BOA BANK - TANZANIA

ANNUAL REPORT

2009

Life in colours

BOA BANK TANZANIA

GROUPE BANK OF AFRICA

Table of contents

Group

BANK OF AFRICA - BENIN

20 ◆ Cotonou ●
16 ▲ Abomey-Calavi, Allada, Azové, Bohicon, Cocotomey, Comé, Dassa-Zoumé, Djougou, Kandi, Natitingou, Parakou 1, Parakou 2, Pobè, Porto-Novo, Sèmè Kraké, Ouando (Porto-Novo).

BANK OF AFRICA - BURKINA FASO

12 ◆ Ouagadougou ●
6 ▲ Bobo-Dioulasso, Essakane, Fada N'Gourma, Koudougou, Koupéla, Pouytenga.

BANK OF AFRICA - CÔTE D'IVOIRE

10 ◆ Abidjan ●
8 ▲ Bouaké, Daloa, Gagnoa, Korhogo, San Pedro, Sinfra, Soubré, Yamoussoukro.

BANK OF AFRICA - MALI

10 ◆ Bamako ●
6 ▲ Kayes, Koulikoro, Koutiala, Nioro du Sahel, Ségou, Sikasso.
2 ▲ Morila (Sikasso), Sadiola (Kayes).

BANK OF AFRICA - NIGER

6 ◆ Niamey ●
6 ▲ Agadez, Dosso, Gaya, Maradi, Tahoua, Tillaberi.

BANK OF AFRICA - SENEGAL

11 ◆ Dakar ●
3 ▲ Kaolack, Saly Portudal, Touba.

BANQUE DE L'HABITAT DU BENIN

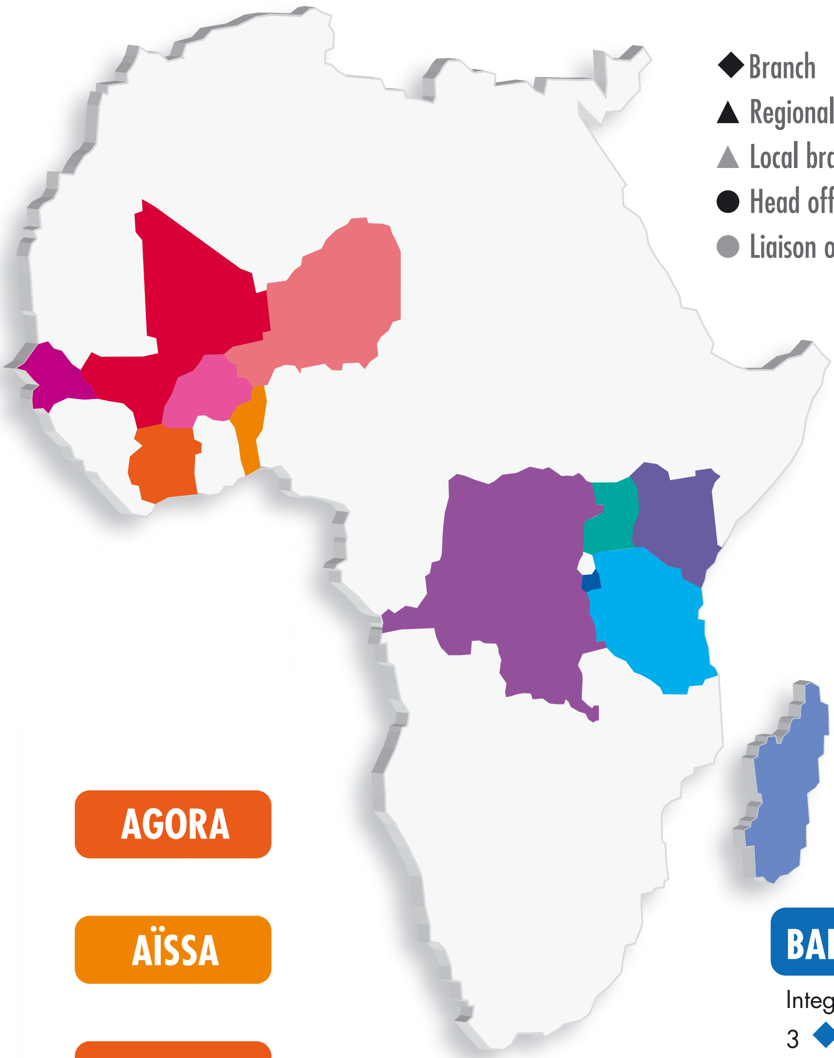
1 ◆ Cotonou ●

Banks and Subsidiaries at end 2009

BOA - FRANCE
1 ◆ Paris, France ●

REPRESENTATIVE OFFICE
1 ◆ Paris, France ●

BANK OF AFRICA - KENYA
6 ◆ Nairobi ●
3 ▲ Kisumu, Mombasa, Thika.



◆ Branch
▲ Regional branch
▲ Local branch
● Head office
● Liaison office

BOA BANK - TANZANIA
8 ◆ Dar es Salaam ●
4 ▲ Arusha, Morogoro, Moshi, Mwanza.

BANK OF AFRICA - UGANDA
9 ◆ Kampala ●
10 ▲ Arua, Entebbe, Fort Portal, Gulu, Jinja (2), Lira, Mbale, Mbarara, Mukono.

BANK OF AFRICA - RDC
1 ◆ Kinshasa ●

BANK OF AFRICA - MADAGASCAR
18 ◆ Antananarivo ●
43 ▲ Throughout the country.

AGORA

AÏSSA

ATTICA

BANQUE DE CREDIT DE BUJUMBURA (BCB)
Integrated into BOA network in 2008.
3 ◆ Bujumbura ●
9 ▲ Gihofi, Gitega, Kayanza, Kirundo, Muyinga, Ngozi, Rumonge, Rugombo, Ruyigi.

EQUIPBAIL-BENIN

EQUIPBAIL-MALI

EQUIPBAIL-MADAGASCAR

ACTIBOURSE
Cotonou ●
1 contact in each BOA company
1 ● Abidjan.

BOA-ASSET MANAGEMENT
Abidjan ●

BANK OF AFRICA FOUNDATION
Bamako ●
7 ● Abidjan, Antananarivo, Cotonou, Dakar, Kampala, Niamey, Ouagadougou.

Group Strong points

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

A strong network

- *More than 3,000 people at your service.*
- *Major holding in several life insurance companies.*
- *About 250 dedicated operating and service support offices in 13 countries, excluding affiliated partners.*
- *A continuously expanding fleet of Automated Teller Machines and Electronic Payment Terminals.*
- *Over 700,000 bank accounts.*

A wide and varied offer

- *Full range of banking and financial services.*
- *Attractive range of life insurance policies.*
- *Tailored solutions for all financing issues.*
- *Successful financial engineering.*

Group turnover in 2009

±270

M€

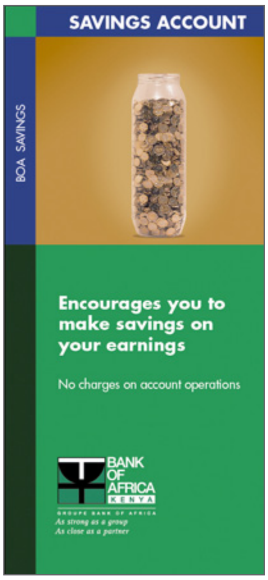
Strategic partners, including:

- Banque Marocaine du Commerce Extérieur (BMCE Bank),
- Proparco,
- International Finance Corporation (IFC - World Bank Group),
- West African Development Bank (BOAD),
- Netherlands Development Finance Company (FMO),
- Belgium Investment Company for Developing Countries (BIO),
- and investment fund Aureos.

Unique experience in Africa

- Continuous development for almost 30 years.

Main products of the Bank



BANK OF AFRICA english speaking network			BOA BANK - TANZANIA
Accounts	Current Account	(Local & Foreign Currency)	●
	Remunerated Current Account		●
Investment Products	Call Deposits Account		●
	Chama Account		
	Children Savings Account		
	Classic Savings Account		
	Family Savings Account	« Dira »	●
	Ero Savings Account		
	Forexave Account		
	Gold Plus Account		
	Investment Plan Account	« Prime Investment Plan »	●
	Ordinary Savings Account		●
	Premium Plus Fixed Deposit		●
	Reward Savings Account		
	Schools Fees Account		
	Senior Citizen Fixed Deposit		
	SESAME Savings Account		
	Student Investment Teams		●
	Term Deposit		●
Electronic Banking	B-Web		●
	B-SMS / B-Phone		
	SESAME ATM Card	(Umoja Switch Network)	●
Loans & Advances	2-in-1 Loan		
	Bridging Overdraft		●
	Instant Cash		
	Motor cycle Loan		
	Motor vehicle Loan		
	Personal Loans		●
	Personal motor Loan		
	Salary Advance		
	Schools Fees Loan		
	Super Kikapu		
BOA Company Services	BOA BANK - TANZANIA also offers a wide range of products and services to the attention of Corporates and, SMEs, Organizations, Institutionals and Professionals.		
Transfers and foreign exchanges	Foreign Exchange		●
	Moneygram		
	Travellers Cheques		●
	Western Union		●
Complementary Products & Services	Banker's Cheques		●

Activity Report 2009

Making life easier

Comments from the Managing Director

The economic policies of the Tanzanian Government focused on reducing the impact of the global financial crises. Stimulus packages, by way of working capital support, export based guarantees and loan re-scheduling relief, were granted to distressed industries operating in the most vulnerable strategic sectors of the economy. To insulate the financial markets from the potential devastating effects of the crises, the Bank of Tanzania intensified its oversight of the banking system.

Banks operated in a dynamic but turbulent environment as competition heightened in the wake of further licensing of more financial institutions by the Bank of Tanzania. Inflation averaged at about 12% and did not get into single digits as forecasted due to pressure from fuel and food prices. Real rates on Government Securities became negative as the weighted average rate of Treasury Bills for all maturities dropped from 10.9% to 6.5% over the year.

The financial performance of BOA BANK - TANZANIA was relatively good although the profit after tax dropped by 6% over the previous year due to IFRS rules. It is worthy of mention that activities of 2009 resulted in an increase in retained profits by TZS 1.91 billion and accumulated losses, that stood at TZS 1.75 billion at the beginning of 2009, were completely wiped off the books. In addition to this, undistributable reserves reduced from TZS 1.05 billion to TZS 120 million. These positive developments coupled with the confidence demonstrated by our Shareholders pumping in additional equity of TZS 1.9 billion significantly enhanced the core capital of the Bank.

Our market share of customer deposits went up to almost 2% by a growth of deposits by 41%, which drove a 35% expansion in Total Assets. We decreased our investment in Government Securities by TZS 7.4 billion, enlarged the loan and advances portfolio by 73% and increased investment in fixed assets by 37% to support the branch network expansion program. The non-performing assets ratio improved considerably from 11% to 3% through improved credit risk management and recovery efforts.

The Bank substantially increased its delivery channels and added 5 new branches bringing the total number to 12. The branch expansion program can be credited with the improved volume and mix of deposits but caused a 51% escalation in operating expenses leading to deterioration in the cost to income ratio from 79% to 89%. Management has challenged itself and will bring this closer to the BANK OF AFRICA Group standard this year.

The Board of Directors approved the 2010 – 2012 Strategic Plan of the Bank. During this period emphasis will be placed on tapping into the synergies of the BANK OF AFRICA Group to improve customer experience and service, enhance our market share, strategically expand the branch network and improve cost control.

Ladies and Gentlemen, the outlook for BOA BANK - TANZANIA could not have been better and, with the support of our customers, our committed team and our shareholders, we are looking forward to the coming year with enthusiasm and zeal. The Bank's intention to imprint its name as a dominant player in the Tanzanian Banking Industry continues.

Kobby ANDAH
Managing Director

Highlights 2009

❶ Launch of Premium Plus Account – 23.02.09

❷ The certificate awarded to BOA BANK - TANZANIA – 27.05.09

❸ Mr. Wasia MUSHI, Assistant General Manager – Commercial Banking, BOA BANK - TANZANIA, gives a speech during the launch of the M-PESA service.

❹ Mr. Wasia MUSHI shakes hands with the official from Vodacom Tanzania as Mr. Eric OUATTARA, Deputy General Manager of BOA BANK - TANZANIA looks on.


❶

❷

February

- Launch of the new product "Premium Plus Account" (photo ❶).

May

- Recognized and awarded by the Contractors' Registration Board (photo ❷ & p17) in Tanzania as the best institution supporting the contracting industry in Tanzania in 2009.
- Participation in the Groupe BANK OF AFRICA network management meeting, in Abidjan.

June

- Opened Mtoni Branch (photo ❼), in Dar es Salaam.

July

- Launch of M-PESA Local Money Transfer in conjunction with VODACOM TANZANIA (photos ❸ & ❹).

September

- Increase of TZS 340 million of Bank's capital.

October

- Opened Aggrey Branch (photo ❽), in Dar es Salaam.

November

- Opened Moshi Branch and Morogoro Branch (photos ❻ & ❺), both located upcountry.

December

- Opened Ilala Branch (photo ❾), in Dar es Salaam.
- Increase of Bank's equity by TZS 1,719 million, reaching an amount of TZS 13,168 million.

5 BOA BANK - TANZANIA opens the doors to its 11th branch in Morogoro – 9.11.09

6 BOA BANK - TANZANIA opens the doors to its 10th branch in Moshi – 9.11.09

7 BOA BANK - TANZANIA opens its 8th branch (Mtoni Branch) in Dar es Salaam – 9.06.09

8 BOA BANK - TANZANIA opens its 9th branch (Aggrey Branch) in Dar es Salaam – 8.10.09

9 BOA BANK - TANZANIA opens the doors to its 12th branch (Ilala Branch) in Dar es Salaam – 17.12.09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Key figures

On 31/12/2009

Total Assets

166,178,598

TZS' 000

Activity

Deposits*	149,020,621
Loans*	71,101,565

Income

Operating income*	11,186,306
Operating expenses*	9,882,233
Profit before tax*	1,369,554

Structure

Total Assets*	166,178,598
Number of employees	161

* in TZS' 000

(EUR 1 = TZS 1,906.13)

Corporate Social Responsibility Initiatives 2009

As part of its CSR, BOA BANK - TANZANIA made notable contribution in 2009 in areas of education and health, all in an effort to give back to the communities in which the Bank operates.

Education

Donation to Kwanza Rotaract Club

Looking towards contribution to the development of youth in the country, BOA BANK – TANZANIA contributed TZS 250,000 to go towards budget expenses for the Kwanza Rotaract Club's Rotary Youth Leadership Award that took place at the Livingstone Hotel, Bagamoyo from 17th to 19th April 2009. The three-day conference dubbed "My community, my responsibility", consisted of leadership training and roundtable discussions amongst 100 participants.

Participation in the AIESEC Exchange Program

Elsewhere in August 2009, BOA BANK – TANZANIA signed up for the AIESEC Exchange Program at a fee of USD 500 and took in an intern from Kenya through the Exchange Program into the Marketing, Research & Development Department. This went a long way in supporting AIESEC's goal of leadership development of young people.

Donation to Unity of Women Friends for schooling of secondary school students

The Bank also donated TZS 1.5 million to the Unity of Women Friends to go towards sending under-privileged children to school. This donation took place on 3rd November, 2009.

Donation to the Mwalimu Nyerere Memorial Scholarship Fund

BOA BANK – TANZANIA on 3rd December 2009 also contributed financially towards the Mwalimu Nyerere Memorial Scholarship Fund to the tune of TZS 5,000,000. This fund goes towards provision of education for the girl child.

Health

Donation to Comprehensive Community Based Rehabilitation (CCBRT) for a Maternal Newborn Child Health Hospital

In the health sector BOA BANK – TANZANIA donated TZS 500,000 towards the launch of the Baobab Maternity Hospital Strategy Paper. The launch, hosted by CCBRT, aimed at informing key players of the plan to establish the Maternal Newborn Child Health (MNCH) Hospital in Dar es Salaam and to create a platform for discussion and partnership for the realization of the strategy paper. This event took place on 2nd June 2009 at the Moevenpick Royal Palm Hotel in Dar es Salaam.

Culture

Donation to Alliance Française

In order to strengthen ties with the French community in the country, BOA BANK – TANZANIA donated TZS 500,000 for the Tanzania Rock Art Exhibition & Conference organized by Alliance Française. The exhibition ran from 12th to 26th June 2009 at the Alliance Française Exhibition Hall.

Donation to Ecole Française

In the same vein, the Bank donated USD 1,300 for the fabrication of 300 school t-shirts for the Fun Fair at Ecole Française. The Fun Fair took place in December 2009.

Participating in local life

Board of Directors

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

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

Capital

The Bank has TZS 15 billion authorized ordinary shares with accumulative nominal value of TZS 13.17 billion. The following is the Bank's shareholding structure as at 31st December 2009.

Shareholding Position based on number of shares (%):

34.70%	BANK OF AFRICA - KENYA
19.70%	AUREOS EAST AFRICA FUND LLC
23.40%	BIO-BELGIAN INVESTMENT COMPANY
10.30%	TANZANIAN DEVELOPMENT FINANCE (TDFL)
3.70%	AFH-OCEAN INDIEN
2.70%	NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)
5.50%	OTHERS

Report and Financial Statements

for the year ended 31 December 2009

Making life better

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2009, which disclose the state of affairs of BOA BANK - TANZANIA Limited (the Bank).

1 PRINCIPAL ACTIVITIES AND PERFORMANCE FOR THE YEAR

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

Business developments

The following achievements were recorded in the year;

- The Bank widened its branch network by opening three more branches in Dar es Salaam and two upcountry branches in Moshi and Morogoro making a total of twelve branches at end of the year.
- The Bank further widened its Automated Teller Machines (ATM) network to a total of 14 ATMs at end of the year.

Financial achievements

- The Bank recorded a profit after tax of Shs 980 million (2008: Shs 1,041 million).
- It achieved significant growth in deposits to Shs 149 billion (2008: Shs 106 billion).
- The Bank's lending portfolio increased to Shs 71 billion (2008: Shs 41 billion).
- Total assets increased to Shs 166 billion (2008: Shs 123 billion).

2 DIRECTORS

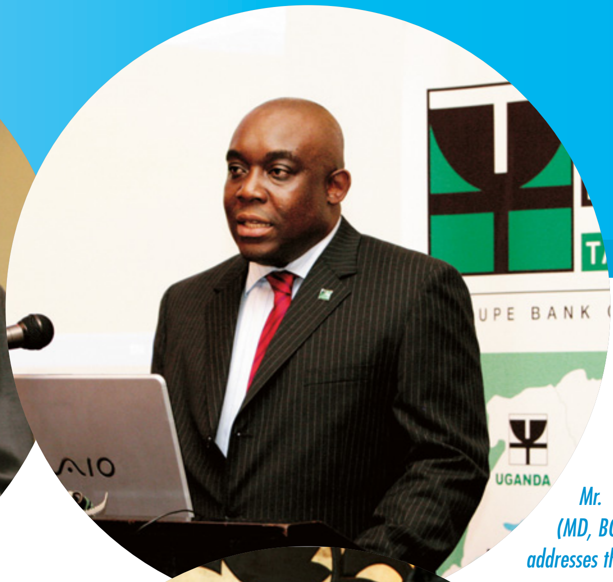
The Directors of the Bank who held office during the year and to the date of this report, except where otherwise stated, are:

Name	Nationality	Resigned
Mr. Fulgence KAZAURA (Chairman)	Tanzanian	
Mr. Paul DERREUMAUX	French	
Mr. Vincent de BROUWER	Belgian	
Mr. Emmanuel OLE NAIKO	Tanzanian	
Mr. Richard CARTER	British	26 March 2009
Mr. Shakir MERALI	Kenyan	
Ms. Carole MAMAN	French	06 March 2009
Mr. Kobby ANDAH	British	
Mr. Peter LOCK	Netherland	
Mr. Henri LALOUX	Belgian	

None of the Directors holds shares in the Bank.

The Breakfast Meeting
8.04.09

Amb. Fulgence KAZAURA (Chairman of the Board of Directors of BOA BANK - TANZANIA) addresses guests.



Mr. Kobby ANDAH (MD, BOA BANK - TANZANIA) addresses the guests and customers.

A customer speaks out to the rest during the event.

Customers help themselves to some breakfast.

3 DIVIDENDS

The Directors do not recommend payment of a dividend for the year ended 31 December 2009 (2008: Nil).

4 AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors of the Bank for the year ending 31 December 2010 will be put to the Annual General Meeting.

By order of the Board

Fulgence KAZAURA
Chairman
30th March 2010

Statement of Directors' Responsibilities

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Tanzania Companies Act 2002. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Fulgence KAZAURA
Chairman
30th March 2010

BOA BANK - TANZANIA staff (Cross-section).

H. E. President Jakaya KIKWETE, the President of the United Republic of Tanzania, (left), presents the Certificate of Recognition by the Contractors Registration Board to Amb. Fulgence KAZAURA, the Chairman of Board of Directors of BOA BANK - TANZANIA, as Mr. Kobby ANDAH looks on – 27.05.09

Members of the Contractors Registration Board pose for a photo with H.E. President Jakaya KIKWETE (seated, 5th from left), Mr. Kobby ANDAH (standing, 4th from left) and Amb. Fulgence KAZAURA (standing, 5th from left).

Report of the independent auditors

to the Members of BOA BANK - TANZANIA Ltd.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of BOA BANK - TANZANIA Limited, which comprise the balance sheet as at 31 December 2009, the profit and loss account, statement of total comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of the Bank's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Tanzanian Companies Act 2002.

REPORT ON OTHER LEGAL AND REGULARITY REQUIREMENTS

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

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

Certified Public Accountants

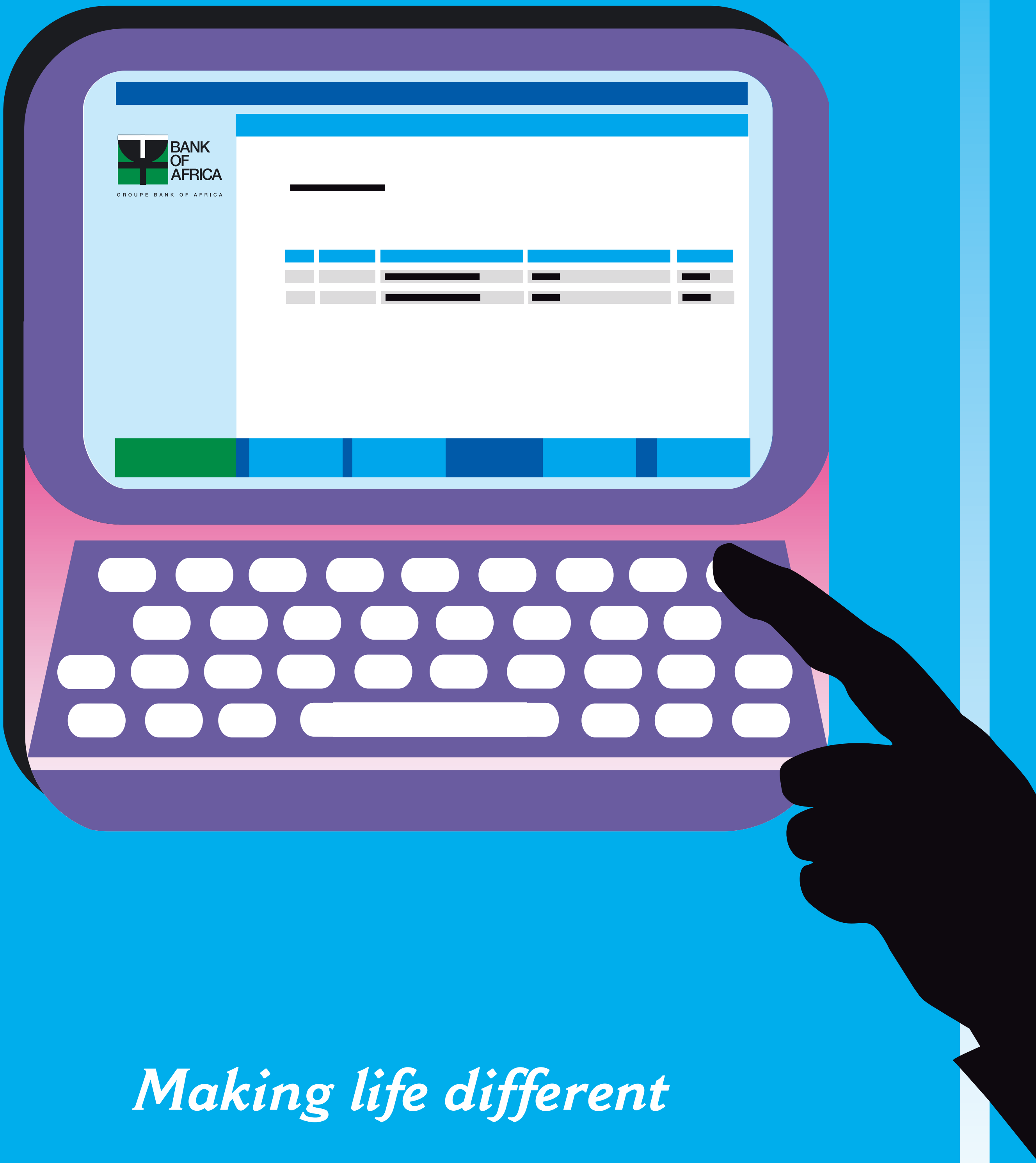
DAR ES SALAAM

PRICEWATERHOUSECOOPERS

Signed by **Leonard C MUSUSA**

30th March 2010

Financial Statements
for the year ended 31 December 2009



Making life different

Financial Statements

Statement of comprehensive income

AT 31 DECEMBER	NOTES	2009 SHS 000	2008 SHS 000
INTEREST AND SIMILAR INCOME	5	11,869,931	9,245,788
INTEREST AND SIMILAR EXPENSES	6	(5,435,534)	(3,842,026)
NET INTEREST INCOME		6,434,397	5,403,762
IMPAIRMENT CHARGE ON LOANS AND ADVANCES	14	(659,371)	(307,422)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT		5,775,026	5,096,340
FEE AND COMMISSION INCOME	7	3,223,584	2,079,594
FEE AND COMMISSION EXPENSE		(284,963)	(167,496)
NET FEE AND COMMISSION INCOME		2,938,621	1,912,098
FOREIGN EXCHANGE INCOME		1,812,279	972,062
OTHER OPERATING INCOME		1,009	14,729
RECOVERY OF BAD DEBTS PREVIOUSLY WRITTEN OFF		724,852	102,424
OPERATING EXPENSES	8	(9,882,233)	(6,552,562)
PROFIT BEFORE INCOME TAX		1,369,554	1,545,091
INCOME TAX EXPENSE	10	(389,737)	(504,237)
PROFIT FOR THE YEAR		979,817	1,040,854
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		979,817	1,040,854

for the year ended 31 December 2009

Balance sheet

AT 31 DECEMBER	NOTES	2009 SHS 000	2008 SHS 000
ASSETS			
CASH AND BALANCES WITH BANK OF TANZANIA	11	24,610,427	19,329,656
LOANS AND ADVANCES TO BANKS	12	42,199,977	29,227,009
GOVERNMENT SECURITIES HELD TO MATURITY	13	20,190,270	27,602,269
LOANS AND ADVANCES TO CUSTOMERS	14	71,101,565	41,178,701
OTHER ASSETS	15	1,684,339	1,357,160
PREMISES AND EQUIPMENT	16	4,482,854	2,944,763
INTANGIBLE ASSETS	17	1,345,972	1,612,413
INCOME TAX RECOVERABLE		563,194	190,720
TOTAL ASSETS		**166,178,598**	**123,442,691**
LIABILITIES			
DEPOSITS FROM OTHER BANKS		810,296	4,392,968
CUSTOMER DEPOSITS	18	149,020,621	105,532,993
OTHER LIABILITIES	19	1,629,648	1,836,603
DEFERRED INCOME TAX	20	261,961	123,532
TOTAL LIABILITIES		**151,722,526**	**111,886,096**
EQUITY			
SHARE CAPITAL	21	13,169,542	11,562,349
SHARE PREMIUM		997,392	684,925
RETAINED PROFIT/(ACCUMULATED LOSS)		168,911	(1,747,444)
REGULATORY RESERVE		120,227	1,056,765
TOTAL EQUITY		**14,456,072**	**11,556,595**
TOTAL LIABILITIES AND EQUITY		**166,178,598**	**123,442,691**

The financial statements on pages 20 to 55 were approved by the Board of Directors and signed on its behalf by:

Fulgence KAZAURA
Chairman

Emmanuel OLE NAIKO
Director

Financial Statements

Company statement of changes in equity

	SHARE CAPITAL	SHARE PREMIUM	RETAINED EARNINGS/ (ACCUMULATED LOSS)	REGULATORY RESERVE	TOTAL
	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000
YEAR ENDED 31 DECEMBER 2009					
AT START OF THE YEAR	11,562,349	684,925	(1,747,444)	1,056,765	11,556,595
ISSUE OF NEW SHARES	1,607,193	312,467	-	-	1,919,660
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	979,817	-	979,817
TRANSFER FROM REGULATORY RESERVE	-	-	936,538	(936,538)	-
BALANCE AT 31 DECEMBER 2009	**13,169,542**	**997,392**	**168,911**	**120,227**	**14,456,072**
YEAR ENDED 31 DECEMBER 2008					
AT START OF THE YEAR	8,726,025	85,041	(1,767,469)	35,936	7,079,533
ISSUE OF NEW SHARES	2,836,324	599,884	-	-	3,436,208
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	1,040,854	-	1,040,854
TRANSFER TO REGULATORY RESERVE	-	-	(1,020,829)	1,020,829	-
BALANCE AT 31 DECEMBER 2008	**11,562,349**	**684,925**	**(1,747,444)**	**1,056,765**	**11,556,595**

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

The Bank of Tanzania approved a provision for loan losses of Shs 1,511 million in accordance with Bank of Tanzania regulations. However, these financial statements include a provision for loan impairment losses of Shs 1,391 million, determined in accordance with IFRS, necessitating retention of Shs 120 million in regulatory reserve.

for the year ended 31 December 2009

Cash flow statement

	NOTES	2009 SHS'000	2008 SHS'000
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST AND SIMILAR INCOME RECEIVED		11,869,931	9,245,788
INTEREST PAID		(5,435,534)	(3,842,026)
FEES AND COMMISSION RECEIVED		3,223,584	2,079,594
RECOVERY OF BAD DEBTS PREVIOUSLY WRITTEN OFF		724,852	102,424
FOREIGN EXCHANGE INCOME RECEIVED		1,812,279	972,062
PAYMENT TO EMPLOYEES AND SUPPLIERS		(9,672,221)	(6,591,600)
TAX PAID		(656,388)	(134,736)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**1,866,503**	**1,831,506**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
DECREASE IN INVESTMENT SECURITIES HELD TO MATURITY (WITH MATURITY OF 3 MONTHS AND MORE)		5,959,244	1,072,898
INCREASE IN LOANS AND ADVANCES TO CUSTOMERS		(29,922,864)	(17,076,448)
INCREASE IN STATUTORY MINIMUM RESERVE		(1,650,000)	(6,300,000)
INCREASE IN OTHER ASSETS		(295,132)	(902,912)
INCREASE IN DEPOSITS		39,904,956	29,496,280
DECREASE INCREASE IN OTHER LIABILITIES		(206,955)	(139,828)
NET CASH INFLOW FROM OPERATING ACTIVITIES		**15,655,752**	**7,981,496**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PREMISES AND EQUIPMENT	16	(2,332,721)	(2,402,099)
PURCHASE OF INTANGIBLE ASSETS	17	(94,307)	(1,614,975)
PROCEEDS FROM SALE OF ASSETS		2,601	14,729
NET CASH UTILISED IN INVESTING ACTIVITIES		**(2,424,427)**	**(4,002,345)**
CASH FLOW FROM FINANCING ACTIVITIES			
PROCEEDS FROM ISSUE OF SHARES		1,919,659	3,436,208
NET CASH INFLOW FROM FINANCING ACTIVITIES		**1,919,659**	**3,436,208**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**15,150,984**	**7,415,359**
CASH AND CASH EQUIVALENT AT START OF THE YEAR		46,085,648	38,670,289
CASH AND CASH EQUIVALENT AT END OF YEAR	23	**61,236,632**	**46,085,648**

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:

BOA BANK - TANZANIA LIMITED
NDC BUILDING
OHIO AVENUE
PO BOX 3054
DAR ES SALAAM

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(i) Standard, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009, are relevant to the Bank:

Standard/Interpretation	Content	Applicable for financial years beginning on/after
IFRS 2 (Amendment)	Share-based payment – vesting conditions and cancellation	1 January 2009
IFRS 7 (Amendment)	Improving disclosures about financial instruments	1 January 2009
IAS 1 (Amendment)	Presentation of financial statements	1 January 2009

The revised IAS 1 prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income.

The other standards do not have any effect on the financial statements of the Bank for the year ended 31 December 2009.

The following, standard, amendments and interpretation became effective in 2009, but were not relevant for the Bank's operations:

Interpretation	Content	Applicable for financial years beginning on/after
IFRS 8	Operating segments	1 January 2009
IAS 23 (Amendment)	Borrowing costs	1 January 2009
IFRIC 16	Hedges of a net investment in a foreign operation	1 January 2009
IFRIC 13	Customer loyalty programmes	1 July 2008

(ii) Standards and interpretations issued but not yet effective

The following standards and implementations have been issued and are mandatory for the Bank's accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Bank:

Interpretation	Content	Applicable for financial years beginning on/after
IFRS 3	Business combinations	1 July 2009
IAS 38 (amendments)	Intangible assets	1 January 2010
IAS 39	Financial instruments: Recognition and measurement-eligible hedged items	1 July 2009
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRS 9	Financial instruments part 1: Classification and measurement	1 July 2009
IAS 1 (amendments)	Presentation of financial statements	1 January 2010

The Directors have assessed the relevance of the interpretations and amendments to existing standards with respect to the Bank's operations and concluded that they will not have a significant impact on the Bank's financial statements.

(B) INTEREST INCOME AND EXPENSE

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

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

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

(C) FEE AND COMMISSION INCOME

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

(D) TRANSLATION OF FOREIGN CURRENCIES

Transactions are recorded on initial recognition in Tanzania Shillings, being the currency of the primary economic environment in which the Bank operates (the functional currency). Transactions in foreign currencies during the year are converted into the Tanzania shillings using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(E) FINANCIAL ASSETS

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so classifying eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(ii) Loans and receivables

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

(iii) Held-to maturity

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

(iv) Available-for-sale

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

RECOGNITION AND MEASUREMENT OF FINANCIAL ASSETS

Initial recognition

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

Subsequent measurement

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

(F) IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

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

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

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

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

Notes to the Financial Statements

(G) FINANCIAL LIABILITIES

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

Liabilities measured at amortised cost

Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

(H) INCOME TAX

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

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

(I) PROVISIONS

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

(J) PREMISES AND EQUIPMENT

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

	%
Leasehold premises	20.0
Motor vehicles	20.0
Furniture and fittings	20.0
Equipment	20.0

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

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

(K) INTANGIBLE ASSETS

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

(L) CASH AND CASH EQUIVALENTS

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

(M) EMPLOYEE BENEFITS

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

(N) OFFSETTING FINANCIAL INSTRUMENTS

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

(O) ACCEPTANCES AND LETTERS OF CREDIT

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

(P) SHARE CAPITAL

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

3 FINANCIAL RISK MANAGEMENT

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

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

3.1 CREDIT RISK

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

Loans and advances

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

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

3.1.1 CREDIT RISK MEASUREMENT

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

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

BANK'S INTERNAL RATINGS SCALE

Bank's rating	Description of the grade
1	Current
2	Especially mentioned
3	Substandard
4	Doubtful
5	Loss

3.1.2 RISK LIMIT CONTROL AND MITIGATION POLICIES

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

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

(i) Collateral

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

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

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

Some other specific control and mitigation measures are outlined below.

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

(ii) Credit-related commitments

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

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

3.1.3 IMPAIRMENT AND PROVISIONING POLICIES

The internal rating systems described in Note 3.1.1 focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

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

		2009		2008
	LOANS & ADVANCES (%)	IMPAIRMENT PROVISION (%)	LOANS & ADVANCES (%)	IMPAIRMENT PROVISION (%)
CURRENT	97	-	89	-
ESPECIALLY MENTIONED	0	5	1	5
SUBSTANDARD	0	10	4	10
DOUBTFUL	1	38	4	47
LOSS	2	92	2	100
TOTAL	**100.0**	**2**	**100.0**	**4**

Also the Bank makes unidentified 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

	2009	2008
	SHS'000	SHS'000
CREDIT RISK EXPOSURES RELATING TO ON-BALANCE SHEET ASSETS ARE AS FOLLOWS:		
BALANCES WITH BANK OF TANZANIA (*)	15,883,389	14,286,010
LOANS AND ADVANCES TO BANKS	42,199,977	29,227,009
GOVERNMENT SECURITIES HELD TO MATURITY	20,190,270	27,602,269
LOANS AND ADVANCES TO CUSTOMERS		
LOAN TO INDIVIDUAL:		
- OVERDRAFT	3,341,479	2,168,578
- TERM LOANS	7,437,799	6,545,637
LOAN TO CORPORATE ENTITIES:		
- CORPORATE CUSTOMERS	37,833,089	16,394,299
- SMES	22,489,198	16,070,187
TOTAL	**149,375,201**	**112,293,989**
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ASSETS ARE AS FOLLOWS:		
FINANCIAL GUARANTEES, OUTSTANDING LETTERS OF CREDIT AND INDEMNITIES	8,403,473	4,279,237
COMMITMENTS TO EXTEND CREDIT	10,504,820	4,922,467
TOTAL	**168,283,494**	**121,495,693**

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2009 and 31 December 2008, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

(*) Cash on hand are not included since these are not exposed to credit risk.

As shown above, of the total maximum exposure, 67% is derived from loans and advances to banks and customers (December 2008: 58%); 12% represents investments in debt securities (December 2008: 23%). Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 97% of the customers' loans and advances portfolio is categorised in the top two grades of the internal rating system (December 2008: 90%);
- 97% of the customers' loans and advances portfolio is considered to be neither past due nor impaired (December 2008: 89%);
- All the investments in debt securities and other bills are considered to be current.

3.1.5 LOANS AND ADVANCES

Loans and advances are summarised as follows:

	2009		2008	
	SHS'000	SHS'000	SHS'000	SHS'000
	LOAN & ADVANCES TO CUSTOMERS	LOAN & ADVANCES TO BANKS	LOAN & ADVANCES TO CUSTOMERS	LOAN & ADVANCES TO BANKS
NEITHER PAST DUE NOR IMPAIRED	70,378,805	42,199,977	37,660,480	29,227,009
PAST DUE BUT NOT IMPAIRED	126,646	-	1,565,495	-
IMPAIRED	1,986,698	-	2,684,239	-
GROSS	**72,492,449**	**42,199,977**	**41,910,214**	**29,227,009**
LESS: ALLOWANCE FOR IMPAIRMENT	(1,390,884)	-	(731,513)	-
NET OF IMPAIRMENT	**71,101,565**	**42,199,977**	**41,178,701**	**29,227,009**

The total impairment provision for loans and advances is Shs 1,391 million (2008: Shs 731 million). Further information of the impairment allowance for loans and advances to customers is provided in Note 14.

During the year ended 31 December 2009, the Bank's total loans and advances increased by 73% as a result of the expansion of the lending business. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Bank focused more on the business with corporate clients or banks with good credit rating or retail customers providing sufficient collateral.

The total loans and advances that are neither impaired nor past due is Shs 70,379 million. Credit quality of the portfolio of loans and advances that were neither past due nor impaired is assessed by reference to the internal rating system.

(a) Loans and advances past due but not impaired

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

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

Notes to the Financial Statements

(a) Loans and advances past due but not impaired (continued)

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

AS AT 31 DECEMBER 2008	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
PAST DUE TO 30 DAYS	15,448	160,800	52,782	264,319	493,349
PAST DUE TO 30-60 DAYS	-	81,912	-	85,697	167,609
PAST DUE 60-90 DAYS	-	484,267	-	420,270	904,537
TOTAL	15,448	726,979	52,782	770,286	1,565,495
FAIR VALUE OF COLLATERAL	20,082	945,073	68,617	1,001,372	2,035,144

(b) Loans and advances individually impaired

(i) Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is Shs 1,987 million (December 2008: Shs 2,684 million). The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows: (Amounts are in Shs'000).

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

AS AT 31 DECEMBER 2008	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
INDIVIDUALLY IMPAIRED LOANS	50,818	76,026	-	2,557,395	2,684,239
FAIR VALUE OF COLLATERAL	-	-	-	2,657,525	2,657,525

(ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2009 was nil. (December 2008: nil). No collateral is held by the Bank against loans and advances to Banks.

(c) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled Shs 2,270 million at 31 December 2009 (December 2008: Shs 1,784 million).

LOANS AND ADVANCES TO CUSTOMERS – INDIVIDUALS:	2009 TSHS'000	2008 TSHS'000
- TERM LOANS	2,269,784	1,784,457
- OVERDRAFT	-	-
TOTAL	**2,269,784**	**1,784,457**

3.1.6 DEBT SECURITIES, TREASURY BILLS AND OTHER ELIGIBLE BILLS

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

3.1.7 REPOSSESSED COLLATERAL

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

NATURE OF ASSETS	CARRYING AMOUNTS / TSHS'000
RESIDENTIAL PROPERTY	-
COMMERCIAL PROPERTY	-
MOTOR VEHICLE	9,300
TOTAL	**9,300**

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

3.1.8 CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2009. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties (Amounts are in Shs'000).

	TANZANIA	EUROPE	AMERICA	OTHERS	TOTAL
BALANCES WITH BANK OF TANZANIA	15,883,389	-	-	-	15,883,389
LOANS AND ADVANCES TO BANKS	27,457,785	10,023,472	734,312	3,984,408	42,199,977
INVESTMENT SECURITIES HELD TO MATURITY	20,190,270	-	-	-	20,190,270
LOANS AND ADVANCES TO CUSTOMERS					
TO INDIVIDUALS:					
- OVERDRAFT	3,341,479	-	-	-	3,341,479
- TERM LOANS	7,437,799	-	-	-	7,437,799
TO CORPORATE ENTITIES:					
- CORPORATE CUSTOMERS	37,833,089	-	-	-	37,833,089
- SMES	22,489,198	-	-	-	22,489,198
AS AT 31 DECEMBER 2009	**134,633,009**	**10,023,472**	**734,312**	**3,984,408**	**149,375,201**
AS AT 31 DECEMBER 2008	**97,926,308**	**5,658,384**	**-**	**8,759,297**	**112,343,989**

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of its counterparties (Amounts are in Shs'000):

	FINANCIAL INSTITUTIONS	AGRICULTURE	MANUFACTURING	BUILDING & CONSTRUCTION	GOVERNMENT	TRANSPORTATION	WHOLESALE RETAIL TRADE	INDIVIDUALS	OTHER	TOTAL
BALANCES WITH BANK OF TANZANIA	15,883,389	-	-	-	-	-	-	-	-	15,883,389
LOANS AND ADVANCES TO BANKS	42,199,977	-	-	-	-	-	-	-	-	42,199,977
GOVERNMENT SECURITIES HELD TO MATURITY	-	-	-		20,190,270	-	-	-	-	20,190,270
LOANS AND ADVANCES TO CUSTOMERS										
TO INDIVIDUAL:										
- OVERDRAFT	-	36,900	67,061	36,335	-	254,686	2,392,963	316,838	236,696	3,341,479
- TERM LOANS	-	-	11,173	10,536	-	79,764	2,341,828	3,520,519	1,473,979	7,437,799
TO CORPORATE ENTITIES:										
- CORPORATE CUSTOMERS	1,310,361	6,977,635	1,706,975	3,143,380	-	8,058,718	1,246,729	-	15,389,291	37,833,089
- SMES	410,534	238,453	944,596	2,962,982	-	3,648,553	5,112,004	-	9,172,076	22,489,198
AS AT 31 DECEMBER 2009	59,804,261	7,252,988	2,729,805	6,153,233	20,190,270	12,041,721	11,093,524	3,837,357	26,272,042	149,375,201
AS AT 31 DECEMBER 2008	46,142,994	2,673,288	4,445,260	2,947,945	27,602,269	6,353,680	9,066,213	4,093,198	9,019,142	112,343,989

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 2009, if the functional currency had strengthened/weakened by 10% against the US Dollar with all other variables held constant, post-tax profit for the year would have been Shs 94 million (2008: Shs 45 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated financial assets and liabilities. The exposure to foreign currencies other than the US Dollar is minimal.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2009. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

AMOUNTS IN SHS '000	TZS	USD	EURO	GBP	ZAR	KES	UGX	TOTAL
AS AT 31 DECEMBER 2009								
ASSETS								
CASH AND BALANCE WITH BANK OF TANZANIA	21,351,085	2,927,100	153,653	178,589	-	-	-	24,610,427
LOANS AND ADVANCES TO BANKS	8,489,839	22,761,251	9,126,342	1,818,792	2,389	1,064	300	42,199,977
GOVERNMENT SECURITIES HELD TO MATURITY	20,190,270	-	-	-	-	-	-	20,190,270
LOANS AND ADVANCES TO CUSTOMERS	48,441,703	22,629,777	29,686	399	-	-	-	71,101,565
INCOME TAX RECOVERABLE	563,194	-	-	-	-	-	-	563,194
TOTAL FINANCIAL ASSETS	**99,036,091**	**48,318,128**	**9,309,681**	**1,997,780**	**2,389**	**1,064**	**300**	**158,665,433**
LIABILITIES								
DEPOSITS FROM OTHER BANKS	-	-	-	810,296	-	-	-	810,296
CUSTOMER DEPOSITS	89,154,427	48,875,100	9,742,593	1,248,501	-	-	-	149,020,621
OTHER LIABILITIES	1,221,176	408,472	-	-	-	-	-	1,629,648
TOTAL FINANCIAL LIABILITIES	**90,375,603**	**49,283,572**	**9,742,593**	**2,058,797**	**-**	**-**	**-**	**151,460,565**
NET ON-BALANCE SHEET FINANCIAL POSITION	**8,660,488**	**(965,444)**	**(432,912)**	**(61,017)**	**2,389**	**1,064**	**300**	**7,204,868**
CREDIT COMMITMENTS	**4,273,576**	**6,231,245**	**-**	**-**	**-**			**10,504,820**
AS AT 31 DECEMBER 2008								
TOTAL FINANCIAL ASSETS	70,889,233	37,149,415	7,607,813	1,840,760	1,413	816	403	117,489,853
TOTAL FINANCIAL LIABILITIES	64,687,153	37,649,824	7,481,064	1,944,523	-	-	-	111,762,564
NET ON-BALANCE SHEET FINANCIAL POSITION	**6,202,080**	**(500,409)**	**126,749**	**(103,763)**	**1,413**	**816**	**403**	**5,727,289**
CREDIT COMMITMENTS	**2,151,524**	**2,770,943**	**-**	**-**	**-**	**-**	**-**	**4,922,467**

Notes to the Financial Statements

3.2.2 INTEREST RATE RISK

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear any interest rate risk on off balance sheet items (Amounts Shs'000).

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON INTEREST BEARING	TOTAL
	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000
AS AT 31 DECEMBER 2009							
ASSETS							
CASH AND BALANCES WITH BANK OF TANZANIA	-	-	-	-	-	24,610,427	24,610,427
LOANS AND ADVANCES TO BANKS	36,466,283	1,758,221	1,372,979	-	-	2,602,494	42,199,977
GOVERNMENT SECURITIES HELD TO MATURITY	3,483,201	5,793,027	5,823,892	5,090,150	-	-	20,190,270
LOANS AND ADVANCES TO CUSTOMERS	9,990,490	2,403,075	20,413,896	29,913,495	8,380,609	-	71,101,565
TAX RECOVERABLE	-	-	-	-	-	563,194	563,194
TOTAL FINANCIAL ASSETS	**49,939,974**	**9,954,323**	**27,610,767**	**35,003,645**	**8,380,609**	**27,776,115**	**158,665,433**
LIABILITIES							
DEPOSITS FROM OTHER BANKS	810,296	-	-	-	-	-	810,296
CUSTOMER DEPOSITS	90,095,343	18,562,629	40,259,797	102,852	-	-	149,020,621
OTHER LIABILITIES	-	-	-	-	-	1,629,648	1,629,648
TOTAL FINANCIAL LIABILITIES	**90,905,639**	**18,562,629**	**40,259,797**	**102,852**	**-**	**1,629,648**	**151,460,565**
TOTAL INTEREST REPRICING GAP	**(40,965,665)**	**(8,608,306)**	**(12,649,030)**	**34,900,793**	**8,380,609**	**26,146,467**	**7,204,868**
AS AT 31 DECEMBER 2008							
TOTAL FINANCIAL ASSETS	27,350,534	19,489,410	28,307,329	16,041,891	759,730	25,540,959	117,489,853
TOTAL FINANCIAL LIABILITIES	20,539,578	22,897,775	24,296,070	-	-	44,029,141	111,762,564
TOTAL INTEREST REPRICING GAP	**6,810,956**	**(3,408,365)**	**4,011,259**	**16,041,891**	**759,730**	**-**	**5,727,289**

At 31 December 2009, 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 71 million (2008: Shs 61 million) lower/higher, mainly as a result of fluctuations in interest income and interest expense. At 31 December 2009, 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 9 million (2008: Shs 17 million) lower/higher, mainly as a result of fluctuations in interest income and interest expense. The exposure to interest rates fluctuations on assets and liabilities denominated in currencies other than US dollar is minimal.

3.3 LIQUIDITY RISK

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

3.3.1 LIQUIDITY RISK MANAGEMENT PROCESS

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

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

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Note 3.3.3).

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

3.3.2 FUNDING APPROACH

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

Notes to the Financial Statements

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 discounted cash flows, as the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000
AS AT 31 DECEMBER 2009						
LIABILITIES						
DEPOSITS FROM OTHER BANKS	810,296	-	-	-	-	810,296
CUSTOMER DEPOSITS	90,095,343	18,562,629	40,259,797	102,852	-	149,020,621
INTEREST PAYMENTS	309,922	937,609	937,609	1,718	-	2,186,858
OTHER LIABILITIES	1,629,648	-	-	-	-	1,629,648
TOTAL LIABILITIES (contractual maturity dates)	**92,845,209**	**19,500,238**	**41,197,406**	**104,570**	**-**	**153,647,423**
TOTAL ASSETS (expected maturity dates)	**78,805,187**	**9,954,323**	**27,610,767**	**35,003,646**	**8,380,608**	**159,754,531**
AS AT 31 DECEMBER 2008						
LIABILITIES						
DEPOSITS FROM OTHER BANKS	542,199	3,850,769	-	-	-	4,392,968
CUSTOMER DEPOSITS	62,189,917	19,047,006	24,296,070	-	-	105,532,993
INTEREST PAYMENTS	22,679	422,870	577,041	-	-	1,022,590
OTHER LIABILITIES	1,836,603	-	-	-	-	1,836,603
TOTAL LIABILITIES (contractual maturity dates)	**64,591,398**	**23,320,645**	**24,873,111**	**-**	**-**	**112,785,154**
TOTAL ASSETS (expected maturity dates)	**54,152,420**	**19,489,410**	**28,306,766**	**16,041,891**	**759,730**	**118,847,012**

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

3.3.4 OFF-BALANCE SHEET ITEMS

(a) Loan commitments

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

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 24) expiring not later than 1 year are also included below:

	2009	2008
	SHS'000	SHS'000
OUTSTANDING LETTERS OF CREDIT, GUARANTEES AND INDEMNITIES	8,403,473	4,279,237
COMMITMENTS TO EXTEND CREDIT	10,504,820	4,922,467
TOTAL	**18,908,293**	**9,201,704**

3.3.5 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of government securities held-to-maturity at 31 December 2009 is estimated at Shs 24,046 million (2008: Shs 28,621 million) compared to their carrying values of Shs 20,190 million (2008: 27,602 million). The fair values of the Bank's other financial assets such as loans and advances to customers approximate the respective carrying amounts due to the generally short periods to maturity dates. Fair values are based on the last auction for Treasury bills and Bonds that was held in December 2009.

3.4 CAPITAL MANAGEMENT

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

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

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

The BoT requires each bank or banking group to:

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

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

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

Notes to the Financial Statements

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2009 and year ended 31 December 2008. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

	2009	2008
	SHS'000	SHS'000
TIER 1 CAPITAL		
SHARE CAPITAL	13,169,542	11,562,349
RETAINED EARNINGS/(ACCUMULATED LOSSES)	211,188	(1,747,444)
SHARE PREMIUM	997,392	684,925
PREPAID EXPENSES AND DEFERRED CHARGES	(2,859,383)	(1,463,808)
TOTAL QUALIFYING TIER 1 CAPITAL	**11,518,739**	**9,036,022**
TIER 2 CAPITAL		
PORTFOLIO IMPAIRMENT PROVISION	97,933	51,855
TOTAL REGULATORY CAPITAL	**11,616,672**	**9,087,877**
RISK-WEIGHTED ASSETS		
ON-BALANCE SHEET	59,373,706	43,621,658
OFF-BALANCE SHEET	11,827,626	4,569,732
TOTAL RISK-WEIGHTED ASSETS	**71,201,332**	**48,191,390**

	REQUIRED RATIO	BANK'S RATIO	BANK'S RATIO
	2009	2009	2008
	%	%	%
TIER 1 CAPITAL	10	16	19
TIER 1 + TIER 2 CAPITAL	12	16	19

The increase of the regulatory capital during the year 2009 is mainly due to increase in paid up capital arising from the issue of new shares and contribution of the current year profit.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

A) IMPAIRMENT LOSSES ON LOANS AND ADVANCES

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

B) HELD TO MATURITY INVESTMENTS

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

(C) PREMISES AND EQUIPMENT

Critical estimates are made by the Directors in determining depreciation rates for premises and equipment and their residual values. The rates are set out in note 2(j).

5 INTEREST AND SIMILAR INCOME

	2009	2008
	SHS'000	SHS'000
LOANS AND ADVANCES	7,873,960	5,116,005
INTEREST ON IMPAIRED LOANS	307,020	296,610
GOVERNMENT SECURITIES HELD TO MATURITY	3,202,977	2,983,837
LOANS AND ADVANCES TO BANKS	485,974	849,336
TOTAL	**11,869,931**	**9,245,788**

6 INTEREST AND SIMILAR EXPENSES

	2009 SHS'000	2008 SHS'000
TIME DEPOSITS	5,159,895	3,633,676
SAVING DEPOSITS	119,372	78,376
OTHERS	156,267	129,974
TOTAL	**5,435,534**	**3,842,026**

7 FEES AND COMMISSION INCOME

	2009 SHS'000	2008 SHS'000
COMMISSION AND FEES FROM BANKING OPERATIONS	1,311,789	900,233
COMMISSION ON TELEGRAPHIC TRANSFERS AND INTERNATIONAL TRADE FINANCE ACTIVITIES	613,546	450,156
FACILITY FEES FROM LOANS AND ADVANCES	705,824	294,320
COMMISSION ON LETTERS OF CREDIT AND GUARANTEES	338,981	149,276
OTHER	253,444	285,609
TOTAL	**3,223,584**	**2,079,594**

8 OPERATING EXPENSES

	2009 SHS'000	2008 SHS'000
EMPLOYEE BENEFITS (NOTE 9)	3,991,020	2,615,977
OCCUPANCY EXPENSES	995,847	699,538
REPAIRS AND MAINTENANCE	457,795	213,505
ADVERTISING AND BUSINESS PROMOTION	343,329	327,964
LEGAL AND PROFESSIONAL FEES	202,243	158,573
TRAVELLING EXPENSES	208,118	166,253
DEPRECIATION AND AMORTIZATION (NOTE 16 AND 17)	1,149,784	418,643
DIRECTORS' EMOLUMENTS		
- FEES	50,120	35,088
- OTHERS	530,657	351,558
AUDITORS' REMUNERATION	55,551	36,503
OTHERS	1,897,770	1,528,960
TOTAL	**9,882,233**	**6,552,562**

9 EMPLOYEE BENEFITS

	2009	2008
	SHS'000	SHS'000
EMPLOYEE BENEFITS COMPRISE THE FOLLOWING:		
WAGES AND SALARIES	2,949,149	1,946,272
SOCIAL SECURITY COSTS (NSSF CONTRIBUTIONS)	295,186	187,425
OTHER EMPLOYMENT COSTS AND BENEFITS	746,685	482,280
TOTAL	3,991,020	2,615,977

10 INCOME TAX EXPENSE

	2009	2008
	SHS'000	SHS'000
THE TAX CHARGE FOR THE YEAR IS ARRIVED AT AS FOLLOWS:		
- CURRENT TAX- CURRENT YEAR	251,307	-
- CURRENT TAX – PRIOR YEARS	-	2
- DEFERRED INCOME TAX CHARGE – CURRENT YEAR	172,809	508,289
- DEFERRED INCOME TAX CHARGE – PRIOR YEARS	(34,379)	(4,054)
TOTAL	389,737	504,237

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:

	2009	2008
	SHS'000	SHS'000
PROFIT INCOME BEFORE TAX	1,369,554	1,545,091
TAX CALCULATED AT A TAX RATE OF 30%	410,866	463,527
TAX EFFECT OF:		
- EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	13,250	44,763
- (OVER)/UNDER PROVISION OF TAX IN PRIOR YEARS	(34,379)	(4,053)
TOTAL	389,737	504,237

11 CASH AND BALANCES WITH BANK OF TANZANIA

	2009 SHS'000	2008 SHS'000
CASH ON HAND	8,727,039	5,043,646
BALANCES WITH THE BANK OF TANZANIA:		
STATUTORY MINIMUM RESERVE (SMR)	14,850,000	13,200,000
CLEARING ACCOUNT	1,033,388	1,086,010
TOTAL	24,610,427	19,329,656

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

12 LOANS AND ADVANCES TO BANKS

	2009 SHS'000	2008 SHS'000
BALANCES WITH OTHER BANKS	1,613,481	6,446,826
ITEMS IN COURSE OF COLLECTION	989,012	1,443,745
PLACEMENTS WITH LOCAL BANKS	27,618,168	7,000,888
PLACEMENTS WITH FOREIGN BANKS	11,979,316	14,335,550
INCLUDED IN CASH AND CASH EQUIVALENTS (NOTE 23)	42,199,977	29,227,009

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

13 GOVERNMENT SECURITIES HELD TO MATURITY

	2009 SHS'000	2008 SHS'000
TREASURY BILLS MATURING WITHIN 90 DAYS	9,276,228	10,728,983
TREASURY BILLS MATURING AFTER 90 DAYS	5,823,892	15,367,706
TOTAL	15,100,120	26,096,689
TREASURY BONDS MATURING WITHIN 5 YEARS	5,090,150	1,505,580
TOTAL GOVERNMENT SECURITIES HELD-TO-MATURITY	20,190,270	27,602,269

Treasury bills and bonds are debt securities issued by the Government of the United Republic of Tanzania at an effective rate of 9%.

14 LOANS AND ADVANCES TO CUSTOMERS

	2009	2008
	SHS'000	SHS'000
LOANS AND ADVANCES TO CUSTOMERS	71,609,111	41,121,854
LOANS AND ADVANCES TO STAFF	883,338	788,360
GROSS LOANS AND ADVANCES	72,492,449	41,910,214
LESS: CREDIT IMPAIRMENT PROVISION	(1,390,884)	(731,513)
NET LOANS AND ADVANCES	**71,101,565**	**41,178,701**

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

	RETAIL CUSTOMERS	CORPORATE CUSTOMERS	
	TERM LOANS	SMES	TOTAL
	SHS'000	SHS'000	SHS'000
BALANCE AT 1 JANUARY 2009	**133,913**	**597,600**	**731,513**
INCREASE IN PROVISION FOR INDIVIDUAL LOAN IMPAIRMENT	354,136	207,302	561,438
INCREASE IN UNIDENTIFIED IMPAIRMENT PROVISION	31,666	66,267	97,933
WRITE OFFS	-	-	-
AS AT 31 DECEMBER 2009	**519,715**	**871,169**	**1,390,884**
BALANCE AT 1 JANUARY 2008	**56,970**	**437,180**	**494,150**
INCREASE IN PROVISION FOR INDIVIDUAL LOAN IMPAIRMENT	74,501	181,067	255,568
INCREASE IN UNIDENTIFIED IMPAIRMENT PROVISION	7,069	44,786	51,855
WRITE OFFS	(4,627)	(65,433)	(70,060)
AS AT 31 DECEMBER 2008	**133,913**	**597,600**	**731,513**

15 OTHER ASSETS

	2009	2008
	SHS'000	SHS'000
PREPAID EXPENSES	1,550,656	1,201,400
SUNDRY DEBTORS AND STOCKS OF STATIONERY	133,683	155,760
TOTAL	**1,684,339**	**1,357,160**

16 PREMISES AND EQUIPMENT

	LEASEHOLD PREMISES	MOTOR VEHICLES	EQUIPMENT	FURNITURE & FITTINGS	WORK IN PROGRESS	TOTAL
	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000
COST						
AT 1 JANUARY 2008	**630,505**	**150,604**	**992,245**	**181,887**	**101,009**	**2,056,250**
ADDITIONS	1,280,601	6,750	1,074,590	40,158	-	2,402,099
DISPOSALS	-	(18,484)	-	-	-	(18,484)
TRANSFER	75,324	-	-	-	(75,324)	-
AS AT 31 DECEMBER 2008	**1,986,430**	**138,870**	**2,066,835**	**222,045**	**25,685**	**4,439,866**
DEPRECIATION						
AT 1 JANUARY 2008	**359,677**	**150,604**	**536,809**	**152,542**	**-**	**1,199,632**
CHARGE FOR THE YEAR	103,005	563	200,227	10,159	-	313,954
DISPOSALS	-	(18,484)			-	(18,484)
AS AT 31 DECEMBER 2008	**462,682**	**132,683**	**737,036**	**162,701**	**-**	**1,495,102**
NET BOOK VALUE:						
AT 31 DECEMBER 2008	**1,523,748**	**6,187**	**1,329,799**	**59,344**	**25,685**	**2,944,763**
COST						
AT 1 JANUARY 2009	**1,986,430**	**138,870**	**2,066,836**	**222,045**	**25,685**	**4,439,866**
ADDITIONS	1,128,277	15,000	1,023,592	94,284	71,569	2,332,721
DISPOSALS	-	-	(2,518)	-	-	(2,518)
AS AT 31 DECEMBER 2009	**3,114,707**	**153,870**	**3,087,910**	**316,329**	**97,254**	**6,770,070**
DEPRECIATION						
AT 1 JANUARY 2009	**462,682**	**132,683**	**737,036**	**162,701**	**-**	**1,495,102**
CHARGE FOR THE YEAR	374,463	2,500	390,463	21,611	-	789,036
DISPOSALS	-	-	(925)	-	-	(925)
ADJUSTMENTS	4,003	-	-	-	-	4,003
AS AT 31 DECEMBER 2009	**841,148**	**135,183**	**1,126,574**	**184,312**	**-**	**2,287,216**
NET BOOK VALUE:						
AS AT 31 DECEMBER 2009	**2,273,559**	**18,687**	**1,961,336**	**132,017**	**97,254**	**4,482,854**

17 INTANGIBLE ASSETS

	COMPUTER SOFTWARE 2009 SHS'000	COMPUTER SOFTWARE 2008 SHS'000
AT START OF YEAR	1,612,413	119,367
ADDITIONS	94,307	1,614,975
DISPOSAL	-	(17,240)
AMORTISATION	(360,748)	(104,689)
AT END OF YEAR	1,345,972	1,612,413
AS AT 31 DECEMBER		
COST	2,134,528	2,040,221
ACCUMULATED AMORTISATION	(788,556)	(427,808)
NET BOOK VALUE	1,345,972	1,612,413

18 CUSTOMER DEPOSITS

	2009 SHS'000	2008 SHS'000
CUSTOMER ACCOUNTS	62,055,977	42,073,243
TIME DEPOSITS	75,807,644	57,066,481
SAVINGS DEPOSITS	8,569,481	5,665,932
OTHERS	2,587,519	727,337
TOTAL	149,020,621	105,532,993

All interest bearing deposits from customers have variable interest rates.

19 OTHER LIABILITIES

	2009 SHS'000	2008 SHS'000
BANK DRAFTS PAYABLE	257,238	754,122
ACCRUALS AND OTHER PROVISIONS	1,013,420	839,082
DEFERRED COMMITMENT AND FACILITY FEES	358,990	243,399
TOTAL	1,629,648	1,836,603

20 DEFERRED INCOME TAX

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

	2009	2008
	SHS'000	SHS'000
AT 1 JANUARY	123,532	(380,703)
INCOME STATEMENT CHARGE – CURRENT YEAR (NOTE 10)	172,809	508,289
– PRIOR YEARS	(34,379)	(4,054)
AS AT 31 DECEMBER	261,961	123,532

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

	RESTATED 1 JANUARY 2009	CHARGED/(CREDITED) TO INCOME STATEMENT	31 DECEMBER 2009
	SHS'000	SHS'000	SHS'000
DEFERRED TAX LIABILITY			
OTHER TIMING DIFFERENCES	130,297	(105,369)	24,928
ACCELERATED TAX DEPRECIATION	164,512	72,521	237,033
TAX LOSSES CARRIED FORWARD	(171,277)	171,277	-
TOTAL	123,532	138,429	261,961

21 SHARE CAPITAL

	2009	2008
	SHS'000	SHS'000
AUTHORISED		
2,000 CLASS "A" ORDINARY SHARES OF SHS 1 MILLION EACH	2,000,000	2,000,000
4,100 CLASS "B" ORDINARY SHARES OF SHS 375,000 EACH	1,537,500	1,537,500
98,991 CLASS "C" ORDINARY SHARES OF SHS 115,792 EACH	11,462,366	11,462,366
1 CLASS "D" ORDINARY SHARE OF SHS 32,688	33	33
1 CLASS "E" ORDINARY SHARE OF SHS 101,440	101	101
TOTAL	**15,000,000**	**15,000,000**

CALLED UP AND FULLY PAID		
2,000 CLASS "A" ORDINARY SHARES OF SHS 1 MILLION EACH	2,000,000	2,000,000
4,100 CLASS "B" ORDINARY SHARES OF SHS 375,000 EACH	1,537,500	1,537,500
83,184 CLASS "C" ORDINARY SHARES OF SHS 115,792 EACH	9,632,042	8,024,849
TOTAL	**13,169,542**	**11,562,349**

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

22 SHARE CAPITAL

The shareholding of the Bank was as follows:

	2009	2008
	%	%
BANK OF AFRICA - KENYA	34.7	37.2
AUREOS EAST AFRICA FUND LLC	19.7	21.9
BIO-BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES	23.4	21.9
FMO-NETHERLANDS DEVELOPMENT FINANCE CORPORATION	2.7	3.1
TDFL	10.3	9.8
AFH-OCEAN INDIEN	3.7	-
OTHERS	5.5	6.1
TOTAL	**100**	**100**

23 CASH AND CASH EQUIVALENTS

	2009	2008
	SHS'000	SHS'000
CASH AND BALANCES WITH BANK OF TANZANIA (NOTE 11)	24,610,427	19,329,656
LESS: STATUTORY MINIMUM RESERVE (SMR)	(14,850,000)	(13,200,000)
TOTAL	**9,760,427**	**6,129,656**
INVESTMENT SECURITIES HELD TO MATURITY (MATURING WITHIN 90 DAYS) (NOTE 13)	9,276,228	10,728,983
LOANS AND ADVANCES TO BANKS (NOTE 12)	42,199,977	29,227,009
TOTAL	**61,236,632**	**46,085,648**

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

24 CONTINGENT LIABILITIES AND COMMITMENTS

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

CONTINGENT LIABILITIES

	2009	2008
	SHS'000	SHS'000
OUTSTANDING LETTERS OF CREDIT (FOREIGN CURRENCY)	3,882,515	1,879,372
OUTSTANDING GUARANTEES AND INDEMNITIES:		
- FOREIGN CURRENCY	1,610,951	1,081,268
- LOCAL CURRENCY	2,910,007	1,318,597
TOTAL	**8,403,473**	**4,279,237**

NATURE OF CONTINGENT LIABILITIES

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers. Guarantees are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customers' default.

OTHER COMMITMENTS

	2009	2008
	SHS'000	SHS'000
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	10,504,820	4,922,467

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

	2009	2008
	SHS'000	SHS'000
CAPITAL EXPENDITURE THAT HAS BEEN APPROVED BY THE BOARD BUT NOT YET CONTRACTED FOR	203,000	488,000

25 RELATED PARTY TRANSACTIONS

The shareholders of the Bank are disclosed in note 22. The ultimate holding company of the Bank is BOA GROUP.

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

	2009	2008
	SHS'000	SHS'000
DEPOSITS AND LOANS AND ADVANCES TO DIRECTORS AND KEY MANAGEMENT PERSONNEL		
DEPOSITS	276,043	223,672
LOAN AND ADVANCES	160,905	209,615
INTEREST INCOME RECEIVED	17,006	21,277
INTEREST EXPENSE PAID	(6,339)	(7,487)
CASH AND SHORT TERM FUNDS WITH GROUP BANKS		
LOAN AND ADVANCES TO GROUP BANKS	3,983,189	5,613,094
DEPOSITS FROM GROUP BANKS	541,009	3,804,900
INTEREST INCOME RECEIVED	22,285	20,282
FOREIGN EXCHANGE INCOME RECEIVED	176,250	101,700
GUARANTEE FEES EXPENSE PAID TO GROUP BANKS	(191,405)	(9,969)
KEY MANAGEMENT COMPENSATION		
SALARIES AND OTHER SHORT TERM EMPLOYEE BENEFITS	1,104,302	750,747
POST-EMPLOYMENT BENEFITS	110,430	75,075
TOTAL	**1,214,732**	**825,822**

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:

	2009		2008	
	DIRECTORS FEES	OTHER EMOLUMENTS	DIRECTORS FEES	OTHER EMOLUMENTS
NAME	SHS'000	SHS'000	SHS'000	SHS'000
AMBASSADOR F. KAZAURA	19,860	-	13,540	-
MR. E. OLE NAIKO	8,212	-	4,651	-
MR. PAUL DERREUMAUX	8,212	-	3,621	-
MR. KOBBY ANDAH	-	454,055	-	351,558
MR. VINCENT DE BROUWER	8,212	-	3,621	
MR. RICHARD CARTER	2,812	-	6,034	-
MR. PETER LOCK	2,812	-	-	-
MR. SHAKIR MERALI	-	-	3,621	-
TOTAL	**50,120**	**454,055**	**35,088**	**351,558**

Personal notes

Personal notes

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BOA BANK
TANZANIA
GROUPE BANK OF AFRICA