES OF SHS 115,792 EACH	21,462,279	21,462,279
1 CLASS "D" ORDINARY SHARE OF SHS 32,688	33	33
1 CLASS "E" ORDINARY SHARE OF SHS 101,440	101	101
1 CLASS "F" ORDINARY SHARE OF SHS 87,088	87	87
TOTAL	25,000,000	25,000,000

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
133,381 (2011: 131,759) CLASS "C" ORDINARY SHARES OF SHS 115,792 EACH	15,444,453	15,256,638
TOTAL	18,981,953	18,794,138

27. Share capital (continued)

During the year, 1,622 class "C" ordinary shares were issued, subscribed and paid for at premium resulting into an increase in share premium by Shs. 122 million. All classes of shares rank pari-pasu in voting rights and dividend payments.

	2012	2011
	%	%
THE SHAREHOLDING OF THE BANK WAS AS FOLLOWS:		
BANK OF AFRICA – KENYA	24.05	24.29
AUREOS EAST AFRICA FUND LLC	13.70	13.83
BIO-BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES	22.24	22.46
AFH-OCEAN INDIEN	25.30	24.60
TANZANIA DEVELOPMENT FINANCE LIMITED (TDFL)	10.19	10.29
FMO-NETHERLANDS DEVELOPMENT FINANCE CORPORATION	3.70	2.76
OTHERS	0.82	1.77
TOTAL	**100**	**100**

28. Cash and cash equivalents

	2012	2011
	SHS 000	SHS 000
CASH AND BALANCES WITH BANK OF TANZANIA (NOTE 13)	49,605,392	39,246,992
LESS: STATUTORY MINIMUM RESERVE (SMR)	(26,465,000)	(21,640,000)
TOTAL	**23,140,392**	**17,606,992**
GOVERNMENT SECURITIES HELD TO MATURITY		
(MATURING WITHIN 90 DAYS) (NOTE 15)	16,091,963	3,217,889
LOANS AND ADVANCES TO BANKS (NOTE 14)	44,022,429	39,871,944
TOTAL	**83,254,784**	**60,696,825**

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.

29. 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.

	2012	2011
	SHS 000	SHS 000
CONTINGENT LIABILITIES		
OUTSTANDING LETTERS OF CREDIT (FOREIGN CURRENCY)	13,029,562	2,222,914
OUTSTANDING GUARANTEES AND INDEMNITIES:		
- FOREIGN CURRENCY	7,524,211	13,151,117
- LOCAL CURRENCY	5,205,827	5,466,791
TOTAL	**25,759,600**	**20,840,822**

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.

	2012	2011
	SHS 000	SHS 000
OTHER COMMITMENTS		
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	16,764,059	14,185,223

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

At 31 December 2012, the Bank had capital commitments of Shs 510 million (2011: Shs 970 million) in respect of leasehold improvements and equipment purchases. The Bank's management is confident that future net revenues and funding will be sufficient to cover this commitment.

Operating lease commitments

The Bank does not have any contingent liability in respect of non cancellable lease commitments.

30. Related party transactions

The shareholders of the Bank are disclosed in note 27. The ultimate holding company of the Bank is BOA GROUP S.A..

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:

Deposits and loans and advances to Directors and key management personnel

	2012	2011
	SHS 000	SHS 000
(A) LOANS AND ADVANCES		
LOANS BALANCES AT 1 JANUARY	157,520	142,255
LOANS ISSUED DURING THE YEAR	671,340	164,070
LOAN REPAYMENTS DURING THE YEAR	(105,418)	(148,805)
LOANS BALANCES AT 31 DECEMBER	**723,442**	**157,520**
INTEREST INCOME EARNED	**49,785**	**20,599**
(B) DEPOSITS		
DEPOSITS BALANCES AT 1 JANUARY	257,490	292,949
DEPOSITS RECEIVED DURING THE YEAR	4,831,769	2,801,806
DEPOSITS WITHDRAWN DURING THE YEAR	(4,804,657)	(2,837,265)
DEPOSITS BALANCES AT 31 DECEMBER	**284,602**	**257,490**
INTEREST EXPENSE	**(10,507)**	**(3,411)**
CASH AND SHORT TERM FUNDS WITH GROUP BANKS		
LOAN AND ADVANCES TO GROUP BANKS	11,845,800	10,361,640
DEPOSITS FROM GROUP BANKS	19,874,561	14,301,679
INTEREST INCOME RECEIVED	308,353	243,445
INTEREST EXPENSE INCURRED	(268,221)	(26,417)
FOREIGN EXCHANGE INCOME RECEIVED	175,386	784,216
OPERATING EXPENSES PAID TO GROUP BANKS	(803,958)	(975,780)
GUARANTEE FEES EXPENSE PAID TO GROUP BANKS	(123,077)	(170,291)
KEY MANAGEMENT COMPENSATION		
SALARIES AND OTHER SHORT TERM EMPLOYEE BENEFITS	1,587,232	1,203,479
POST-EMPLOYMENT BENEFITS	-	98,925
TOTAL	**1,587,232**	**1,302,404**

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:

	2012	2011
	SHS 000	SHS 000
DIRECTORS' EMOLUMENTS		
- EXECUTIVE DIRECTORS		
EMOLUMENTS OF DIRECTORS IN RESPECTS OF SERVICES RENDERED	585,493	542,288
- NON EXECUTIVE DIRECTORS		
EMOLUMENTS OF DIRECTORS IN RESPECTS OF SERVICES RENDERED	182,235	63,932
TOTAL	767,728	606,220

Details of payments to individual directors will be tabled at the Annual General Meeting.

31. Events after balance sheet date

There were no significant events after the balance sheet date.

Personal notes

Personal notes

BANK OF AFRICA – TANZANIA

GROUPE BANK OF AFRICA

www.boatanzania.com

HEAD OFFICE

BANK OF AFRICA – TANZANIA

NDC Development House – Ohio Street / Kivukoni Front – P.O. Box 3054 – Dar es Salaam – TANZANIA
Phone: (255) 22 211 01 04 / 211 12 90 – Fax: (255) 22 211 37 40
Mobile: (255) 754 885 538 / 787 933 335 – Swift: EUAFTZTZ
E-mail <boa@boatanzania.com>

DAR ES SALAAM BRANCHES

HEAD OFFICE BRANCH / NDC BRANCH

NDC Development House – Ohio Street / Kivukoni Front
P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 211 01 04 / 211 12 90 – Fax: (255) 22 211 37 40
E-mail <boa@boatanzania.com>

AGGREY BRANCH

Aggrey Street – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 218 47 91 / 3 – Fax: (255) 22 218 47 62
E-mail <boa@boatanzania.com>

AIRPORT BRANCH

Safasha Plaza – Nyerere Road – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 286 44 81 / 2 – Fax: (255) 22 286 04 81
E-mail <boa@boatanzania.com>

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
E-mail <boa@boatanzania.com>

KIJITONYAMA BRANCH

Leticia Towers, Kijitonyama – Bagamoyo Road – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 277 13 57 / 14 38 – Fax: (255) 22 270 01 48
E-mail <boa@boatanzania.com>

MBEZI BEACH BRANCH

Mbezi Beach – Africana Junction – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 262 75 73 / 4 – Fax: (255) 22 262 75 75
E-mail <boa@boatanzania.com>

MTONI BRANCH

Kilwa Road – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 285 68 37 / 8 – Fax: (255) 22 285 68 39
E-mail <boa@boatanzania.com>

MSIMBAZI BRANCH

Big Bon Building – Msimbazi Street – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 218 01 37 / 8 – Fax: (255) 22 218 01 68
E-mail <boa@boatanzania.com>

SINZA BRANCH

Maembe Commercial Centre – Shekilango Road – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 246 13 58 / 9 – Fax: (255) 22 246 13 60
E-mail <boa@boatanzania.com>

TANDIKA BRANCH

Tandika Police Post – Ugweno / Chihota Street – P.O. Box 3054 – Dar es Salaam
Phone: (255) 22 285 64 17 / 21 – Fax: (255) 22 285 64 19
E-mail <boa@boatanzania.com>

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
E-mail <boa@boatanzania.com>

KAHAMA BRANCH

Isaka Road – P.O. Box 1134 – Kahama, Shinyanga
Phone: (255) 28 271 11 39 / 40 – Fax: (255) 28 271 11 41
E-mail <boa@boatanzania.com>

MBEYA BRANCH

Century Plaza – Mafiat / Mwanjelwa Street – P.O. Box 6414 – Mbeya
Phone: (255) 25 250 31 70 / 26 84 – Fax: (255) 25 250 26 27
E-mail <boa@boatanzania.com>

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
E-mail <boa@boatanzania.com>

MOSHI BRANCH

Market Street – P.O. Box 8156 – Moshi
Phone: (255) 27 275 02 72 / 3 – Fax: (255) 27 275 02 98
E-mail <boa@boatanzania.com>

MTIBWA BRANCH

Mtibwa Sugar Estates Ltd – P.O. Box 2100 – Morogoro
Phone: (255) 23 262 00 25 / 2 – Fax: (255) 23 262 00 26
E-mail <boa@boatanzania.com>

MTWARA BRANCH

TANECU Building – Aga Khan Road / Madukani Street – P.O. Box 1395 – Mtwara
Phone: (255) 23 233 46 51 / 2 – Fax: (255) 23 233 46 50
E-mail <boa@boatanzania.com>

MWANZA BRANCH

Kaluta / Lumumba Streets – P.O. Box 381 – Mwanza
Phone: (255) 28 254 22 98 / 9 – Fax: (255) 28 254 22 94
E-mail <boa@boatanzania.com>

TUNDUMA BRANCH

Mwaka Street – P.O. Box 74 – Tunduma
Phone: (255) 25 253 04 32 – Fax: (255) 25 253 04 35
E-mail <boa@boatanzania.com>

6/2013 - RC 195/B - TAM TAM TEAM - On the cover: BOA campaign 2013 © MW DDB